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

**FORM 10-Q**

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

**For the quarterly period ended March 31, 2023**

**OR**

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

**For the transition period from to**

# PRESTO AUTOMATION INC.

**(Exact name of registrant as specified in its charter)**

| Delaware | 001-39830 | 84-2968594 |
|---|---|---|
| (State or other jurisdiction of incorporation or organization) | (Commission File Number) | (IRS Employer Identification No.) |

| 985 Industrial Road<br>San Carlos, California | 94070 |
|---|---|
| (Address Of Principal Executive Offices) | (Zip Code) |

**(650) 817-9012**
**Registrant's telephone number, including area code**

**NOT APPLICABLE**
**(Former name or former address, if changed since last report)**

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

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common Stock, par value $0.0001 per share | PRST | The Nasdaq Stock Market LLC |
| Warrants, each whole warrant exercisable for one share of Common Stock, each at an exercise price of $8.21 per share | PRSTW | The Nasdaq Stock Market LLC |

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

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☐ |
| Non-accelerated filer | ☒ | Smaller reporting company | ☒ |
| Emerging growth company | ☒ | | |

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

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

As of April 30, 2023, 51,997,674 shares of Common Stock, par value $0.0001 per share were issued and outstanding.

**PRESTO AUTOMATION INC.**
**Form 10-Q**

**For the Quarter Ended March 31, 2023**

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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q contains statements that Presto Automation Inc. and its subsidiaries (together, the "Company" or "Presto") believe are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, without limitation, statements relating to expectations for future financial performance, business strategies or expectations for our business. These statements are based on the beliefs and assumptions of the management of the Company. Although the Company believes that its plans, intentions and expectations reflected in or suggested by these forward-looking statements are reasonable, it cannot provide assurance that it will achieve or realize these plans, intentions or expectations. These statements constitute projections, forecasts and forward-looking statements, and are not guarantees of performance. Such statements can be identified by the fact that they do not relate strictly to historical or current facts. When used in this Quarterly Report on Form 10-Q, words such as "anticipate," "believe," "can," "continue," "could," "estimate," "expect," "forecast," "intend," "may," "might," "plan," "possible," "potential," "predict," "project," "seek," "should," "strive," "target," "will," "would" and similar expressions may identify forward-looking statements, but the absence of these words does not mean that a statement is not forward-looking.

You should not place undue reliance on these forward-looking statements. Should one or more of a number of known and unknown risks and uncertainties materialize, or should any of our assumptions prove incorrect, the Company's actual results or performance may be materially different from those expressed or implied by these forward-looking statements. Factors that could cause actual results to differ include, but are not limited to, the following:

- If Presto fails to manage its growth effectively, to sustain its recent revenue growth or attract new customers, it may be unable to execute its business plan, maintain high levels of service and customer satisfaction, or adequately address competitive challenges.

- Presto's limited operating history with its new AI Platform (previously Vision and Voice) products in a new and developing market makes it difficult to evaluate its current business and future prospects and may increase the risk that it will not be successful.

- Presto has a history of generating net losses, and if it is unable to achieve adequate revenue growth while its expenses increase, it may not achieve or maintain profitability in the future.

- The COVID-19 pandemic has adversely impacted (including as a result of global supply chain shortages that Presto expects to continue for the foreseeable future) and may continue to adversely impact Presto's results of operations and financial condition.

- Presto generates a significant portion of its revenue from its three largest customers, and the loss or decline in revenue from any of these customers could harm its business, results of operations, and financial condition.

- If Presto fails to continue to improve and enhance the functionality, performance, reliability, design, security, or scalability of its platform in a manner that responds to its customers' evolving needs, its business may be adversely affected.

- Since Presto recognizes revenue from the sale of its products over a multi-year term, downturns or upturns in sales are not immediately reflected in full in its results of operations.

- Presto and certain of its third-party partners, service providers, and sub processors transmit and store personal information of its customers and consumers. If the security of this information is compromised, Presto's reputation may be harmed, and it may be exposed to liability and loss of business.

- Presto is subject to stringent and changing privacy laws, regulations and standards, and contractual obligations related to data privacy and security, and noncompliance with such laws could adversely affect its business.

- Unfavorable conditions in the restaurant industry or the global economy, including with respect to food, labor, and occupancy costs, could limit Presto's ability to grow its business and materially impact its financial performance.

- Presto may require additional capital, which additional financing may result in restrictions on its operations or substantial dilution to its stockholders, to support the growth of its business, and this capital might not be available on acceptable terms, if at all.
- Presto has outstanding secured debt that contains financial covenants and other restrictions on its actions that may limit its operational flexibility or otherwise adversely affect its results of operations.
- Presto's sales cycles can be long and unpredictable, and its sales efforts require considerable investment of time and expense.
- Presto has identified material weaknesses in its internal control over financial reporting and, if it fails to remediate these deficiencies, it may not be able to accurately or timely report its financial condition or results of operations.
- Presto's current liquidity resources raise substantial doubt about the Company's ability to continue as a going concern and unless Presto raises additional capital to meet its obligations, this doubt may not be alleviated.
- Recent turmoil in the banking industry may negatively impact Presto's ability to acquire financing on acceptable terms if at all, and worsening conditions or additional bank failures could result in a loss of deposits over federally insured levels.
- Presto relies on a limited number of suppliers to provide part of the technology it offers and is therefore at risk of shortages, price increases, changes, delays or discontinuations of hardware or software providers.
- Presto relies substantially on a select few payment processors to facilitate payments made by or to guests and customers, and if it cannot manage risks related to its relationships with its payment processors, its business, financial condition, and results of operations could be adversely affected.
- Presto relies on computer hardware, licensed software and services rendered by third parties and the interoperability thereof in order to run its business.
- Presto's business is subject to a variety of U.S. laws and regulations (including with respect to payment transaction processing), many of which are unsettled and still developing, and Presto or its customers' failure to comply with such laws and regulations could subject it to claims or otherwise adversely affect its business, financial condition, or results of operations.
- Significant changes in U.S. and international trade policies that restrict imports or increase tariffs could have a material adverse effect on Presto's results of operations.
- Presto could be required to collect additional sales taxes or be subject to other tax liabilities that may increase the costs its customers would have to pay for its products and adversely affect its results of operations.
- If Presto fails to adequately protect its intellectual property rights, its competitive position could be impaired and it may lose valuable assets, generate reduced revenue and become subject to costly litigation to protect its rights.
- Presto has been, and may in the future be, subject to claims by third parties of intellectual property infringement, which, if successful could negatively impact operations and significantly increase costs.
- Presto uses open-source software in its platform, which could negatively affect its ability to sell its services or subject it to litigation or other actions.
- The other factors disclosed in this Quarterly Report on Form 10-Q and the Company's other filings with the Securities and Exchange Commission (the "SEC").
- The Company's forward-looking statements speak only as of the date of their initial issuance, and the Company does not undertake aby obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events, or otherwise.

# PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements (Unaudited)

### PRESTO AUTOMATION INC.
### CONDENSED CONSOLIDATED BALANCE SHEETS
### (UNAUDITED)

**(In thousands, except share and per share amounts)**

| | As of March 31, 2023 | As of June 30 2022 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 26,978 | $ 3,017 |
| Accounts receivable, net of allowance for doubtful accounts of $135 and $353, respectively | 2,207 | 1,518 |
| Inventories | 395 | 869 |
| Deferred costs, current | 3,772 | 8,443 |
| Prepaid expenses and other current assets | 1,851 | 707 |
| Total current assets | 35,203 | 14,554 |
| Deferred costs, net of current portion | 22 | 2,842 |
| Investment in non-affiliate | 2,000 | — |
| Deferred transaction costs | — | 5,765 |
| Property and equipment, net | 1,215 | 1,975 |
| Intangible assets, net | 8,436 | 4,226 |
| Goodwill | 1,156 | 1,156 |
| Other long-term assets | 578 | 18 |
| Total assets | $ 48,610 | $ 30,536 |
| | | |
| **Liabilities and Stockholders' Deficit** | | |
| Current liabilities: | | |
| Accounts payable | $ 3,267 | $ 5,916 |
| Accrued liabilities | 4,152 | 6,215 |
| Financing obligations, current | 3,720 | 8,840 |
| Term loans, current | 53,979 | 25,443 |
| Convertible promissory notes and embedded warrants, current | — | 89,663 |
| Deferred revenue, current | 1,551 | 10,532 |
| Total current liabilities | 66,669 | 146,609 |
| Financing obligations, net of current | 1,860 | — |
| PPP loans | — | 2,000 |
| Warrant liabilities | 1,623 | 4,149 |
| Deferred revenue, net of current portion | 264 | 237 |
| Other long-term liabilities | 426 | — |
| Total liabilities | 70,842 | 152,995 |
| | | |
| Commitments and Contingencies (Refer to Note 8) | | |
| Stockholders' deficit: | | |
| Preferred stock, $0.0001 par value–1,500,000 shares authorized as of March 31, 2023 and June 30, 2022, respectively; no shares issued and outstanding as of March 31, 2023 and June 30, 2022 respectively | — | — |
| Common stock, $0.0001 par value–180,000,000 shares authorized as of March 31, 2023 and June 30, 2022, and 51,921,941 and 27,974,439 shares issued and outstanding as of March 31, 2023 and June 30, 2022, respectively | 5 | 3 |
| Additional paid-in capital | 176,466 | 78,321 |
| Accumulated deficit | (198,703) | (200,783) |
| Total stockholders' deficit | (22,232) | (122,459) |
| Total liabilities and stockholders' deficit | $ 48,610 | $ 30,536 |

*The accompanying notes are an integral part of these condensed consolidated financial statements.*

**PRESTO AUTOMATION INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**
**(UNAUDITED)**
**(in thousands, except share and per share amounts)**

| | Three months ended March 31, | | Nine months ended March 31, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| Revenue | | | | |
| Platform | $ 3,088 | $ 5,083 | $ 11,617 | $ 14,754 |
| Transaction | 3,519 | 2,451 | 9,699 | 7,705 |
| Total revenue | 6,607 | 7,534 | 21,316 | 22,459 |
| | | | | |
| Cost of revenue | | | | |
| Platform | 2,743 | 4,057 | 10,951 | 11,872 |
| Transaction | 3,084 | 2,185 | 8,561 | 6,749 |
| Depreciation and impairment | 291 | 279 | 873 | 1,206 |
| Total cost of revenue | 6,118 | 6,521 | 20,385 | 19,827 |
| Gross profit | 489 | 1,013 | 931 | 2,632 |
| | | | | |
| Operating expenses: | | | | |
| Research and development | 5,496 | 3,927 | 16,877 | 11,733 |
| Sales and marketing | 2,127 | 1,966 | 6,753 | 4,791 |
| General and administrative | 7,408 | 2,978 | 19,608 | 7,110 |
| Loss on infrequent product repairs | — | 119 | — | 582 |
| Total operating expenses | 15,031 | 8,990 | 43,238 | 24,216 |
| Loss from operations | (14,542) | (7,977) | (42,307) | (21,584) |
| Change in fair value of warrants and convertible promissory notes | 1,599 | 18,102 | 61,043 | (11,668) |
| Interest expense | (2,991) | (1,162) | (9,397) | (3,418) |
| Loss on extinguishment of debt and financing obligations | — | — | (8,095) | — |
| Other financing and financial instrument expenses, net | — | — | (1,768) | — |
| Other income (expense), net | 257 | (12) | 2,612 | 2,629 |
| Total other income (expense), net | (1,135) | 16,928 | 44,395 | (12,457) |
| Income (loss) before provision for income taxes | (15,677) | 8,951 | 2,088 | (34,041) |
| Provision (benefit) for income taxes | 3 | (3) | 8 | 21 |
| Net income (loss) and comprehensive income (loss) | $ (15,680) | $ 8,954 | $ 2,080 | $ (34,062) |
| Numerator adjustments for diluted earnings per share: | | | | |
| Less: Change in fair value of convertible notes | — | (16,307) | — | — |
| Net income (loss) attributable to common stockholders, diluted | $ (15,680) | $ (7,353) | $ 2,080 | $ (34,062) |
| Net income (loss) per share attributable to common stockholders, basic | $ (0.30) | $ 0.33 | $ 0.05 | $ (1.25) |
| Net income (loss) per share attributable to common stockholders, diluted | (0.30) | (0.23) | 0.04 | (1.25) |
| Weighted-average shares used in computing net income (loss) per share attributable to common stockholders, basic | 51,453,368 | 27,316,602 | 44,173,570 | 27,213,403 |
| Weighted-average shares used in computing net income (loss) per share attributable to common stockholders, diluted | 51,453,368 | 31,838,707 | 54,539,795 | 27,213,403 |

*The accompanying notes are an integral part of these condensed consolidated financial statements*

**PRESTO AUTOMATION INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT**
**(UNAUDITED)**
**(in thousands, except share data)**

| | Convertible Preferred Stock | | Common Stock | | Additional Paid-In | Accumulated | Total Stockholders' |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Capital | Deficit | Deficit |
| Balance at December 31, 2022 | — | $ — | 51,231,608 | $ 5 | $ 170,794 | $ (183,023) | $ (12,224) |
| Issuance of common stock upon exercise of stock options | — | — | 370,692 | — | 220 | — | 220 |
| Fair value of issued warrants on common stock | — | — | — | — | 499 | — | 499 |
| Issuance of common stock | — | — | 10,000 | — | 100 | — | 100 |
| Issuance of common stock upon vesting of restricted stock units (Note 11) | — | — | 309,641 | — | — | — | — |
| Earnout shares stock-based compensation (Note 1) | — | — | — | — | 1,604 | — | 1,604 |
| Stock-based compensation (Note 11) | — | — | — | — | 3,249 | — | 3,249 |
| Net loss | — | — | — | — | — | (15,680) | (15,680) |
| Balance at March 31, 2023 | — | $ — | 51,921,941 | $ 5 | $ 176,466 | $ (198,703) | $ (22,232) |

| | Convertible Preferred Stock | | Common Stock | | Additional Paid-In | Accumulated | Total Stockholders' |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Capital | Deficit | Deficit |
| Balance at December 31, 2021 | — | $ — | 27,260,624 | 3 | 75,459 | (187,485) | (112,023) |
| Issuance of common stock upon exercise of stock options | — | — | 93,529 | — | 46 | — | 46 |
| Stock-based compensation | — | — | — | — | 430 | — | 430 |
| Fair value of newly issued common stock warrants | — | — | — | — | 348 | — | 348 |
| Net income | — | — | — | — | — | 8,954 | 8,954 |
| Balance at March 31, 2022 | — | $ — | 27,354,153 | $ 3 | $ 76,283 | $ (178,531) | $ (102,245) |

**PRESTO AUTOMATION INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT**
**(UNAUDITED)**
**(in thousands, except share data)**

| | Convertible Preferred Stock | | Common Stock | | Additional Paid-In Capital | Accumulated Deficit | Total Stockholders' Deficit |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | | | |
| Balance at June 30, 2022 | 28,343,420 | $ 28 | 6,196,257 | $ 6 | $ 78,290 | $ (200,783) | $ (122,459) |
| Retrospective application of recapitalization (Note 1) | (28,343,420) | (28) | 21,778,182 | (3) | 31 | — | — |
| Adjusted balance, beginning of period | — | — | 27,974,439 | 3 | 78,321 | (200,783) | (122,459) |
| Issuance of common stock upon exercise of stock options | — | — | 517,515 | — | 280 | — | 280 |
| Fair value of issued warrants on common stock | — | — | — | — | 1,352 | — | 1,352 |
| Issuance of common stock upon net exercise of warrants | — | — | 136,681 | — | — | — | — |
| Issuance of common stock (Note 9) | — | — | 143,333 | — | 1,100 | — | 1,100 |
| Issuance of common stock upon vesting of restricted stock units (Note 11) | — | — | 798,239 | — | — | — | — |
| Issuance of shares and transfer of warrants upon termination of convertible note agreement (Note 9) | — | — | 323,968 | — | 2,412 | — | 2,412 |
| Conversion of convertible notes into common stock (Note 7) | — | — | 8,147,938 | 1 | 41,391 | — | 41,392 |
| Warrants issued with Credit Agreement (Note 7) | — | — | — | — | 2,076 | — | 2,076 |
| Reclassification of liability classified warrants to equity (Note 10) | — | — | — | — | 830 | — | 830 |
| Contribution by shareholder in conjunction with Credit Agreement (Note 7) | — | — | — | — | 2,779 | — | 2,779 |
| Earnout shares stock-based compensation (Note 1) | — | — | — | — | 3,478 | — | 3,478 |
| Merger and PIPE Financing (Note 1) | — | — | 13,879,828 | 1 | 35,737 | — | 35,738 |
| Stock-based compensation (Note 11) | — | — | — | — | 6,710 | — | 6,710 |
| Net income | — | — | — | — | — | 2,080 | 2,080 |
| Balance at March 31, 2023 | — | $ — | 51,921,941 | $ 5 | $ 176,466 | $ (198,703) | $ (22,232) |

| | Convertible Preferred Stock | | Common Stock | | Additional Paid-In Capital | Accumulated Deficit | Total Stockholders' Deficit |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | | | |
| Balance at June 30, 2021 | 28,343,420 | $ 28 | 5,132,354 | $ 5 | $ 74,417 | $ (144,469) | $ (70,019) |
| Retrospective application of recapitalization (Note 1) | (28,343,420) | (28) | 21,980,406 | (2) | 30 | — | — |
| Adjusted balance, beginning of period | — | — | 27,112,760 | 3 | 74,447 | (144,469) | (70,019) |
| Issuance of common stock upon exercise of stock options | — | — | 241,393 | — | 104 | — | 104 |
| Stock-based compensation | — | — | — | — | 1,384 | — | 1,384 |
| Fair value of newly issued common stock warrants | — | — | — | — | 348 | — | 348 |
| Net loss | — | — | — | — | — | (34,062) | (34,062) |
| Balance at March 31, 2022 | — | $ — | 27,354,153 | $ 3 | $ 76,283 | $ (178,531) | $ (102,245) |

*The accompanying notes are an integral part of these condensed consolidated financial statements.*

**PRESTO AUTOMATION INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(UNAUDITED)**
**(in thousands)**

| | Nine months ended March 31, 2023 | Nine months ended March 31, 2022 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Net income (loss) | $ 2,080 | $ (34,062) |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: | | |
| Depreciation, amortization and impairment | 1,262 | 1,524 |
| Stock-based compensation | 5,794 | 1,384 |
| Earnout share stock-based compensation | 3,478 | — |
| Contra-revenue associated with warrant agreement (Refer to Note 2) | 1,073 | — |
| Noncash expense attributable to fair value liabilities assumed in Merger | 34 | — |
| Change in fair value of liability classified warrants | (12,555) | 1,066 |
| Change in fair value of warrants and convertible promissory notes | (48,271) | 10,602 |
| Amortization of debt discount and debt issuance costs | 2,433 | 405 |
| Loss on extinguishment of debt and financing obligations | 8,095 | — |
| Paid-in-kind interest expense | 4,604 | 15 |
| Share and warrant cost on termination of convertible note agreement | 2,412 | — |
| Forgiveness of PPP Loan | (2,000) | (2,599) |
| Change in fair value of unvested founder shares liability | (1,392) | — |
| Noncash lease expense | 264 | — |
| Loss on disposal off property and equipment | 16 | — |
| Changes in operating assets and liabilities: | | — |
| Accounts receivable, net | (689) | (524) |
| Inventories | 474 | (905) |
| Deferred costs | 7,769 | 8,978 |
| Prepaid expenses and other current assets | (742) | 538 |
| Other long-term assets | — | (80) |
| Accounts payable | 1,480 | (4,297) |
| Vendor financing facility | — | (6,792) |
| Accrued liabilities | (2,137) | (2,551) |
| Deferred revenue | (8,954) | (10,917) |
| Other long-term liabilities | (247) | (200) |
| **Net cash used in operating activities** | (35,719) | (38,415) |
| **Cash Flows from Investing Activities** | | |
| Purchase of property and equipment | (229) | (214) |
| Payments relating to capitalized software | (3,584) | (1,249) |
| Investment in non-affiliate | (2,000) | — |
| **Net cash used in investing activities** | (5,813) | (1,463) |
| **Cash Flows from Financing Activities** | | |
| Proceeds from the exercise of common stock options | 280 | 104 |
| Proceeds from the issuance of term loans | 60,250 | 12,600 |
| Payment of debt issuance costs | (1,294) | (1,287) |
| Repayment of term loans | (32,980) | — |
| Payment of penalties and other costs on extinguishment of debt | (6,144) | — |
| Proceeds from issuance of convertible promissory notes and embedded warrants | — | 5,500 |
| Proceeds from issuance of financing obligations | — | — |
| Principal payments of financing obligations | (3,669) | (2,009) |
| Proceeds from the issuance of common stock | 1,100 | — |
| Contributions from Merger and PIPE financing, net of transaction costs and other payments | 49,840 | — |
| Payments of deferred transaction costs | (1,890) | (1,541) |
| **Net cash provided by financing activities** | 65,493 | 13,367 |
| | | |
| Net increase (decrease) in cash and cash equivalents | 23,961 | (26,511) |
| Cash and cash equivalents at beginning of period | 3,017 | 36,909 |
| Cash and cash equivalents at end of period | $ 26,978 | $ 10,398 |
| **Supplemental Disclosure of Non-Cash Investing and Financing Activities** | | |
| Capitalization of stock-based compensation expense to capitalized software | $ 916 | $ 9 |
| Issuance of warrants (Refer to Note 2) | 1,352 | 1,466 |
| Capital contribution from shareholder in conjunction with Credit Agreement | 2,779 | — |
| Issuance of warrants in conjunction with Credit Agreement | 2,705 | — |
| Issuance of warrants in conjunction with Lago Term Loan | 843 | — |
| Convertible note conversion to common stock | 41,392 | — |
| Reclassification of warrants from liabilities to equity | 830 | — |
| Recognition of liability classified warrants upon Merger | 9,388 | — |
| Recognition of Unvested Founder Shares liability | 1,588 | — |
| Forgiveness of PPP Loan | 2,000 | 2,599 |
| Transaction costs recorded in accounts payable and accrued liabilities | — | 5,584 |
| Right of use asset in exchange for operating lease liability | 308 | — |
| Cancellation of June 2021 Note and related accrued interest, with issuance of February 2022 Note | — | 20,663 |

*The accompanying notes are an integral part of these condensed consolidated financial statements.*

**PRESTO AUTOMATION INC.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(Amounts in tables are in thousands, unless otherwise noted)**

## 1. Summary of Business and Significant Accounting Policies

### *Description of Business*

Presto Automation Inc. and its subsidiaries (together, "Presto" or the "Company") is headquartered in San Carlos, California. Prior to the Merger (as defined below), the Company operated as E la Carte, Inc. ("Legacy Presto"). E la Carte, Inc. was incorporated in the State of Delaware in October 2008. In 2018, E la Carte, Inc. together with its subsidiary adopted "Presto" as its trade name or doing business as ("**dba**") name. In February 2019, the Company formed Presto Technology, Inc. as a wholly owned subsidiary located in Ontario, Canada.

### *Merger with Ventoux CCM Acquisition Corp.*

On September 21, 2022, Ventoux CCM Acquisition Corp. ("Ventoux" or "VTAQ") and its subsidiaries, then a special purpose acquisition corporation, acquired Legacy Presto via a series of mergers, whereby Legacy Presto became a limited liability company and a wholly owned subsidiary of Ventoux (the "Merger"). Upon completion of the Merger, Ventoux CCM Acquisition Corp. was renamed Presto Automation Inc. Prior to the Merger, Ventoux Acquisition Holdings LLC and Chardan International Investments, LLC were the co-sponsors of Ventoux (together the "Sponsors") and with the close of the Merger remained significant shareholders in the Company.

*Trust Proceeds and PIPE investment*

Following the closing of the Ventoux's initial public offering on December 30, 2020, $151.5 million was placed in a trust account, (the "Trust"), for which various redemptions of amounts in the Trust were made up until the date of the Merger. On the closing date of the Merger, $9.5 million of unredeemed funds were released to Ventoux from the Trust.

In connection with the execution of the Merger, Ventoux entered into separate subscription with a number of investors, pursuant to which the subscribers agreed to purchase, and Ventoux agreed to sell to the subscribers, an aggregate of 7,133,687 shares of common stock (the "PIPE Shares"), for an aggregate purchase price of $55.4 million, in a private placement pursuant to the subscription agreements (the "PIPE"). The PIPE investment closed simultaneously with the consummation of the Merger.

Upon consummation of the Merger, Presto received approximately $49.8 million from the Trust and PIPE, net of transaction costs and other payments as set forth as follows:

| | Net Cash |
|---|---|
| Cash—Ventoux Trust and working capital cash | $ 9,584 |
| Cash—PIPE investment | 55,400 |
| Less: transaction costs and other payments[1] | (15,144) |
| Total | $ 49,840 |

(1) Amount reflects (1) the repayment of $1.9 million of Ventoux related party loans utilizing proceeds from Trust, (2) the payment of $7.8 million in Ventoux transaction costs related to the Merger, (3) the payment of $4.9 million in Legacy Presto transaction costs related to the Merger and (4) the payment of certain other costs not directly related to the Merger in the amount of $0.5 million. Legacy Presto also incurred $2.1 million in transaction costs which were paid via the issuance of 260,000 Company shares. Further in conjunction with the Merger, Legacy Presto incurred $3.2 million in transaction costs which were either paid prior to or after the Merger. As of March 31, 2023, all of the transaction costs incurred by Legacy Presto have been fully paid. Accordingly, in total Legacy Presto incurred transaction costs amounting to $10.4 million.

*Legacy Presto Convertible Promissory Notes and Equity and the Exchange*

Immediately prior to the closing of the Merger, all convertible promissory notes were converted into Legacy Presto common stock, all shares of outstanding redeemable convertible preferred stock of Legacy Presto were automatically converted into shares of Legacy Presto common stock, and all outstanding warrants for Legacy Presto shares were either exercised or exchanged into warrants of common stock of Presto. Upon the consummation of the Merger, each share of Legacy Presto common stock issued and outstanding was canceled and converted into the right to receive 0.8099 shares (the "Exchange Ratio") of common stock of Ventoux. Further the outstanding equity awards (including warrant, stock option and RSU holders) of Legacy Presto were canceled and converted using the Exchange Ratio with the holders receiving equivalent outstanding equity awards (including warrant, stock option and RSU holders) in the Company.

*Earnout Arrangement with holders of Legacy Presto Common Stock and Outstanding Equity Awards*

Concurrent with the closing of the Merger, holders of Legacy Presto common stock and outstanding equity awards (including warrant, stock option and RSU holders) had the right to receive up to an aggregate amount of 15,000,000 shares of Company common stock (or equivalent equity award) that would be issued as follows:

- 7,500,000 shares, if, during the period from and after the closing of the Merger until the third anniversary of the closing of the Merger, the Volume Weighted Average Price ("**VWAP**" as defined in the Agreement and Plan of Merger among Ventoux CCM Acquisition Corp., as Acquiror, Ventoux Merger Sub I Inc. as First Merger Sub., Ventoux Merger Sub II LLC as Second Merger Sub and E La Carte, Inc. as the Company, dated November 10, 2021 (the "Business Combination Agreement") of Presto common stock is greater than or equal to $12.50 for any 20 trading days within a period of 30 consecutive trading days, and

- an additional 7,500,000 shares, if, during the period from and after the closing of the Merger until the fifth anniversary of the closing of the Merger, the VWAP of Presto common stock is greater than or equal to $15.00 for any 20 trading days within a period of 30 consecutive trading days

The earnout shares are equity classified since they do not meet the liability classification criteria outlined in ASC 480, *Distinguishing Liabilities from Equity* and are under ASC 815-40 are both (i) indexed to the Company's own shares and (ii) meet the criteria for equity classification. The fair value of the earnout shares is determined based on "Level 3" inputs, due to a lack of market data over inputs such as the volatility and the time incurred to meet the minimum VWAP as discussed above. The earnout shares are measured at fair value using the Monte Carlo valuation model. The valuation model utilized various key assumptions, such as volatility, discount rate and time incurred to meet the minimum VWAP. The grant date fair value of each earnout share was $3.17. Of the 15,000,000 earn-out shares, 4,771,116 earnout shares were given to common stock, option and RSU holders that are held by current employees and directors are accounted for under ASC 718. During the period from the date of the Merger through March 31, 2023, the Company recorded stock-based compensation expense associated with earnouts in the amount of $3.5 million to equity award holders who held awards associated with the Company's equity incentive plan and to common stock holders held by current employees and directors, of which $2.3 million, $1.0 million, and $0.2 million are recorded within general and administrative, research and development and sales and marketing expenses, respectively, on the condensed consolidated statement of operations and comprehensive income (loss). During three months ended March 31, 2023, the Company recorded stock-based compensation expense associated with earnouts, to the same equity award holders as above, in the amount of $1.6 million of which $1.1 million, $0.4 million, and $68 thousand are recorded within general and administrative, research and development and sales and marketing expenses, respectively, on the condensed consolidated statement of operations and comprehensive income (loss).

As of March 31, 2023, unrecognized stock-based compensation expense is $11.3 million which is expected to be recognized over a weighted-average period of 1.5 years. Stock-based compensation for awards with a performance-based vesting condition that was previously deemed not probable to occur as of December 31, 2022, was modified in the three months ended March 31, 2023 to waive the condition and thus the performance condition was removed and resulted in an immaterial modication of expense and the awards are now vesting according to the original awards vesting schedule. As of March 31, 2023, 360,813 earnout shares held by current employees and directors were forfeited. The Earnout shares given to common stockholders not held by current employees and directors and warrant holders have been recorded with equal and offsetting effects on additional paid-in capital on its condensed consolidated balance sheet. As of March 31, 2023, all of the earnout shares remain unissued as the conditions to issuance have not been achieved.

*Unvested Founder Share Arrangement with Founders*

At the Closing, 444,500 founders shares held by the Sponsors (the “unvested founders shares”) became subject to the following vesting and forfeiture provisions:

(i) the first 25% of such unvested founder shares owned by the Sponsors vest at such time as a $12.00 Stock Price Level is achieved on or before the date that is five years after the Closing Date,

(ii) the next 25% of such unvested founder shares owned by the Sponsors vests at such time as a $15.00 Stock Price Level is achieved on or before the date that is five years after the Closing Date.,

(iii) the next 25% of such unvested founder shares owned by the Sponsors vest at such time as a $20.00 Stock Price Level is achieved on or before the date that is five years after the Closing Date and

(iv) the remaining 25% of such unvested founder shares owned by the Sponsors shall vest at such time as a $25.00 Stock Price Level is achieved on or before the date that is five years after the Closing Date.

A “Stock Price Level” is considered achieved when the VWAP of the common stock is greater than or equal to the applicable threshold for any 40 consecutive trading days within a 60 trading day period. If the applicable Stock Price Level is not achieved on or prior to the date that is five years after the Closing Date, the applicable unvested founder shares shall not vest and shall be automatically forfeited and cancelled for no consideration. In the event of a change of control, any unvested founder shares shall automatically vest. As of March 31, 2023, all of the unvested founder shares remain unvested as the vesting conditions have not been achieved.

The Company has concluded that the unvested founder shares are accounted for as equity-linked instruments under ASC 815-40 and are not indexed to the entity’s own stock and accordingly, such financial instruments are classified as liabilities. With the closing of the Merger, the Company recorded $1.6 million within other long-term liabilities. During the period from the closing of the Merger until March 31, 2023 and the three months ended March 31, 2023 the Company recorded a gain on remeasurement of $1.4 million and $0.2 million respectively, which are included in change in fair value of warrants and convertible promissory notes in the condensed consolidated statement of operations and comprehensive income (loss).

Upon the closing of the Merger, Ventoux’s certificate of incorporation was amended and restated to, among other things, change its name from Ventoux CCM Acquisition Corp. to Presto Automation Inc., increase the total number of authorized shares of all classes of capital stock to 181,500,000 shares, of which 180,000,000 shares are designated as common stock, $0.0001 par value per share; and 1,500,000 shares designated preferred stock, $0.0001 par value per share. Immediately following the closing of the Merger, there were 50,639,837 shares of the Company’s common stock issued and outstanding and warrants to purchase 18,415,453 shares of the Company’s common stock outstanding.

The Merger is accounted for as a reverse recapitalization in accordance with generally accepted accounting principles in the United States of America (“**U.S. GAAP**”). Under the guidance in ASC 805, *Business Combinations*, Ventoux was treated as the “acquired” company for financial reporting purposes. This determination was primarily based on Presto having a majority of the voting power of the post-combination company, Presto’s senior management comprising substantially all of the senior management of the post-combination company, the relative size of Presto compared to Ventoux, and Presto’s operations comprising the ongoing operations of the post-combination company. Accordingly, for accounting purposes, the Merger was treated as the equivalent of Legacy Presto issuing stock for the net assets of Ventoux, accompanied by a recapitalization. Accordingly, all historical financial information presented in the unaudited condensed consolidated financial statements represents the accounts of Presto and its wholly owned subsidiaries as if Legacy Presto is the predecessor to the Company. The shares and net loss per common share, prior to the Merger, have been retroactively restated as shares reflecting the Exchange Ratio established in the Merger (0.8099 shares of Company common stock for every one share of Legacy Presto common stock).

Total net liabilities of Ventoux assumed by the Company was $9.8 million, which is inclusive of a liability for the private warrants of $9.4 million but excludes the $55.4 million in PIPE proceeds raised by Ventoux immediately prior to the Merger. The remaining net liabilities assumed from Ventoux were immaterial to the Company.

***Cyborg Ops***

As a consequence to the closing of the Merger, bonus and deferred consideration amounts owed to certain founding members of CyborgOps became due and payable resulting in an expense of $1.9 million, of which $1.8 million and $0.1 million has been recorded within research and development and sales and marketing, respectively, in the condensed consolidated statement of operations and comprehensive income (loss) for nine months ended March 31, 2023.

***Emerging Growth Company Status***

The Company is an emerging growth company, as defined in the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”). Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act, until such time as those standards apply to private companies.

The Company has elected to use this extended transition period for complying with new or revised accounting standards that have different effective dates for public and private companies until the earlier of the date that the Company (i) is no longer an emerging growth company or (ii) affirmatively and irrevocably opts out of the extended transition period provided in the JOBS Act. As a result, the Company’s condensed consolidated financial statements may not be comparable to financial statements of issuers who are required to comply with the effective dates for new or revised accounting standards based on public company effective dates.

The Company will remain an emerging growth company until the earliest of (i) the last day of the fiscal year in which the Company’s total annual gross revenue is at least $1.1 billion, (ii) the last day of the fiscal year following the fifth anniversary of the completion of Ventoux’s initial public offering, which occurred on December 30, 2020, (iii) the date on which the Company issued more than $1.0 billion in non-convertible debt securities during the prior three-year period, or (iv) the date on which the Company becomes a large accelerated filer.

***Basis of Presentation***

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with U.S. GAAP for interim financial reporting and the rules and regulations of the Securities and Exchange Commission (“**SEC**”). References to ASC and ASU included herein refer to the Accounting Standards Codification and Accounting Standards Update established by the Financial Accounting Standards Board (“**FASB**”) as the source of authoritative U.S. GAAP. All intercompany balances and transactions have been eliminated in consolidation.

In management’s opinion, the unaudited interim condensed consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements. They include all adjustments, consisting of only normal recurring adjustments, necessary for the fair statement of the Company’s financial position as of March 31, 2023, and its results of operations for the three and nine months ended March 31, 2023 and 2022 and cash flows for the nine months ended March 31, 2023 and 2022. The results for the three and nine months ended March 31, 2023 and 2022, are not necessarily indicative of the results expected for the year or any other periods. These interim financial statements should be read in conjunction with the Legacy Presto’s financial statements and related notes for the fiscal year ended June 30, 2022 included as Exhibit 99.1 of the Current Report on Form 8-K as filed with the SEC on December 16, 2022, where we include additional information on our critical accounting estimates, policies, and the methods and assumptions used in our estimates. The unaudited condensed consolidated balance sheet as of June 30, 2022, has been derived from the Company’s audited financial statements.

***Use of Estimates***

The preparation of these condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets, liabilities, revenues, expenses, and disclosures. Accordingly, actual amounts could differ from those estimates, and those differences could be material.

Uses of estimates include, but are not limited to, the collectability of accounts receivable, the useful lives of property and equipment and intangible assets, inventory valuation, the fair value of financial instruments, valuation of deferred tax assets and liabilities, valuation assumptions utilized in calculating the estimated value of stock-based compensation, valuation of warrants, earnout arrangements and unvested founder shares, valuation of goodwill and intangible assets acquired and impairment of long-lived assets. The Company has assessed the impact and is not aware of any specific events or circumstances that required an update to the

Company's estimates and assumptions or materially affected the carrying value of the Company's assets or liabilities as of the date of issuance of this report. These estimates may change as new events occur and additional information is obtained.

***Risk and Uncertainties***

The Company is subject to a number of risks common to emerging, technology-based companies, including a limited operating history; dependence on key individuals; rapid technological changes; competition from substitute products and larger companies; the need for additional financing to fund future operations; and the successful development, marketing, and outsourced manufacturing of the Company's products and services as well as the impact of the novel coronavirus disease ("**COVID-19**") on the restaurant industry.

***Impact of COVID-19***

The Company has been subject to risks and uncertainties because of the outbreak of COVID-19, and actions takend by the federal, state and local governments to control the spread of infections. The extent of any continuing impact of the COVID-19 pandemic on the Company's business remains uncertain and difficult to predict, as government authorities may implement new restrictions in response to changes in the number of COVID-19 infections or new variants of the disease. Additionally, economies worldwide have been negatively impacted by the COVID-19 pandemic, which resulted in a global economic slowdown, supply chain issues and inflationary pressures.

The Company took several actions to mitigate the effects of the COVID-19 pandemic on its operations and franchisees. In April 2020, the Company received a loan of approximately $2.6 million under the U.S. Small Business Administration ("SBA") Paycheck Protection Program ("**PPP**"), to assist with the economic hardships caused by the pandemic. In March 2021, the Company received a second loan of approximately $2.0 million under the PPP. In August 2021, the Company was granted forgiveness of the first loan of approximately $2.6 million. In July 2022, the Company was granted forgiveness of the second loan of approximately $2.0 million. Refer to Note 7 for further details.

In the three and nine months ended March 31, 2022, the volume of repair charges the Company experienced was higher than usual due to a liquid ingress issue resulting from COVID-19 related actions by its customers. The Company's devices failed primarily due to the use of extremely strong commercial disinfectant solutions by customers to clean the hardware devices as a mandatory precaution protocol due to COVID-19. Due to use of commercial cleaning products, the solution leaked into the hardware causing significant damage to the devices and requiring replacement of such devices. To prevent disruption to customers' businesses, the Company incurred losses on infrequent customer repairs of $0.1 million and $0.6 million for the three and nine months ended March 31, 2022, respectively, for this issue. The Company has an outstanding claim to recover the costs from its third-party subcontractor who manufactures the hardware, for which the Company received a favorable arbitrator ruling in June 2022. Refer to Note 8 for further details.

The severity of any continued impact of the COVID-19 pandemic or similar health emergencies or pandemics in the future on the Company's business will depend on a number of factors, including, but not limited to, how long the pandemic will last, whether/when recurrences of the virus may arise, what restrictions on in-restaurant dining may be enacted or re-enacted, the availability and acceptance of vaccines, the timing, and extent of customer re-engagement with its brands and, in general, what the short- and long-term impact on consumer discretionary spending may be on the Company and the restaurant industry as a whole, all of which are uncertain and cannot be predicted. The Company's future results of operations and liquidity could be impacted adversely by future dine-in restrictions and the failure of any initiatives or programs that the Company may undertake to address financial and operational challenges faced by it and its franchisees. As such, the extent to which the Company's financial condition , liquidity, or results of operations may be negatively impacted by COVID-19 or other health emergencies or pandemics, resulting supply chain disruptions, inflationary pressures and general macroeconomic conditions remains highly uncertain.

***Liquidity and Capital Resources***

As of March 31, 2023 and June 30, 2022, the Company's principal sources of liquidity were cash and cash equivalents of $27.0 and $3.0, respectively, which were held for working capital purposes.

Since inception, the Company has financed its operations primarily through financing transactions such as the issuance of convertible promissory notes and loans, and sales of convertible preferred stock. The Company has incurred recurring operating losses since its inception, including operating losses of $42.3 million and $21.6 million for the nine months ended March 31, 2023 and 2022, respectively. As of March 31, 2023 and June 30, 2022, respectively, the Company had an accumulated deficit of $198.7 million and $200.8 million and the Company expects to generate operating and net losses for the near term. Cash from operations could also be affected by various risks and uncertainties, including, but not limited to, the effects of the COVID-19 pandemic, including timing of cash collections from customers. While the Company received net cash of $49.8 million from the completion of the Merger and raised net cash proceeds of $13.7 million from the issuance of new debt and payment of certain legacy debt obligations, additional capital infusion will be necessary in order to fund currently anticipated expenditures, and to meet the Company's obligations as they come due. The Company's future capital requirements will depend on many factors, including the revenue growth rate, subscription renewal activity, billing frequency, the success of future product development, and the timing and extent of spending to support further sales and marketing and research and development efforts.

The Company intends to secure additional fundings from either public or private financing sources, and these plans for additional financings are intended to mitigate the conditions or events that raise substantial doubt about the Company's ability to continue as a going concern, however as the plans are outside of management's control, the Company cannot ensure they will be effectively implemented. In the event that additional financing is required from outside sources, the Company may not be able to raise it on terms acceptable to it or at all. If the Company is unable to raise additional capital when desired, its business, results of operations, and financial condition would be materially and adversely affected. As a result, substantial doubt exists about the Company's ability to continue as a going concern within one year after the date that the financial statements are available to be issued. The Company's condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business.

***Concentrations of Risks, Significant Customers and Investments***

The Company's financial instruments are exposed to concentrations of credit risk and consist primarily of cash and cash equivalents and accounts receivable. The Company maintains its cash and cash equivalents with high-quality financial institutions with investment-grade ratings. In the event of a failure of any financial institutions where the Company maintains deposits, it may lose timely access to its funds and incur losses to the extent its deposits exceed amounts insured by the Federal Deposit Insurance Corporation, as described below.

The following three largest restaurant logos (including, as applicable, the franchisees of such restaurants aggregated as a single customer for reporting purposes) accounted for more than 10% of revenues:

| | Three months ended March 31, | | Nine months ended March 31, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| Customer A | 62 % | 51 % | 61 % | 51 % |
| Customer B | 16 % | 26 % | 21 % | 26 % |
| Customer C | 18 % | 14 % | 15 % | 16 % |
| | 96 % | 91 % | 97 % | 93 % |

The following restaurant logos accounted for more than 10% of accounts receivable:

| | As of March 31, 2023 | As of June 30, 2022 |
|---|---|---|
| Customer A | 39 % | 31 % |
| Customer B | 20 % | 41 % |
| Customer D | 27 % | 11 % |
| | 86 % | 83 % |

* Customer C represents less than 10% of accounts receivable and therefore was omitted from the above schedule.

The Company also is exposed to vendor concentration risk as it supplies tablets from one vendor and currently source some hardware and software components used in the AI Platform from one vendor. The Company's operating results could be adversely affected should any of the following occur: the vendor used to supply tablets increases their prices or either vendor incurs disruptions in its supply of goods or services.

***Financial Institutions***

Financial instruments that potentially expose the Company to concentrations of credit risk consist principally of cash and cash equivalents on deposit with financial institutions, the balances of which frequently exceed federally insured limits. On March 10, 2023, SVB was closed by the California Department of Financial Protection and Innovation, which appointed the FDIC as receiver. If any of the financial institutions with whom we do business were to be placed into receivership, we may be unable to access to the cash we have on deposit with such institutions. If we are unable to access our cash and cash equivalents as needed, our financial position and ability to operate our business could be adversely affected. The Company has $26.5 million in deposits in excess of the FDIC limits at March 31, 2023.

***Segment Information***

Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker ("**CODM**") in deciding how to allocate resources and in assessing performance. The Company's Co-CODMs are the Chief Executive Officer and the Chief Financial Officer, who review financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance. As such, the Company's operations constitute a single operating segment and one reportable segment.

The Company has operations in the United States and Canada. The Company earns primarily all of its revenue in the United States and all of its long-lived assets are held in the United States.

***Investment in non-affiliate***

Investments in non-affiliates include equity security investments in third party entities without a readily determinable fair value in which the Company's influence is deemed non-significant. Investments in non-affiliates are recorded using the measurement alternative for investments without readily determinable fair values, whereby the investment is measured at cost less any impairment recorded or observable price changes. Any impairments or observable price changes are reported in other income, net in the condensed consolidated statements of operations and comprehensive income (loss).

***Leases***

The Company leases real estate facilities under a non-cancelable operating lease with remaining lease terms of six months to three years. The Company determines if an arrangement contains a lease at inception based on whether there is an identified property or equipment and whether the Company controls the use of the identified asset throughout the period of use.

The Company adopted ASU No. 2016-02, *Leases* (*Topic 842*) on July 1, 2022, using the modified retrospective approach

Upon adoption the Company recorded a right of use asset ("ROU") and an operating lease liabilities. The operating lease ROU asset represents the Company's right to use the underlying asset for the lease term and the lease liability represents the Company's obligation to make lease payments arising from the lease.

The operating lease liability is measured and recognized at the lease inception date based on the present value of lease payments over the lease term discounted based on the more readily determinable of (i) the rate implicit in the lease or (ii) the Company's incremental borrowing rate (which is the estimated rate the Company would be required to pay for a collateralized borrowing equal to the total lease payments over the term of the lease). Because the Company's operating lease does not provide an implicit rate, the Company estimates its incremental borrowing rate based on the information available at lease commencement date for borrowings with a similar term.

The Company's operating lease ROU asset is measured based on the corresponding operating lease liability adjusted for (i) payments made to the lessor at or before the commencement date, (ii) initial direct costs incurred, and (iii) tenant incentives under the lease. The Company does not assume renewals or early terminations unless it is reasonably certain to exercise these options at commencement. The Company does not allocate consideration between lease and non-lease components. The Company's lease agreement contains variable costs such as common area maintenance, operating expenses, or other costs. Variable lease payments are recognized in the period in which the obligation for those payments are incurred. In addition, the Company does not recognize ROU assets or lease liabilities for leases with a term of twelve months or less of all asset classes; lease expense from these leases are recognized on a straight-line basis over the lease term.

***Revenue Recognition***

During the three and nine months ended March 31, 2023 and 2022, the Company derived its revenues from two revenue streams: (1) sales and leases of the Presto Touch and AI Platform products (“**Platform revenue**”), which includes hardware, hardware accessories, software and customer support and maintenance, and (2) Premium Content (gaming) and other revenue, which includes professional services (“**Transaction revenue**”).

*Platform Revenue*

The platform revenue stream is generated from fees charged to customers for access to the Company’s Presto Touch, which is recognized ratably. Part of the total contract value is due upon execution of the contract, and the remainder is due when the customer goes live. The contracts with customers are generally for a term ranging from 12 to 48 months. Amounts invoiced in excess of revenue recognized are recorded as deferred revenue. Revenue generated from the AI Platform (previously Voice and Vision) was not material for the three and nine months ended March 31, 2023 and 2022. Such revenue generated from the AI Platform is inclusive of contra-revenue related to the fair value of the warrant treated as a reduction to the transaction price of an AI Platform customer of $0.5 million and $1.1 million for the three and nine months ended March 31, 2023, respectively. For further details of the terms of the warrant, refer to Note 10.

The Company also maintains arrangements with certain customers whereby the Company leases the Presto Touch to its customer. Revenue associated with the lease is recognized on a straight-line basis as platform revenue over the lease term in the condensed consolidated statements of operations and comprehensive loss.

*Transaction Revenue*

Transaction revenue consists of a single performance obligation recognized at a point in time when the content is delivered and used. Transaction revenue is recognized on a gross basis as the Company is the principal in the relationship and the restaurant acts as a sales agent between the Company and the diner to upsell premium content purchases during the dining experience. The Company is the principal as the Company is the primary obligor responsible for fulfillment, controls the gaming license and its accessibility and has influence in establishing the price charged to the diner. The portion of gaming service collections withheld by the restaurant for sales commission are recorded to transaction cost of revenues.

The Company determines revenue recognition through the following steps:

1. Identification of the contract, or contracts, with a customer — the Company enters into a master sales agreement (“**MSA**”) with the customer which is signed by both parties. The rights and obligations are outlined in the MSA and payment terms are clearly defined. The Company then enters into a license agreement, typically with each franchisee, which outlines the specified goods and services to be provided. The Company may also enter into separate gaming agreements with diners, whereby the customer agrees to pay for use of the premium content. Each MSA, in conjunction with a license agreement, and each gaming agreement, has commercial substance, whereby the Company is to provide products and services in exchange for payment, and collectability is probable.

2. Identification of the performance obligations in the contract — The Company’s contracts with customers include promises to transfer multiple goods and services. For all arrangements with multiple services, the Company evaluates whether the individual services qualify as distinct performance obligations. In the Company’s assessment of whether a service is a distinct performance obligation, the Company determines whether the customer can benefit from the service on its own or with other readily available resources and whether the service is separately identifiable from other services in the contract. This evaluation requires the Company to assess the nature of each individual service offering and how the services are provided in the context of the contract, including whether the services are significantly integrated, highly interrelated, or significantly modify each other, which may require judgment based on the facts and circumstances of the contract.

   The Company identified the following performance obligations: for the MSAs and license agreements, 1) sales or leases of hardware, software-as-a-service (“**Saas**”) and maintenance as one combined performance obligation (“**Presto Touch**”) and for gaming agreements, 2) premium content, or gaming. Professional services were insignificant during the three and nine months ended March 31, 2023 and 2022.

The Presto Touch is considered a single performance obligation because each element of the Presto Touch is interdependent and cannot function independently. The software and hardware for the Presto Touch represent one combined output and the customer cannot benefit from the use of one element without the other.

When the Company enters into gaming agreements, the Company's Presto Touch includes the capability of providing entertainment services, designed (either on its own or through other subcontractors) and provided by the Company via internet, that can be purchased by diners. The games are only accessible over the internet, and upon the diner making the decision to pay for the content, the diner receives the right to access the game on the Presto Touch. Gaming fees are usage based through the diner's use of the device and stipulated in a separate contract with the diner. Any fees that are incurred are collected by the restaurant as part of the normal payment for the dining check from the diner and remitted back to the Company, net of commissions paid to the restaurant as the sales agent. Premium content revenue, or gaming revenue, is therefore one performance obligation.

3. Determination of the transaction price — the Company's MSAs stipulate the terms and conditions, and separate license agreements dictate the transaction price, and typically outlines as a price per store location or price per number of Presto Touches used. The transaction price is generally a fixed fee, with a portion due upfront upon signing of the contract and the remainder due upon installation of the Presto Touch. The transaction price for transaction revenue is a fixed fee charged per game. The Company occasionally provides consideration payable to a customer, which is recorded as a capitalized asset upon payment and included as part of deferred costs and amortized as contra-revenue over the expected customer life.

4. Allocation of the transaction price to the performance obligations in the contract — As the Presto Touch is one combined performance obligation, no reallocation of the contract price is required. The Company's premium content contract is comprised of one performance obligation and does not require reallocation of the contract price.

5. Recognition of revenue when, or as, the Company satisfies a performance obligation — As the customer simultaneously receives and consumes the benefits provided by the Company through continuous access to its SaaS platform, revenue from the Presto Touch is satisfied ratably over the contract period as the service is provided, commencing when the subscription service is made available to the customer. Transaction revenue does not meet the criteria for ratable recognition and is recognized at a point in time when the gaming service is provided.

***Net Income (Loss) Per Share***

The Company computes net income (loss) per share, or earnings per share ("EPS"), following ASC Topic 260, *Earnings per Share*. Basic EPS is measured as the income or loss available to common stockholders divided by the weighted average common shares outstanding for the period. Diluted EPS presents the dilutive effect on a per-share basis from the potential conversion of convertible securities or the exercise of options and or warrants; the dilutive impacts of potentially convertible securities are calculated using the if-converted method; the potentially dilutive effect of options or warrants are computed using the treasury stock method. Securities that are potentially an anti-dilutive effect (i.e., those that increase income per share or decrease loss per share) are excluded from diluted EPS calculation.

***Recently Adopted Accounting Standards***

In February 2016, the FASB issued Topic 842 which generally requires companies to recognize operating and financing lease liabilities and corresponding ROU assets on the balance sheet. The Company adopted the standard as of July 1, 2022, using the modified retrospective approach and has elected to use the optional transition method which allows the Company to apply the guidance of ASC Topic 840, *Leases*, including disclosure requirements, in the comparative periods presented. The Company elected certain practical expedients, including the option not to apply lease recognition for short-term leases; an election to not separate lease from non-lease components; and a package of practical expedients such that, upon the initial adoption of Topic 842, the Company did not reassess whether expired or existing contracts contain leases, nor did the Company reassess the lease classification for expired or existing leases. The Company did not elect the practical expedient to use hindsight in determining the lease term and in assessing impairment of ROU assets.

The adoption of the new standard resulted in recognition of an operating lease ROU asset and operating lease liability of $0.5 million and $0.5 million, respectively, as of July 1, 2022. There was no cumulative impact of transition to retained earnings as of the adoption date. The standard did not impact the accompanying condensed consolidated statements of operations and comprehensive income (loss) and the accompanying condensed consolidated statements of cash flows.

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which simplifies the accounting for income taxes by eliminating some exceptions to the general approach in ASC 740, Income Taxes in order to reduce cost and complexity of its application. The standard is effective for the Company beginning in fiscal year 2023 and interim periods in the following years. Most amendments within this guidance are required to be applied on a prospective basis, while certain amendments must be applied on a retrospective or modified retrospective basis. We adopted this guidance on July 1, 2022 and it did not have a material impact at the time of adoption on our condensed consolidated financial statements.

In October 2021, the FASB issued ASU 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers,* which requires an acquirer to recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with ASC 606. The standard is effective for the Company beginning in fiscal year 2023 and interim periods within that year. We adopted this guidance on July 1, 2022 and it did not have a material impact at the time of adoption on our condensed consolidated financial statements.

***Recently Issued Accounting Standards Not Yet Adopted***

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments Topic 326: Credit Losses Measurement of Credit Losses on Financial Instruments (Topic 326)*, which requires an entity to utilize a new impairment model known as the current expected credit loss (CECL) model to estimate its lifetime "expected credit loss" and record an allowance that, when deducted from the amortized cost basis of the financial asset, presents the net amount expected to be collected on the financial asset. The CECL model is expected to result in more timely recognition of credit losses. This guidance also requires new disclosures for financial assets measured at amortized cost, loans, and available-for-sale debt securities. Entities will apply the standard's provisions as a cumulative effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The FASB subsequently issued ASU 2018-19, ASU 2019-04, and ASU 2019-10, which clarified the implementation guidance and effective date of Topic 326. Topic 326 is effective for the Company beginning fiscal year 2024. The Company is currently evaluating the impact of the adoption of this standard on the Company's condensed consolidated financial statements.

In August 2020, the FASB issued ASU 2020 06, *Debt — Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging — Contracts in Entity's Own Equity*, which simplifies the accounting for convertible debt and convertible preferred stock by removing the requirements to separately present certain conversion features in equity. The standard also simplifies guidance in Topic 815-40 by removing certain criteria that must be satisfied in order to classify a contract as equity and revises the guidance on calculating earnings per share, requiring the use of the if-converted method for all convertible instruments. The standard is effective for the Company beginning in fiscal year 2025. The Company is currently evaluating the impact of the adoption of this standard on the Company's condensed consolidated financial statements.

In March 2020 with an update in January 2021, the FASB issued ASU 2020 04*, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, and ASU 2021 01, *Reference Rate Reform (Topic 848)*, which provides optional expedients and exceptions for applying current U.S. GAAP to contracts, hedging relationships, and other transactions affected by the discontinuation of the London Interbank Offered Rate ("**LIBOR**") or by another reference rate expected to be discontinued. The guidance can be adopted immediately and is applicable to contracts entered into on or before December 31, 2022. The Company is currently evaluating its contracts that reference LIBOR and the potential effects of adopting this new guidance but does not expect this standard to have a material effect. The Company does not intend to adopt the standard early

**2. Revenue**

***Contract Balances***

The Company receives payments from customers based on a billing schedule as established in its customer contracts. Accounts receivable is recorded when the Company contractually has the right to consideration. In some arrangements, a right to consideration for its performance under the customer contract may occur before invoicing to the customer, resulting in contract assets. The amount of contract assets included within accounts receivable before allowances, in the condensed consolidated balance sheets was $0.7 million and $0.5 million as of March 31, 2023 and June 30, 2022, respectively.

Contract liabilities consist of deferred revenue. Deferred revenue represents amounts that have been invoiced in advance of revenue recognition, and the balance is recognized as revenue when transfer of control to customers has occurred or services have been provided. The current portion of deferred revenue balances are recognized during the following twelve-month period.

The following table summarizes the activity in deferred revenue:

| | Deferred Revenue |
|---|---|
| Balance as of June 30, 2021 | $ 25,623 |
| Additions | 2,355 |
| Revenue recognized | (13,271) |
| Balance as of March 31, 2022 | $ 14,707 |

| | Deferred Revenue |
|---|---|
| Balance as of June 30, 2022 | $ 10,769 |
| Additions | 2,060 |
| Revenue recognized | (11,014) |
| Balance as of March 31, 2023 | $ 1,815 |

As of March 31, 2023, approximately $2.8 million of revenue is expected to be recognized from remaining performance obligations for customer contracts. The Company expects to recognize revenue on approximately $2.5 million of these remaining performance obligations over the next 12 months with the balance recognized thereafter.

On July 29, 2019, the Company entered into an arrangement with Customer A whereby it agreed to provide a $5.0 million marketing development payment once the roll out phase was completed, which occurred on June 4, 2020, with the payment coming due on July 4, 2020. This payment is treated as an offset to revenue recognized under the contract over 4 years and interest accrues on the unpaid balance at a rate of 12% per annum. The payment due on July 4, 2020 was not paid by the Company. As of March 31, 2023 and June 30, 2022, the Company had incurred $0 and $0.2 million of accrued interest expense, respectively.

On September 29, 2021, the Company entered into a settlement agreement with Customer A regarding the payment of a $5.0 million marketing development payment and related accrued interest to be made to the customer and $2.0 million in handheld services to be provided to the customer under a previous contract. Through the settlement agreement, the Company agreed to provide certain alternative installation and replacement services with a value of $2.0 million and cover expenses on behalf of the customer related to a liquid ingress issue resulting from COVID-19 of $3.3 million. The liquid ingress issue was a result of the Company’s devices failure primarily due to the use of extremely strong commercial disinfectant solutions by the Company’s customers to clean the hardware devices as a mandatory precaution protocol due to COVID-19. In return, the customer agreed to reduce the payment to be made from $5.0 million to $3.2 million, waive the related accrued interest of $0.8 million and no longer request a refund on a $2.0 million payment it had previously made for handheld services. Of the amounts, $2.9 million was accounted for as contra-loss on infrequent product repairs, $2.4 million as a reduction to accounts payable for the principal and accrued interest owed, $0.3 million as a reduction to deferred revenue, and $0.2 million as prepaid interest as of and for the fiscal year ended June 30, 2021. Subsequently, $0.2 million interest expense was recognized against the prepaid interest balance, $3.2 million was recognized as a reduction to accounts payable for the payment of the outstanding marketing development amount in October 2021. Revenue relating to the installation and replacement services provided as a part of the contract modification was $0.1 million and $0.5 million for the three and nine months ended March 31, 2023, respectively, and $0.1 million and $0.5 million was recognized as revenue relating to the installation and replacement services provided as part of the contract modification for the three and nine months ended March 31, 2022. The Company will continue to offset revenue recognized based on the original $5.0 million marketing development fund.

On October 29, 2021, the Company entered into an arrangement with a customer whereby it issued a warrant to purchase 404,961 shares of common stock. Refer to Note 10 for further details. The fair value of the warrant is treated as a reduction to the transaction price of the customer contract and will be recorded as contra-revenue. Contra-revenue recognized related to the warrant was $0.5 million and $1.1 million for the three and nine months ended March 31, 2023, respectively. There was no contra-revenue recognized during the three and nine months ended March 31, 2022.

***AI Platform***

The Company remits a share of the gross billings from its arrangement with Customer D to its hardware and software vendor. The Company determined it is the agent in the relationship as it does not control the AI Platform hardware, software, and certain services, and is not primarily responsible for fulfilling the promise to Customer D.

The revenue share paid to the Company's hardware and software vendor under the Company's AI Platform revenue share agreement ranged from 64% - 68% of the gross billings to the customer for the three and nine months ended March 31, 2023.

***Transaction Revenue***

The commissions paid to restaurants under the Company's gaming revenue share agreements ranged between 84% - 90% and 83% - 90% of premium content revenue by customer logo for the three and nine months ended March 31, 2023, respectively, while the commissions paid to restaurants under the Company's gaming revenue share agreements ranged between 82% - 90% and 81% - 90% of premium content revenue by customer logo for the three and nine months ended March 31, 2022, respectively.

***Disaggregation of Revenue***

No single country other than the United States represented 10% or more of the Company's revenue during three and nine months ended March 31, 2023 and 2022.

For the  three and nine months ended March 31, 2023, $0.6 million and $1.5 million of revenue was from leasing arrangements or with predominant leasing components, respectively, while for the  three and nine months ended March 31, 2022, $0.5 million and $1.8 million of revenue was from leasing arrangements, respectively.

**3. Fair Value Measurements**

The following table provides a summary of all financial instruments measured at fair value:

| | As of March 31, 2023 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Financial assets: | | | | |
| Cash equivalents: | | | | |
| Money market funds | $ 2,042 | $ — | $ — | $ 2,042 |
| Total financial assets | $ 2,042 | $ — | $ — | $ 2,042 |
| | | | | |
| Financial liabilities: | | | | |
| Unvested founder shares liability | $ — | $ — | $ 196 | 196 |
| Warrant liabilities | — | — | 1,623 | 1,623 |
| Total financial liabilities | $ — | $ — | $ 1,819 | $ 1,819 |

| | As of June 30, 2022 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Financial liabilities: | | | | |
| Convertible promissory notes and embedded warrants | $ — | $ — | $ 89,663 | $ 89,663 |
| Warrant liabilities | — | — | 4,149 | 4,149 |
| Total financial liabilities | $ — | $ — | $ 93,812 | $ 93,812 |

*Valuation Assumptions Related to Unvested Founder Share Liability*

The fair value of the unvested founder shares liability was determined by the Company using a Monte Carlo valuation model, which requires significant estimates including the expected volatility of our common stock based on the historical volatility of comparable publicly traded companies and the risk-free rate.

The Company estimated the fair value of the unvested founder share liability using the following weighted average assumptions:

| | As of March 31, 2023 | As of Merger Date |
|---|---|---|
| Expected volatility | 71.9 % | 76.2 % |
| Expected term (in years) | 4.5 | 5.0 |
| Risk-free interest rate | 3.6 % | 3.7 % |

*Valuation Assumptions and Other Information Related to Convertible Promissory Notes and Embedded Warrants*

The fair value of the convertible promissory notes and embedded warrants is determined based on "Level 3" inputs, due to a lack of market data over inputs such as the probability weighting of the various scenarios that can impact the settlement. The principal amount of the convertible promissory notes, embedded warrants and accrued interest is measured at fair value using the Monte Carlo valuation model. The valuation model utilized various key assumptions, such as enterprise value and management assessments of the probability of expected future events, including conversion upon next financing of private preferred stock, conversion upon a next financing in a public liquidity event, conversion upon a change in control, conversion upon maturity and default. A public liquidity event is defined as the issuance and sale of shares in an initial public offering or a deSPAC. As part of the convertible promissory notes and embedded warrants valuation at each reporting date, the Company determined that credit risk associated with the convertible notes was immaterial.

The Company elected the fair value option to account for the convertible promissory notes and embedded warrants because the Company believes it more accurately reflects the value of the debt in the financial statements. Changes in the fair value of the convertible promissory notes and embedded warrants were included in change in fair value of warrants and convertible promissory notes in the condensed consolidated statement of operations and comprehensive income (loss).

The Company estimated the fair value of the convertible promissory notes, embedded warrants and accrued interest using the following weighted average assumptions:

| | As of June 30, 2022 | | | | |
|---|---|---|---|---|---|
| | Next Financing - Private | Next Financing - Public | Change in Control | Maturity Date | Default |
| Probability of conversion | 10.0 % | 80.0 % | 5.0 % | 5.0 % | — |
| Expected term (in years) | 0.3 | 0.2 | 0.2 | 0.3 | — |
| Discount rate | 16.5 % | 16.5 % | 16.5 % | — % | — |

The following table sets forth a summary of the difference between the carrying amount and the fair value of Level 3 convertible promissory notes and embedded warrants for which the fair value option was elected:

| | As of June 30, 2022 | | |
|---|---|---|---|
| | Carrying Amount | Amount Charged to Earnings | Fair Value |
| Convertible promissory notes and embedded warrants | $ 51,816 | $ 37,847 | $ 89,663 |
| Total | $ 51,816 | $ 37,847 | $ 89,663 |

The Company had no outstanding convertible promissory notes and embedded warrants as of March 31, 2023.

*Valuation Assumptions Related to Warrants*

The fair value of the warrant liabilities are determined based on “Level 3” inputs, due to the lack of relevant observable market data over fair value inputs (volatility, stock price, risk-free rate, expected term, and dividend yield), used in the Black-Scholes-Merton model. The following table indicates the weighted-average assumptions made in estimating the fair value:

| | As of March 31, 2023 | As of June 30, 2022 |
|---|---|---|
| Risk-free interest rate | 3.64 % | 3.00 % |
| Expected term (in years) | 4.93 | 5.93 |
| Expected volatility | 59.07 % | 65.72 % |
| Expected dividend yield | — | — |
| Exercise price | $ 6.15 | $ 7.48 |

*Level 3 Rollforward*

The following table sets forth a summary of changes in the fair value of the Company’s Level 3 liabilities:

| | Convertible Promissory Notes and Embedded Warrants | Warrant Liabilities | Unvested Founder Shares Liability |
|---|---|---|---|
| Balance at June 30, 2021 | $ 62,581 | $ 1,434 | $ — |
| Issuance of convertible promissory notes | 5,500 | — | — |
| Issuance of warrants | — | 1,118 | |
| Change in fair value of warrants and convertible promissory notes | 10,602 | 1,066 | — |
| Balance at March 31, 2022 | $ 78,683 | $ 3,618 | $ — |

| | Convertible Promissory Notes and Embedded Warrants | Warrant Liabilities | Unvested Founder Shares Liability |
|---|---|---|---|
| Balance at June 30, 2022 | $ 89,663 | $ 4,149 | $ — |
| Reclassification of liability classified warrants to equity | — | (830) | — |
| Issuance of warrants | — | 1,471 | — |
| Recognition of warrants and unvested founder shares liabilities assumed upon Merger | — | 9,388 | 1,588 |
| Change in fair value | (48,271) | (12,555) | (1,392) |
| Conversion of warrant liabilities and convertible promissory notes | (41,392) | — | — |
| Balance at March 31, 2023 | $ — | $ 1,623 | $ 196 |

For the Company’s investments without readily determinable fair values, the investment is adjusted if any impairments or observable price changes are identified, which is considered fair value.

The Company measures certain non-financial assets and liabilities, including property and equipment, intangible assets, and inventory, at fair value on a non-recurring basis. Fair value measurements of non-financial assets and non-financial liabilities are used primarily in the impairment analyses of property and equipment, intangible assets and inventory.

## 4. Consolidated Balance Sheet Components

***Inventories***

Inventories consisted of the following:

| | As of March 31, 2023 | As of June 30, 2022 |
|---|---|---|
| Finished goods | $ 395 | $ 869 |
| Total inventories | $ 395 | $ 869 |

***Investments in Non-Affiliates***

In December 2022, the Company entered into a simple agreement for future equity (SAFE) with a non-affiliated entity, with the Company making a $2.0 million investment in the entity. The non-affiliated entity is a closely held early stage technology company, focused on the research and development of voice-related AI products, which to date has been financed through equity and other SAFE investments. The Company's investment was made to provide further financing to the non-affiliated entity's research and development efforts. The investment does not provide for the voluntary right to redeem or automatic redemption on a stated date, nor does the Company have the right to voluntarily convert. Rather under a defined next financing, liquidity event, or dissolution conditions of the non-affiliated entity, the investment will either be converted into a future series of preferred stock of the issuer or may be redeemed for cash.

The Company has determined that the Company's investment in the non-affiliate is an equity security, whereby such investment does not give the Company a controlling financial interest or significant influence over the investee. Further, the Company has determined that the Company's investment in the non-affiliated entity represents an interest in a variable interest entity ("VIE"), for which the Company has determined it is not the primary beneficiary of such non-affiliated entity. Based on the Company's knowledge and interaction with the non-affiliated entity, in the Company's judgment, the activities that most significantly impact the non-affiliated entity's economic performance are those related to the governance and management decisions regarding operations risk. The Company has determined that it does not have the power to direct such activities, because it has no participation on the board of directors of the VIE or through other ways to influence such activities. Accordingly, the Company has accounted for the investment as a financial instrument without a readily determinable fair value. Such investment is recorded using the measurement alternative for investments without readily determinable fair values, whereby the investment is measured at cost less any impairment recorded or adjustments for observable price changes. During the period ended March 31, 2023, no impairments or observable price changes were identified or recorded. The Company considers the cost of the investment to be the maximum exposure to loss as a result of its involvement with the non-affiliated entity.

***Property and Equipment, net***

Property and equipment, net consisted of the following:

| | As of March 31, 2023 | As of June 30, 2022 |
|---|---|---|
| Tablets | $ 5,758 | $ 5,663 |
| Computer equipment | 625 | 519 |
| Software | 4 | 562 |
| Total property and equipment | 6,387 | 6,744 |
| Less: accumulated depreciation | (5,172) | (4,769) |
| Property and equipment, net | $ 1,215 | $ 1,975 |

Depreciation expense was $0.4 million and $1.0 million for the three and nine months ended March 31, 2023, respectively, and $0.2 million and $1.2 million for the three and nine months ended March 31, 2022, respectively.

***Intangible Assets, net***

Intangible assets, net consisted of the following:

| | As of March 31, 2023 | As of June 30, 2022 |
|---|---|---|
| Capitalized software | $ 7,574 | $ 3,135 |
| Developed technology | 1,300 | 1,300 |
| Domain name | 151 | 151 |
| Intangible assets, gross | 9,025 | 4,586 |
| Less: accumulated amortization | (589) | (360) |
| Intangible assets, net | $ 8,436 | $ 4,226 |

Intangible assets have weighted-average amortization periods as follows:

| | Years |
|---|---|
| Capitalized software | 4 |
| Developed technology | 4 |
| Domain Name | 15 |

Amortization expense of intangible assets was $0.1 million and $0.3 million for the three and nine months ended March 31, 2023, respectively, and was less than $20 thousand and $70 thousand for the three and nine months ended March 31, 2022, respectively. Within capitalized software as of March 31, 2023 and June 30, 2022, $7.3 million and $2.8 million are in-process capitalized software costs, respectively, and accordingly, the amortization of such costs are excluded from the table below. During the nine months ended March 31, 2022, the Company recognized a loss on impairment of $0.1 million related to its capitalized software in cost of revenue in the Company's condensed consolidated statement of operations and comprehensive loss.

Total future amortization expense for intangible assets was estimated as follows:

| | |
|---|---|
| Remainder of 2023 | $ 84 |
| 2024 | 335 |
| 2025 | 335 |
| 2026 | 308 |
| 2027 | 10 |
| Thereafter | 56 |
| Total | $ 1,128 |

***Accrued Liabilities***

Accrued liabilities consisted of the following:

| | As of March 31, 2023 | As of June 30, 2022 |
|---|---|---|
| Accrued expenses | $ 585 | $ 2,176 |
| Accrued vacation | 954 | 874 |
| Accrued payroll | 672 | 1,686 |
| Operating lease liability, current | 340 | — |
| Accrued interest | 371 | 402 |
| Accrued repair cost (Refer to Note 8) | 311 | 724 |
| Accrued sales tax | 114 | 86 |
| Accrued other | 805 | 267 |
| Total accrued liabilities | $ 4,152 | $ 6,215 |

***Other Long-term Liabilities***

Other long-term liabilities consisted of the following:

| | As of March 31, 2023 | As of June 30, 2022 |
|---|---|---|
| Unvested founder shares liability | $ 196 | $ — |
| Operating lease liability, net of current portion | 230 | — |
| Total other long-term liabilities | $ 426 | $ — |

**5. Leases**

As of March 31, 2023, the Company recorded a right of use asset of $0.6 million within other long-term assets on the condensed consolidated balance sheet. As of March 31, 2023, the Company also recorded operating lease liabilities of $0.6 million, of which $0.3 million and $0.2 million were included in accrued liabilities and other long-term liabilities, respectively, on the condensed consolidated balance sheet. The Company adopted ASC 842 on July 1, 2022, and accordingly, no amounts were recorded for right of use assets or operating lease liabilities as of June 30, 2022. Refer to Note 1 for further details.

For the three and nine months ended March 31, 2023, the Company recorded operating lease costs of $0.1 million and $0.3 million, respectively. The operating lease costs for the three and nine months ended March 31, 2023 included variable operating lease costs of less than $0.1 million and $0.1 million, respectively.

Supplemental information related to the Company's operating lease was as follows for the nine months ended March 31, 2023:

| | |
|---|---|
| Operating cash flows used for operating lease | $ 332 |
| Operating lease liability arising from obtaining ROU asset (1) | $ 570 |
| Weighted average remaining lease term | 1.1 years |
| Weighted average discount rate | 15 % |

(1) Amount includes $0.5 million related to the adoption of ASC 842 for existing operating leases on July 1, 2022, and $0.3 million related to the Company entering into a new non-cancelable operating lease agreement during the nine months ended March 31, 2023.

Future minimum lease payments under the Company's non-cancelable operating leases with an initial lease term in excess of one year subsequent to March 31, 2023 are as follows:

| | As of March 31, 2023 |
|---|---|
| Remainder of 2023 | $ 100 |
| 2024 | 404 |
| 2025 | 143 |
| Gross lease payments | 647 |
| Less: imputed interest | (77) |
| Present value of net future minimum lease payments | $ 570 |

Under the previous lease accounting standard ASC 840, *Leases*, the aggregate future minimum lease payments under the Company's non-cancelable operating lease, as of June 30, 2022, was as follows:

| | As of June 30, 2022 |
|---|---|
| 2023 | $ 273 |
| 2024 | 218 |
| 2025 | 127 |
| Total | $ 618 |

Rent expense for the three and nine months ended March 31, 2022 was $0.1 million and $0.3 million, respectively.

**6. Financing Obligations**

The Company's financing obligations, net of discounts, consist of the following:

| | As of March 31, 2023 | As of June 30, 2022 |
|---|---|---|
| Receivable financing facility | $ 4,314 | $ 5,911 |
| Equipment financing facility | 1,266 | 2,929 |
| Total financing obligations | 5,580 | 8,840 |
| Less: financing obligations, current | (3,720) | (8,840) |
| Total financing obligations, noncurrent | $ 1,860 | $ — |

***Receivable Financing Facility***

On April 27, 2021, the Company entered into an investment arrangement in which the Company provides future receivables available to an outside investor to invest in, in exchange for an upfront payment. Through this arrangement, the Company obtains financing in the form of a large upfront payment, which the Company accounts for as a borrowing by recording the proceeds received as a financing obligation, which will be repaid through payments collected from accounts receivable debtors relating to future receivables. The financing obligation is non-recourse; however, the Company is responsible for collections as the Company must first collect payments from the debtors and remit them to the investor. The Company recognizes interest on the financed amount using the effective interest method. The effective interest rate is the interest rate that equates the present value of the cash amounts to be received by the investor with the present value of the cash amounts paid by the investor to the Company. The receivable financing facility has a term of 5 years and the arrangement allows the Company and the financier to mutually agree to roll forward the Company's borrowings as they come due.

On August 15, 2021, November 16, 2021, February 22, 2022, May 31, 2022, and August 18, 2022, in accordance with the terms of the receivable financing facility, the Company rolled forward the receivable financing facility, enabling the Company to continue its quarterly borrowings for a minimum of a rolling twelve-months. Subject to the approval of the financier, the Company may continue rolling forward the receivable financing facility.

On April 15, 2023, the Company entered into an amended and restated investment arrangement to amend the payment due dates and periodic payment amounts to be made under the investment agreement. The amended arrangement calls for payments of principal and interest of $0.7 million, $3.5 million and $0.9 million in fiscal years 2023, 2024 and 2025, respectively.

***Equipment Financing Facility***

Beginning in 2019, the Company entered into arrangements with third party financiers to secure payments of certain tablet purchases. Such arrangements generally have terms ranging from three – five years and interest rates ranging from 8%-14%. The Company then leases the tablets monetized by the financiers to one of its customers through operating leases that have 4-year terms.

In fiscal year 2022 and during the nine months ended March 31, 2023, due to the Company's liquidity position and other commitments, the Company postponed certain payments on certain arrangements with third party financiers, which resulted in the Company defaulting on said arrangements. The Company remedied the matter via repayment agreements with its third-party financiers, as discussed below.

On November 4, 2022, the Company executed an amendment with one of its third-party financiers to defer the non-payments, which increased the monthly payments due for the remaining term of the arrangement.

On November 21, 2022, the Company entered into an agreement to early terminate one of its third-party financiers' arrangement. The Company repaid such arrangement by making a cash disbursement of $0.4 million, which extinguished all obligations and resulted in $0.3 million being recorded as a loss on extinguishment of debt and financial obligations on the condensed consolidated statement of operations and comprehensive income (loss).

As a result of the amendment executed on November 4, 2022 and early termination executed on November 21, 2022, the default on payments due as described above has been waived and the Company is in compliance as of March 31, 2023. We have classified all of our obligations under these arrangements as short-term within financing obligations, current as of March 31, 2023 and June 30, 2022.

**7. Debt Arrangements**

The Company's outstanding debt, net of debt discounts, consists of the following:

| | As of March 31, 2023 | As of June 30, 2022 |
|---|---|---|
| Convertible promissory notes | $ — | $ 89,663 |
| Term loans | 53,979 | 25,443 |
| PPP Loan | — | 2,000 |
| Total debt | 53,979 | 117,106 |
| Less: debt, current | (53,979) | (115,106) |
| Total debt, noncurrent | $ — | $ 2,000 |

***Credit Agreement***

On September 21, 2022, in connection with the consummation of the Merger, the Company entered into a Credit Agreement (the "Credit Agreement") with the subsidiary guarantors party thereto, Metropolitan Partners Group Administration, LLC, as administrative, payment and collateral agent (the "Agent"), the lenders ("Lenders") and other parties party thereto, pursuant to which the Lenders extended term loans having an aggregate original principal amount of $55.0 million (the "Term Loans"). In March 2023, the Company entered into a First Amendment to Credit Agreement (the "First Amendment") in which the parties amended certain covenants and payment provisions of the existing Credit Agreement. In connection with the First Amendment, the Company entered into the Amended and Restated Fee Letter (the "Fee Letter") with Metropolitan, pursuant to which Presto paid an amendment fee equal to $0.2 million and granted warrants to purchase 400,000 shares of Presto common stock with an exercise price of $0.01 per share, to Metropolitan Levered Partners Fund VII, LP, Metropolitan Partners Fund VII, LP, Metropolitan Offshore Partners Fund VII, LP and CEOF Holdings LP (the "Metropolitan Entities"). The Company recorded additional debt discount of $0.8 million which represents the fees paid plus the fair value of the warrants and recorded the warrants as liabilities.

The Term Loans were borrowed in full on September 21, 2022. Amounts outstanding under the Credit Agreement will incur interest at the rate of 15% per annum. During the first 18 months following the closing date, the Company may elect to pay a portion of the accrued and unpaid interest by capitalizing the amount of such interest on a monthly basis and adding the same to the principal balance of the Term Loans, after which such capitalized interest shall accrue interest at the interest rate and otherwise constitute principal under the Term Loan ("PIK Interest"). With respect to interest accruing during the first nine months after the closing date, the Company may elect for 100% of the interest payment to be capitalized as PIK Interest on a monthly basis. With respect to interest accruing after the nine month anniversary of the closing date, but before the 18 month anniversary of the closing date, the Company may elect for 50% of the interest payment to be capitalized as PIK Interest on a monthly basis. The Term Loans mature on March 21, 2025.

The Term Loans may be prepaid by the Company; however, any voluntary or mandatory prepayment made prior to the 18 month anniversary of the closing date must be accompanied by payment of a make whole premium equal to the interest and fees that would have accrued on the aggregate principal amount of the Term Loans (including any interest that could have been capitalized as PIK Interest during such period) from the date of payment through the 18 month anniversary of the closing date. The Term Loans may not be reborrowed once repaid. The Company is required to pay the Agent certain upfront fees and administrative fees in connection with the Term Loans. The Company’s obligations under the Credit Agreement are secured by substantially all of the Company’s assets.

The Company must comply with certain financial covenants as set forth in the Credit Agreement, including a minimum cash covenant and maximum net leverage ratio of 1.20 to 1.00. The minimum cash covenant requires us to maintain cash in a separate account in an amount equal to the prior six months of operating expenses plus $1.1 million. The Company was unable to comply with these financial covenants and, as noted below, have obtained a waiver. The Credit Agreement also contains customary affirmative and restrictive covenants, including covenants regarding the incurrence of additional indebtedness or liens, investments, transactions with affiliates, delivery of financial statements, payment of taxes, maintenance of insurance, dispositions of property, mergers or acquisitions, among other customary covenants. The Company is also restricted from paying dividends or making other distributions or payments on its capital stock, subject to limited exceptions. The Credit Agreement also includes customary representations and warranties, events of default and termination provisions, upon which the Term Loans may be accelerated and the interest rate applicable to any outstanding payment obligations will increase by 5%. On March 31, 2023, the Company obtained a waiver, pursuant to the First Amendment noted above, of the minimum cash covenant for February 28, 2023 and March 31, 2023, the net leverage ratio for the period from February 28, 2023 through May 31, 2023 and any default occurring from the separation of the Company’s chief executive officer from the Board of Directors in March 2023. The Company is seeking a further waiver in conjunction with its efforts to raise additional financing. The Company is in compliance with all other applicable covenants. However, since the Company cannot be certain it will be in compliance with all covenants in the next twelve months if additional financing is not secured, the Company has classified the balance of the Credit Agreement as current on the condensed consolidated balance sheet as of March 31, 2023.

In conjunction with the Credit Agreement, the Company issued 1,500,000 warrants to purchase common stock to the Lenders. Such warrants were determined to be equity classified and the Company recorded the value associated with such warrants of $2.1 million within additional paid in capital, with an offsetting debt discount being recorded. Refer to Note 10 for further details on the aforementioned warrants.

As a condition to entering into the Credit Agreement, the Sponsors agreed to transfer 600,000 Presto Automation Inc. shares to the Lender to the Credit Agreement. The share transfer by the Sponsor to the Lenders to the Credit Agreement was such that the substance of the transaction was that the Sponsors made a capital contribution to the Company, and the Company then made a share-based payment to the Lenders as an incentive for the Lenders to enter into the Credit Agreement. Accordingly, the Company recorded the transaction as debt issuance costs discount of $2.8 million in condensed consolidated balance sheet with an offsetting increase to additional paid-in capital for the contribution.

The Company incurred other debt issuance costs associated with professional services and fees paid to the lender of $1.0 million in conjunction with the signing of the Credit Agreement which were recorded as a debt discount.

During the three and nine months ended March 31, 2023, the Company recorded PIK interest expense amounts of $2.2 million and $4.6 million, respectively, which has been reflected as an increase to the outstanding debt balance. Further, during the three and nine months ended March 31, 2023 the Company recorded interest expense associated with the amortization of debt discounts of $0.6 million and $1.2 million, respectively. Accordingly, as at March 31, 2023, the term loans, noncurrent balance of $54.0 million reflects $55.0 million of principal and $4.6 million of PIK interest accrual, reduced by $5.5 million of unamortized debt issuance costs. The Company had no outstanding amounts related to the Credit Agreement as of June 30, 2022.

***Convertible Promissory Notes***

As of June 30, 2022, the Company had $89.7 million of convertible notes outstanding to various investors, all of which were accounted for under the fair value option. In conjunction with the Merger all convertible promissory notes converted into shares of common stock. Further on the date of the Merger, certain convertible notes which were together with warrants also had the related warrants converted into shares of common stock. As a consequence of the note and warrant conversion, 8,147,938 shares of common stock were issued. Immediately prior to conversion, the convertible promissory notes were remeasured to the then fair value of $41.4 million, resulting in a gain on remeasurement of $48.3 million which was recorded within change in fair value of warrants and convertible promissory notes on the condensed consolidated statement of operations and comprehensive income (loss) for the nine months ended March 31, 2023. As a consequence of the conversion, $41.4 million was reclassified into additional paid-in capital. Accordingly, there were no remeasurement effects related to the convertible promissory notes, as such notes were longer outstanding during three month period ended March 31, 2023.

During the nine months ended March 31, 2022 the Company issued the July 2021 notes for $0.5 million of convertible promissory notes and issued the February 2022 notes for $25.7 million and repaid the June 2021 notes for $20.0 million with the February 2022 notes. During the three and nine months ended March 31, 2022, the Company recorded a gain on remeasurement of $19.2 million and loss of $10.6 million, respectively, on all outstanding convertible promissory notes, which were recorded within change in fair value of warrants and convertible promissory notes on the condensed consolidated statement of operations and comprehensive income (loss).

***Term Loans***

*Horizon Term Loan*

On March 4, 2021, the Company entered into a loan agreement (the “Horizon Loan”) with Horizon Technology Finance Corporation, which provided the Company with $15.0 million, bears interest at prime rate plus 6.5% per annum, and has a term of 54 months from each loan funding date. The Horizon Loan payment terms require repayment of accrued interest only on the outstanding principal amount over the first 24 payment dates and an equal payment of principal plus accrued interest on the next 30 payment dates identified in the notes applicable to the loan. The Company pledged certain assets against the Horizon Loan. The Horizon Loan contains financial covenants that require the maintenance of an unrestricted cash plus accounts receivable balance and achievement of quarterly bookings targets. On March 11, 2022, the Company amended the Horizon Loan to shorten the total term to 24 months.

In connection with the entry into the Credit Agreement (described above), on September 21, 2022 the Company repaid the Horizon Loan making a cash disbursement of $17.0 million, of which $15.0 million was repayment of principal and $0.6 million was payment of interest expense and accrued interest. Further on the date of the Merger, $1.7 million was recorded as a loss on extinguishment of debt and financial obligations on the condensed consolidated statement of operations and comprehensive income (loss) for the nine months ended March 31, 2023.

*Lago Term Loans*

On March 11, 2022, the Company entered into a loan agreement (the “Lago Loan”) with Lago Innovation Fund I & II, LLC, which provided the Company with $12.6 million, bears interest at the greater of 12% plus the greater of 1% or 30 day LIBOR, bears 2% payable in kind interest, and matures on April 1, 2023. The Company pledged certain assets against the Lago Loan. The Lago Loan payment terms require repayment of accrued interest only on the outstanding principal over the first 12 payment dates and payment of principal plus remaining accrued interest on the last payment date identified in the notes applicable to the loan. The Company may prepay at any time for a fee, dependent on the time of prepayment. The Lago Loan contains financial covenants that require the maintenance of unrestricted cash plus accounts receivable balance and achievement of quarterly bookings targets. The Company issued 205,602 warrants to purchase common stock with the Lago Loan. Refer to Note 10 for further details.

On August 4, 2022, the Company amended the Lago Loan which provided the Company with $5.3 million. Further, as part of the amendment to the Lago Loan, the Company issued an additional 169,310 warrants to purchase common stock with the additional tranche. The Company determined that the amendment with the lender should be accounted for as an extinguishment and recorded as a loss on extinguishment of debt and financial obligations of $6.0 million on its condensed consolidated statement of operations and comprehensive income (loss) for the nine months ended March 31, 2023.

In connection with the entry into the Credit Agreement (described above) on September 21, 2022, the Company repaid all outstanding loans by making a cash disbursement of $22.4 million, of which $17.9 million was repayment of principal and $0.1 million was payment of payable in kind interest. Further $4.4 million of cash was paid related to prepayment and other penalties.

***Paycheck Protection Program Loans***

In April 2020, we obtained a Paycheck Protection Program (“PPP”) loan for $2.6 million through the U.S. Small Business Administration. In March 2021, a second PPP loan was obtained in the amount of $2.0 million, for a total of $4.6 million received in PPP loans. The loans were to be fully forgiven if the funds received were used for payroll costs, interest on mortgages, rent, and utilities, with at least 60% being used for payroll. The Company utilized the funds for these purposes and applied for loan forgiveness of the PPP funds. The Company’s accounting policy provides that if the loans are forgiven, the forgiven loan balance will be recognized as income in the period of forgiveness. During the nine months ended March 31, 2022, the Company received forgiveness of the first PPP loan of $2.6 million and recognized income on forgiveness within other income, net. During the nine months ended

March 31, 2023, the Company received forgiveness of the second PPP loan of $2.0 million and recognized income on forgiveness within other income, net.

Future principal payments on debt for the Company's fiscal years were as follows:

| | As of March 31, 2023 |
|---|---|
| 2023 (remaining) | $ — |
| 2024 | — |
| 2025 | 55,000 |
| Total future payments on debt obligations | $ 55,000 |

**8. Commitments and Contingencies**

***Warranties, Indemnification, and Contingencies***

The Company enters into service level agreements with customers which warrant defined levels of uptime and support response times and permit those customers to receive credits for prepaid amounts in the event that those performance and response levels are not met. In the three and nine months ended March 31, 2023, the Company has incurred costs to refurbish customer tablets of $0.3 million and $1.2 million, respectively, while in the three and nine months ended March 31, 2022, the Company incurred costs to refurbish customer tablets of $0.8 million and $2.8 million, respectively, recorded in cost of platform revenue in the Company's condensed consolidated statement of operations and comprehensive income (loss). In connection with the service level agreements, the Company has recorded $0.3 million and $0.7 million in accrued liabilities in the condensed consolidated balance sheets for expected repair costs for customer tablets currently in the Company's return merchandise authorization process as of March 31, 2023 and June 30, 2022, respectively.

In the ordinary course of business, the Company enters into contractual arrangements under which the Company agrees to provide indemnification of varying scope and terms to business partners and other parties with respect to certain matters, including, but not limited to, losses arising out of the breach of such agreements, intellectual property infringement claims made by third parties, and other liabilities relating to or arising from the Company's platform or the Company's acts or omissions. In these circumstances, payment may be conditional on the other party making a claim pursuant to the procedures specified in the particular contract. Further, the Company's obligations under these agreements may be limited in terms of time and/or amount, and in some instances, the Company may have recourse against third parties for certain payments.

In addition, the Company has agreed to indemnify the Company's directors and executive officers for costs associated with any fees, expenses, judgments, fines, and settlement amounts incurred by any of these persons in any action or proceeding to which any of those persons is, or is threatened to be, made a party by reason of the person's service as a director or officer, including any action by the Company, arising out of that person's services as the Company's director or officer or that person's services provided to any other company or enterprise at the Company's request. The Company maintains director and officer insurance coverage that may enable the Company to recover a portion of any future amounts paid.

*Loss on Infrequent Product Repairs*

During the nine months ended March 31, 2022, the Company continued to experience higher than normal hardware returns for repair or replacement using a Return Merchandise Authorization ("**RMA**"). While the Company has incurred RMA charges in the past, the volume of repair charges was extremely unusual and very high due to a liquid ingress issue resulting from COVID-19 related actions by the Company's customers. The Company's devices failed primarily due to the use of extremely strong commercial disinfectant solutions by the Company's customers to clean the hardware devices as a mandatory precaution protocol due to COVID-19. Due to use of commercial cleaning products, the solution leaked into the hardware causing significant damage to the devices and requiring replacement of such devices.

The standard warranty the Company provides covers regular wear and tear and does not cover any damage caused by mishandling of the product. However, given the nature of issues, the Company, in order to prevent disruption to the Company's customers' businesses, incurred approximately $0.1 million and $0.6 million of repair and replacement expenses related to this issue during the three and nine months ended March 31, 2022, respectively. The Company provided repair and replacement of its hardware devices to all of its customers as a one-time only offer due to COVID-19. The Company has also made a claim to recover the costs from its third-party subcontractor who manufactures the hardware. The Company incurred no repair and replacement expenses related to this issue in the three and nine months ended March 31, 2023.

***Legal Proceedings***

In the ordinary course of business, the Company may be subject from time to time to various proceedings, lawsuits, disputes, or claims. The Company makes a provision for a liability relating to legal matters when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These estimates are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, estimated settlements, legal rulings, advice of legal counsel, and other information and events pertaining to a particular matter. In general, the resolution of a legal matter could be material to the Company's financial condition or cash flows, or both, or could otherwise adversely affect the Company's operating results. The outcomes of legal proceedings and other contingencies are, however, inherently unpredictable, and subject to significant uncertainties. At this time, the Company does not have any such matters that, if resolved unfavorably, would have a material impact on its financial condition, results of operations or cash flows.

In February 2022, the Company was added as a co-defendant in a patent infringement lawsuit that was brought against Hi Auto, Inc. ("Hi Auto") by Valyant AI, Inc. ("Valyant") in December 2021, alleging infringement of Valyant's patent relating to a speech-based/natural language order process system. The claims against the Company relate to the Company's alleged inclusion of Hi Auto's technology in the AI voice ordering system the Company uses for one of its customers. The lawsuit seeks to enjoin the co-defendants from continued alleged infringement and seeks unspecified statutory and other damages. A motion to dismiss is currently pending in the matter, as is a petition by Hi Auto challenging the validity of Valyant's patent. Valyant itself is seeking a reissue of its patent to correct a priority date issue, which may result in amendments to the claims and further validity challenges based on additional prior art made relevant by a later priority date for some or all claims that may be examined or issued. The court has stayed the infringement action pending an initial decision on Hi Auto's petition challenging the validity of the patent. The Company intends to vigorously defend all claims asserted against it. Because of the early stages of the proceedings, the Company currently is unable to predict the outcome of the lawsuit or to estimate the range of loss, if any, that could result were there to be an unfavorable outcome, but also believes that it has rights to indemnification from Hi Auto in such event.

In June 2022, the Company received a favorable arbitrator ruling related to a matter with its third-party subcontractor and was awarded approximately $11.3 million in damages related to the Company's loss on infrequent product repairs and to cover its legal expenses. This arbitration ruling was affirmed by the appellate court in the country of the arbitration ruling on March 6, 2023. On May 2, 2023, the vendor appealed the ruling to the highest court there. The award has not met the criteria to be considered realizable as of March 31, 2023. As a result, the Company has not recognized any gain related to this settlement in its condensed consolidated statement of operations and comprehensive income (loss).

**9. Stockholders' Deficit**

Effective with the closing of the Merger the Company restated its articles of incorporation. Under the amended and restated articles of incorporation the Company is authorized to issue 180,000,000 shares of common stock and 1,500,000 shares of preferred stock. The holders of common stock shall have the right to one vote for each share of common stock held. The holders of non-voting common stock do not have the right to vote on any matter.

On September 15, 2022, the Company (then Legacy Presto), received an equity investment of $1.0 million from an investor in exchange for 133,333 shares in the Company. Further, such investor held a significant portion of outstanding convertible notes on the date the investment was made. The Company recorded the proceeds received as an increase to additional paid-in capital. On September 21, 2022, in connection with the closing of the Merger, Ventoux and Legacy Presto and a proposed convertible note lender ("Silver Rock") agreed to terminate the proposed amended and restated convertible note subscription agreement, dated July 25, 2022, which was to be funded at the closing of the Merger. Pursuant to the termination agreement, Silver Rock agreed to the termination in exchange for 400,000 shares of common stock of Legacy Presto which were converted into 322,868 shares of Company common stock pursuant to the terms of the Merger Agreement. The share transfer was determined to be termination fee valued at $1.6 million recorded within other financing and financial instrument (costs) income, net on the condensed consolidated statement of operations and comprehensive income (loss), with an offsetting increase to additional paid-in capital. The Company also agreed to pay certain expenses of Silver Rock in the amount of $0.5 million which is recorded within other financing and financial instrument (costs) income, net on the condensed consolidated statement of operations and comprehensive income (loss). In addition to the consideration transferred directly by the Company, 500,000 warrants to purchase common stock, held by the Sponsors, were transferred to Silver Rock. The substance of the warrant transfer by the Sponsor to Silver Rock under the termination agreement was such that the

Sponsors made a capital contribution to the Company, and the Company then made a share-based payment to Silver Rock in exchange for termination of the convertible note agreement. Accordingly, the Company recorded the transaction as an other financing cost of $0.8 million within other financing and financial instrument (costs) income, net on the condensed consolidated statement of operations and comprehensive income (loss) with an offsetting increase to additional paid-in capital for the contribution.

The Company has the following shares of common stock reserved for future issuance:

| | As of March 31, 2023 |
|---|---|
| Warrants to purchase common stock | 18,815,453 |
| Common stock options and RSUs | 14,390,934 |
| Equity awards available for future grants | 4,617,400 |
| Earnout shares | 14,639,187 |
| | 52,462,974 |

**10. Warrants**

Since inception, the Company has issued warrants in conjunction with various debt financings. The Company accounts for its warrants in accordance with ASC 815-40 as either liabilities or as equity instruments depending on the specific terms of the warrant agreement. Warrants are classified as liabilities when there is variability in the number of shares, and when the variability is not related to an implicit or explicit input to the valuation of the Company. Liability-classified warrants are remeasured at each reporting date until settlement, with changes in the fair value recognized in change in fair value of warrants and convertible promissory notes in the condensed consolidated statement of operations and comprehensive income (loss). Warrants that meet the fixed-for-fixed criteria or contain variability related to an implicit or explicit input to the valuation of the Company are classified as equity instruments. Warrants classified as equity instruments are initially recognized at fair value and are not subsequently remeasured.

During the period from June 30, 2022, through the date of the Merger, the Company had various warrant transactions:

- The issuance of 169,309 warrants to purchase common stock in conjunction with an amendment to the warrant agreement with Lago Loan, such amendment occurring in August of 2022.
- In September 2022, the holder of 141,970 warrants net exercised such warrants with the Company issuing 136,681 common shares to the holder.
- The issuance at the Merger date of 1,500,000 warrants to the Lenders to the Credit Agreement.
- With the Merger, the Company assumed 8,625,000 public warrants and 6,125,000 private warrants.
- With the consummation of the Merger and the repayment of the Horizon loan, 294,725 of previously liability classified warrants were reclassified on the Merger date into equity in the amount of $0.8 million.

The following tables represent the warrants on common stock outstanding:

| | As of March 31, 2023 | | | | |
|---|---|---|---|---|---|
| | Expiration date | Exercise Price | Number of Shares | Term (years) | Classification |
| Common | **[C]** | $ 7.80 | 12,811 | 7 | Equity |
| Common | **[C]** | $ 7.80 | 41,636 | 7 | Equity |
| Common | **[C]** | $ 7.80 | 16,654 | 7 | Equity |
| Common | March 2026 | $ 9.25 | 84,461 | 6.5 | Liability |
| Common | June 2028 | $ 0.01 | 404,961 **[E]** | 6.7 | Equity |
| Common | **[F]** | $ 0.37 | 178,395 | 10 | Equity |
| Common | March 2026 | $ 0.37 | 57,952 | 10 | Liability |
| Common | July 2027 | $ 9.25 | 86,532 | 6 | Liability |
| Common | July 2027 | $ 0.37 | 402,679 | 6 | Equity |
| Common | **[A]** | $ 8.16 | 182,158 | **[A]** | Equity |
| Common | January 2031 | $ 8.16 | 27,577 | 10 | Liability |
| Common | **[B]** | $ 6.53 | 294,725 **[B]** | 10 | Equity |
| Common | March 2032 | $ 8.16 | 374,912 | 10 | Liability |
| Common | September 2027 | $ 11.50 | 1,500,000 | 5 | Equity |
| Common | September 2027 | $ 8.21 | 8,625,000 | 5 | Equity |
| Common | September 2027 | $ 11.50 | 6,125,000 | 5 | Liability |
| Common | March 2028 | $ 0.01 | 400,000 | 5 | Liability |
| Total | | | 18,815,453 | | |

| | As of June 30, 2022 | | | | |
|---|---|---|---|---|---|
| | Expiration date | Exercise Price | Number of Shares | Term (years) | Classification |
| Common | **[C]** | $ 7.80 | 12,811 | 7 | Equity |
| Common | **[C]** | $ 7.80 | 41,636 | 7 | Equity |
| Common | **[C]** | $ 7.80 | 16,654 | 7 | Equity |
| Common | March 2026 | $ 9.25 | 84,461 | 10 | Liability |
| Common | October 2027 | $ 0.37 | 141,970 | 10 | Equity |
| Common | **[D]** | $ 0.01 | 2,575,190 | **[D]** | Liability |
| Common | June 2028 | $ 0.01 | 404,961 **[E]** | 6.7 | Equity |
| Common | March 2026 | $ 0.37 | 178,395 | 10 | Equity |
| Common | March 2026 | $ 0.37 | 57,952 | 10 | Liability |
| Common | July 2027 | $ 9.25 | 86,532 | 10 | Liability |
| Common | July 2027 | $ 7.80 | 402,679 | 10 | Liability |
| Common | **[A]** | $ 8.16 | 182,158 | **[A]** | Equity |
| Common | January 2031 | $ 8.16 | 27,577 | 10 | Liability |
| Common | March 2031 | $ 6.53 | 294,725 **[B]** | 10 | Liability |
| Common | March 2032 | $ 8.16 | 205,602 | 10 | Liability |
| Total | | | 4,713,303 | | |

[A] — Warrants will expire at the earliest of a consummation of an acquisition or one year after the effective date of a registration statement for an initial public offering.

[B] — Warrant has the option of being converted into a variable number of shares based on the class of shares that the warrant is exercised at the discretion of the warrant holder. The Company notes the most likely conversion is to Common Stock and have calculated the number of shares as the quotient of the aggregate warrant coverage dollar amount value of $1.9 million over the exercise price of $6.53 per share as of March 31, 2023 and June 30, 2022. Warrant will also expire at the earliest of 10 years from the issuance date of March 5, 2021 or a consummation of an acquisition in which the sole consideration is cash or marketable securities.

[C] — Warrants expire 5 years from the effective date of a registration statement for an initial public offering should one occur.

[D] — Warrants are exercisable after the conversion of the related convertible notes and will expire, if not exercised, at the earliest of a public liquidity event, the effective date of a registration statement for an initial public offering and 5 years from the issuance date. Warrants are exercisable for a variable number of shares dependent on the fully diluted capitalization and are estimated at each reporting date. The warrants were converted into Common Stock on September 21, 2022 in conjunction with the Merger.

[E] — Warrants were issued in October 2021 and are exercisable contingent on rollouts of the Company's products and services to the warrant holder. Number of shares represents the maximum number of shares to be issued to the warrant holder of 404,961, of which 144,377 and 321,943 remained contingent as of March 31, 2023 and June 30, 2022, respectively. Expense related to the cost of these warrants being recognized as a reduction to revenue in the Company's condensed consolidated statements of operations and comprehensive income (loss).

[F] — Warrants will expire at the earliest of 10 years from the issuance date of March 11, 2016, a consummation of an acquisition or one year after the effective date of a registration statement for an initial public offering.

**11. Stock-Based Compensation**

***Stock-Based Compensation Plans***

Prior to the Merger, the Company utilized the 2018 equity incentive plan ("**2018 Plan**") which replaced the 2008 Stock Incentive Plan ("**2008 Plan**"). Effective with the Merger, the Board of Directors adopted the 2022 Incentive Award Plan (the "2022 Plan"). As of March 31, 2023, the number of shares of common stock reserved for future issuance under the 2022 Plan was 4,617,400. The Board of Directors may grant incentive and non-statutory stock options and restricted stock units ("RSUs") to employees, outside directors, investors and consultants at an exercise price of not less than 100% of the fair market value, as determined by the Board of Directors, at the date of grant. Awards generally vest ratably over periods determined by the Board of Directors, generally four or five years, and expire no later than ten years from the date of grant. For options subject to the one-year cliff, the expense is recognized as 25% of the total option value, which is recognized on a straight-line basis over the first year and remaining option expense continues to be recognized straight-line as vesting occurs monthly thereafter.

In February 2023, the Company granted an aggregate of 2,721,486 RSUs to its employees, consultants and directors with service-based vesting conditions with a weighted average grant date fair value of $3.26 per RSU, based on the closing stock price on the date of grant. The awards vest ratably over five years and one year for directors. As of March 31, 2023, $7.6 million of stock-based compensation related to these RSUs remains unrecognized, which is expected to time-vest over a remaining weighted-average period of 4.5 years. The Company recorded $0.7 million in additional stock based compensation expense due to modifications of individual awards for certain executives upon termination from the Company for accelerated vesting and extension of award exercise periods in the three and nine months ended March 31, 2023.

In July 2022, the Company granted an aggregate of 836,657 RSUs to its employees and consultants that contain a service-based vesting condition and a performance-based vesting condition, with a grant date fair value of $8.26 per RSU. Such RSUs are in addition to the 350,426 of RSUs that were outstanding at June 30, 2022, which contain the same vesting conditions. The service-based vesting condition is generally satisfied by rendering continuous service for 5 years, with 20% vesting each year. The performance-based vesting condition is satisfied in connection with an initial public offering or a change in control. However, the consummation of the deSPAC did not result in satisfaction of the performance condition and as such the Board of Directors approved a modification of the awards to waive the performance condition in consideration of consummating the deSPAC. The Company recorded compensation expense of $0.9 million during the three and nine months ended March 31, 2023 related to these RSUs as achievement of the performance-based vesting condition was waived and a cumulative catch up adjustment was recorded. As of March 31, 2023, $2.4 million of stock-based compensation related to these RSUs remains unrecognized, which is expected to time-vest over a remaining weighted-average period of 4.24 years.

In September 2022, the Company granted 1,200,000 of RSUs to a director and the current interim CEO of the Company with a grant date fair value of $4.56 per RSU. The RSUs vest in the following tranches, subject to the continuous service through each applicable vesting date: 33.33% of the RSUs vested on September 30, 2022, 56.67% of the RSUs has, and shall continue to, vest in equal monthly installments on the last day of each month during the subsequent 23-month period, and the remaining 10% shall vest upon the third anniversary of the vesting commencement date. The Company recorded compensation expense during the three and nine months ended March 31, 2023 related to the RSUs of $394 and $2.6 million, respectively. As of March 31, 2023, $2.8 million of stock-based compensation related to the RSU remains unrecognized, which is expected to be recognized over a remaining weighted-average period of 1.6 years. The RSUs time-based vesting would accelerate upon an acquisition of the Company. A deSPAC does not meet the definition of an acquisition as defined in the 2018 Plan.

During fiscal year 2021, the Company granted 600,752 performance-based options that contained a service-based vesting condition and a performance-based vesting condition. The service-based vesting condition is satisfied by rendering continuous service for four years after the performance-based vesting condition occurs. The performance-based vesting condition is satisfied in connection with a financing event or a public liquidity event for a first group of 300,376 options and in connection with a public liquidity event for a second group of 300,376 options. A financing event occurred as of June 30, 2021 that satisfied the performance-based vesting condition for the first group of 300,376 options. Effective with the closing of the Merger, the public liquidity event performance condition was achieved for the second group of 300,376 options. The Company recognized expense associated with these options in the amount of $0.3 million and $0.4 million, for the three and nine months ended March 31, 2023, respectively. The expense is inclusive of a one-time charge to extend the exercise period that occurred in the three months ended March 31, 2023. Compensation costs attributable to such awards were insignificant during the three and nine months ended March 31, 2022.

In the event of voluntary or involuntary termination of employment with the Company for any reason, with or without cause, all unvested options are forfeited and all vested options must be exercised within a 90-day period under the 2018 Plan and within a 30-day period under the 2008 Plan or they are forfeited.

The following summary of the equity incentive plan activity is shown collectively for the 2022 Plan, the 2018 Plan and the 2008 Plan:

| | Number of Options Outstanding | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Life (years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Balance – June 30, 2022 | **13,845,291** | **$ 0.59** | **6.66** | |
| Retrospective application of recapitalization | (2,631,676) | 0.14 | | |
| Adjusted Balance – beginning of period | **11,213,615** | **0.73** | **6.66** | |
| Exercised | (511,670) | 0.54 | | |
| Forfeited and expired | (253,625) | 1.07 | | |
| Balance –March 31, 2023 | **10,448,320** | **0.73** | **4.57** | |
| Vested and expected to vest at March 31, 2023 | 10,448,320 | 0.73 | 4.57 | $ 8,842 |
| Exercisable at March 31, 2023 | 9,512,184 | 0.57 | 4.24 | 9,591 |

The following is a summary of the equity incentive plan RSU activity for the 2022 Plan and the 2018 Plan:

| | Number of Awards Outstanding | Weighted- Average Grant Date Fair Value |
|---|---|---|
| Unvested Balance – June 30, 2022 | **432,666** | **$ 6.46** |
| Retrospective application of recapitalization | (82,240) | 1.52 |
| Adjusted, unvested balance – beginning of period | **350,426** | **7.98** |
| Granted | 4,758,115 | 4.80 |
| Vested | (798,239) | 4.28 |
| Forfeited | (372,215) | 4.32 |
| Unvested Balance - March 31, 2023 | **3,938,087** | 5.24 |

***Stock-based Compensation Expense***

Stock-based compensation expense, excluding stock-based compensation in capitalized software, related to employees and non-employees, by function is as follows:

| | Three months ended March 31, | | Nine months ended March 31, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| Research and development | $ 682 | $ 99 | $ 959 | $ 349 |
| Sales and marketing | 177 | 110 | 361 | 323 |
| General and administrative | 1,933 | 221 | 4,474 | 706 |
| | $ 2,792 | $ 430 | $ 5,794 | $ 1,378 |

Stock-based compensation allocated to cost of goods sold was not material for the three and nine months ended March 31, 2023 and 2022. As of March 31, 2023, the unrecognized stock-based compensation expense related to outstanding unvested stock options was $2.0 million which is expected to be recognized over a weighted-average period of 3.17 years.

During the three and nine months ended March 31, 2023 the Company recorded $1.6 million and $3.5 million, respectively, of stock-based compensation expense associated with earnout shares granted to holders of common stock held by current employees and directors and holders of options and RSUs. No amounts were recorded during the three and nine months ended March 31, 2022 associated with earnout shares. Refer to Note 1 for further discussion of compensation recorded related to earnout shares granted to holders of common stock, options and RSUs.

***Employee Stock Purchase Plan***

Effective with the closing of the Merger, the Company adopted and employee stock purchase plan (“ESPP”). There was no activity under the plan during the three and nine months ended March 31, 2023, as the Company has not yet conducted any offerings pursuant to the ESPP.

The ESPP allows eligible employees to purchase shares of the Company’s common stock at a discount through payroll deductions of up to 15% of their eligible compensation, subject to any plan limitations, during designated 6 month offering periods. At the end of each offering period, employees are able to purchase shares at the lesser of (i) 85% of the fair market value of the Company’s common stock on the first day of the offering period and (ii) 85% of the fair market value of the Company’s common stock on the last day of the offering period, based on the closing sales price of the Company’s common stock as quoted on the NASDAQ on such date.

***Other Stock-based Compensation***

In connection with the acquisition of CyborgOps (refer to Note 1), the Company issued 475,638 shares of common stock to former employees of CyborgOps who have continued employment with the Company, and are accounted for as stock-based compensation because the shares are subject to forfeiture based on post-acquisition time-based service vesting. The shares vest in monthly increments over four years commencing on June 11, 2022. The fair value was determined to be $8.75 per share based on the acquisition date fair value. During the three and nine months ended March 31, 2023, the Company recognized $0.3 million and $0.8 million of stock-based compensation expense related to these equity awards, respectively. As of March 31, 2023, unrecognized stock-based compensation expense associated with these equity awards was $3.3 million, which is expected to be recognized over a weighted-average period of 3.12 years.

**12. Income Taxes**

The Company is subject to U.S. federal, state, and local corporate income taxes. The Company’s income tax expense was not material for the three and nine months ended March 31, 2023 and 2022. The Company does not expect any material changes in tax position for the remainder of the fiscal year.

### 13. Net Income (Loss) Per Share

The following table sets forth the computation of basic and diluted net income (loss) per share attributable to common stockholders for the periods presented:

| | Three months ended March 31, | | Nine months ended March 31, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| **Numerator:** | | | | |
| Net income (loss) attributable to common stockholders, basic and diluted | $ (15,680) | $ 8,954 | $ 2,080 | $ (34,062) |
| | | | | |
| Less: Change in fair value of convertible promissory notes | — | (16,307) | — | — |
| Net income (loss) attributable to common stockholders, diluted | $ (15,680) | $ (7,353) | $ 2,080 | $ (34,062) |
| | | | | |
| **Denominator:** | | | | |
| Weighted-average shares used in computing net income (loss) per share attributable to common stockholders, basic | 51,453,368 | 27,316,602 | 44,173,570 | 27,213,403 |
| Add: Weighted average dilutive effect of stock options, RSUs and warrants | — | — | 10,366,225 | — |
| Add: Weighted average dilutive effect of convertible promissory notes | — | 4,522,105 | — | — |
| Weighted average shares outstanding - diluted | 51,453,368 | 31,838,707 | 54,539,795 | 27,213,403 |
| Net income (loss) per share attributable to common stockholders, basic | $ (0.30) | $ 0.33 | $ 0.05 | $ (1.25) |
| Net income (loss) per share attributable to common stockholders, diluted | $ (0.30) | $ (0.23) | $ 0.04 | $ (1.25) |

The potential weighted average shares of common stock that were excluded from the computation of diluted net loss per share attributable to common stockholders for the periods presented because including them would have been antidilutive are as follows:

| | Three months ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| Stock options and RSUs | 13,856,065 | 11,848,316 | 356,342 | 11,903,763 |
| Convertible notes | — | - | — | 4,535,520 |
| Common stock warrants | 18,154,571 | 4,582,204 | 12,509,788 | 4,372,633 |
| Non-voting common stock warrants | — | — | — | — |
| Total potential shares of common stock excluded from the computation of diluted net income (loss) per share | 32,010,636 | 16,430,520 | 12,866,130 | 20,811,916 |

Warrants to purchase a weighted average of 12,509,788 shares of common stock were outstanding during the nine months ended March 31, 2023 but were not included in the computation of diluted EPS because the warrants' exercise prices were greater than the average market price of the common shares.

The Company excluded a weighted average of 300,376 options for the three and nine months ended March 31, 2022. These equity awards were excluded from the calculation of diluted EPS as they are subject to performance conditions for which the necessary conditions were not been satisfied.

The Company excluded a weighted average of 14,819,594 and 10,494,505 earnout shares from the calculation of diluted EPS for the three and nine months ended March 31, 2023 as they are subject to market conditions for which the necessary conditions have not been satisfied.

**14. Related Party Transactions**

As of June 30, 2022, the Company had $9.6 million of convertible promissory notes and embedded warrants with entities in which a member of the Company's board of directors is an officer of the entity and has a financial interest in the entity ("affiliated entities"), classified as a current liability on the condensed consolidated balance sheet at that time. The convertible promissory notes and embedded warrants due to a related party were converted into shares of common stock in the Company during the nine months ended March 31, 2023. As of March 31, 2023, the Company has no convertible promissory notes and embedded warrants balance due to a related party. Refer to Note 7 for further details.

During the nine months ended March 31, 2023, the Company received an equity investment of $1.0 million from an investor in exchange for 133,133 shares in the Company. Refer to Note 9 for further details.

Additionally, during the nine months ended March 31, 2023, the Company granted 1,200,000 of RSUs to a director and the current interim CEO of the Company with a grant date fair value of $4.56 per RSU. Refer to Note 11 for further details.

**15. Subsequent Events**

***Receivable Financing Facility***

As noted in Note 6, on April 15, 2023, the Company entered into an amended and restated investment arrangement to amend the payment due dates and periodic payment amounts to be made under the investment agreement. The agreement calls for payments of principal and interest of $0.7 million, $3.5 million and $0.9 million in fiscal years 2023, 2024 and 2025, respectively.

***Extended Term of Consulting Agreement***

On May 3, 2023, the Company entered into an Amendment to the Consulting Agreement with Ashish Gupta (the "Amendment"). The Amendment extends the term of the Consulting Agreement dated March 4, 2023 that provides for Mr. Gupta to continue his advisory to the Company, from May 1, 2023 until July 31, 2023 (the "Extended Term"). In consideration, he will be compensated at a rate of $50,000 per month during the Extended Term. The Amendment also provides for a grant to Mr. Gupta of 250,000 restricted stock units, one half of which will vest in monthly increments during the Extended Term and the remaining half of which will vest upon the achievement of certain targets agreed to by the Company and Mr. Gupta.

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

*The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with Presto's condensed consolidated financial statements and related notes appearing elsewhere in the Quarterly Report on Form 10-Q and our audited consolidated financial statements as of and for the years ended June 30, 2022 and 2021 and the related notes contained in Exhibit 99.1 of the Current Report on Form 8-K filed with the SEC on December 16, 2022. This discussion contains forward-looking statements, within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, that involve risks and uncertainties. Presto's actual results could differ materially from such forward-looking statements. The Company does not undertake to update, revise or correct any of the forward-looking information unless required to do so under the federal securities laws. Readers are cautioned that such forward-looking statements should be read in conjunction with the Company's disclosures under the heading "Cautionary Statement Regarding Forward-Looking Statements" included in the this report. Additionally, Presto's historical results are not necessarily indicative of the results that may be expected in any future period. Amounts are presented in U.S. dollars.*

*Unless the context otherwise requires, all references in this section to "we," "us," or "our" refers to the business and operations of E La Carte Inc. ("Legacy Presto") and its consolidated subsidiary prior to the Merger (defined below) and to Presto Automation Inc. ("Presto") and its subsidiaries following the Business Combination (defined below).*

**Business Overview**

Presto offers a comprehensive set of modular, targeted solutions to the restaurant industry to increase staff productivity, improve guest experience and deliver actionable insights to restaurants. Since our founding in 2008, we have shipped over 250,000 systems of Presto enterprise-grade digital solutions to the restaurant hospitality industry. We have leveraged our deep domain experience to build a technology platform that digitizes on-premise restaurant dining rooms and drive-throughs with the goal of maximizing restaurant profitability and enhancing the guest dining experience.

Our latest generation Presto Touch product, called Presto Flex, functions as an all-in-one server handheld or tabletop guest ordering, payment, customer personalization and gaming device. Our Vision product consists of an AI-powered computer vision software application that delivers unique and real-time insights to operators. Our Voice products use speech recognition technology in the customer order process and connect with restaurant point of sale (“POS”) systems to maximize efficiency and minimize costs by automatically transmitting orders to the restaurant’s POS system.

Our Presto Touch product has accounted for the majority of our historical revenue. However, we expect an increasing mix of our future revenue to come from our AI Platform (previously Voice and Vision) products.

We benefit from a predictable, recurring revenue model from enterprise restaurant chains.

**Strategy**

We seek to overlay next-generation digital solutions onto the approximately $3 trillion hospitality industry given its current primarily analog nature and substantial reliance on labor. At present, we are focused on the restaurant industry.

Our business is underpinned by the guiding principles that our solutions should improve the guest experience and seamlessly and effortlessly increase productivity for staff. These principles ensure that our product focus remains aligned with the objectives of our customers and with our objective of being a leader in the restaurant hospitality technology market.

The restaurant hospitality technology market is rapidly growing. The COVID-19 pandemic created an industry reset, driving restaurants to further embrace technology to solve industry challenges. The restaurant hospitality industry has been racked with labor challenges including unprecedented shortages and high costs. Customers also have a greater desire for faster service, which we believe increases demand for on-premise technology.

Our platform enables customers to improve important factors that drive profitability in a low-margin industry. With Presto’s platform, restaurants can benefit from increased table per server ratios, order accuracy, check size, and customer data collection.

In the future, we may take advantage of several acquisition opportunities in customer relationship management and loyalty, POS products, front of house management, online ordering, AI tools, and integration middleware.

***Merger with Ventoux CCM Acquisition Corp.***

On November 10, 2021 and as subsequently amended on April 1, 2022 and July 25, 2022, Ventoux CCM Acquisition Corp. (“Ventoux” or “VTAQ”), Ventoux Merger Sub I, Ventoux Merger Sub II and Presto entered into the Merger Agreement, pursuant to which (a) Ventoux Merger Sub I merged with and into Presto, with Presto being the Surviving Corporation in the First Merger and continuing (immediately following the First Merger) as a wholly-owned subsidiary of VTAQ and (b) immediately following the First Merger and as part of the same overall transaction as the First Merger, the Surviving Corporation merged with and into Ventoux Merger Sub II, with Ventoux Merger Sub II being the surviving entity in the Second Merger and continuing (immediately following the Second Merger) as a wholly-owned subsidiary of VTAQ. On September 14, 2022, VTAQ held a special meeting of its stockholders and voted to approve the Proposed Business Combination (“the Business Combination” or “the Merger”). Upon the Closing, VTAQ was renamed “Presto Automation Inc.” and the VTAQ Common Stock and the Public Warrants continue to be listed on Nasdaq and trade under the ticker symbols “PRST” and “PRSTW,” respectively.

The Merger has been accounted for as a reverse recapitalization in accordance with U.S. GAAP. Under the guidance in ASC 805, *Business Combinations*, VTAQ, who is the legal acquirer, has been treated as the “acquired” company for financial reporting purposes and Presto has been treated as the accounting acquirer. This determination was primarily based on Presto having a majority of the voting power of the post-combination company, Presto’s senior management comprising substantially all of the senior management of the post-combination company, the relative size of Presto compared to VTAQ, and Presto’s operations comprising the ongoing operations of the post-combination company. Accordingly, for accounting purposes, the Merger has been treated as the equivalent of a capital transaction in which Presto is issuing stock for the net assets of VTAQ. The net assets of VTAQ have been stated at historical cost, with no goodwill or other intangible assets recorded. Operations prior to the Merger are those of Presto, as Presto is considered the predecessor for financial reporting purposes.

**Public Company Costs**

Subsequent to the Merger, New Presto is an SEC registrant and Nasdaq-listed company. Accordingly, we have hired and expect to hire additional staff and implement new processes and procedures to address public company requirements. We also expect to incur substantial additional expenses for, among other things, directors' and officers' liability insurance, director fees, and additional internal and external costs for investor relations, accounting, audit, legal and other functions.

**Impact of COVID-19**

Presto has been subject to risks and uncertainties as a result of the outbreak of a novel strain of coronavirus, designated "COVID-19" and actions taken by federal, state and local governments to control the spread of infections. COVID-19 has also had a significant impact on the restaurant and hospitality sector in which Presto operates. Many restaurants closed completely due to lockdowns and staff shortages, especially as multiple waves of COVID-19 continued to debilitate the restaurant and hospitality industry. As of March 31, 2023, this pandemic continues to have an economic impact, some of it in ways that are difficult to quantify and anticipate.

Presto experienced two impacts from the initial onset of COVID-19 that resulted in significant charges to the statement of operations for the periods presented:

- *Loss on Infrequent Product Repairs*. Social distancing practices resulted in customers implementing a range of extreme cleaning protocols involving Presto's products. Specifically, customers started to clean Presto's devices with highly invasive commercial disinfectant solutions, which leaked into the hardware, causing significant damage to the devices and requiring repair or replacement. This resulted in a significant spike in repair and return merchandise authorization ("RMA") expenses compared to historical expenses. During the nine months ended March 31, 2022, the volume of repair charges Presto experienced were higher than usual due to a liquid ingress issue resulting from COVID-19 related actions by its customers. In order to prevent disruption to customers' businesses, Presto incurred $0.1 million and $0.6 million of loss on infrequent product repairs related to this issue, in the three and nine months ended March 31, 2022, respectively, which is presented as a separate line item on Presto's condensed consolidated statement of operations and comprehensive income (loss). There were no similar expenses incurred during the three and nine months ended March 31, 2023 related to the matter. Typically, these issues would be considered to be negligence on the part of the customer and would not be covered by Presto's standard warranty; however, given the nature of the issues and the fact that the cleaning protocols were a mandatory precaution as a result of COVID-19 and were not expected to cause such widespread damage to the devices, Presto, as a sign of goodwill and for customer satisfaction, incurred the repair and replacement expenses related to the liquid ingress issue. The expenses incurred were not honored by the manufacturer's warranty under the RMA process. Presto has made claims to recover the costs from the third-party subcontractor who manufactures the hardware. In June 2022, the Company received a favorable arbitrator ruling related to a matter with its third-party subcontractor and was awarded approximately $11.3 million in damages related to the Company's loss on infrequent product repairs and to cover its legal expenses. This arbitration ruling was affirmed by the appellate court in the country of the arbitration ruling on March 6, 2023. On May 2, 2023, the vendor appealed the ruling to the highest court there. The award has not met the criteria to be considered realizable as of March 31, 2023. As a result, the Company has not recognized any gain related to this settlement in its condensed consolidated statement of operations and comprehensive income (loss).

- *Hardware Repair Expenses Related to COVID-19.* As a result of COVID-19, Presto incurred higher than usual repair expenses for one-time, infrequent product repairs that were not covered by Presto's third-party manufacturer, who typically covers the costs during the nine months ended March 31, 2022. The increase in expenses was a result of a higher volume of repair requests due to customer issues arising from COVID-19 related complications and a desire on the part of customers to have Presto reboot and re-certify equipment coming out of COVID-19. During the three and nine months ended March 31, 2022, Presto incurred $0 and $1.1 million of hardware repair expenses related to COVID-19, respectively. The expenses incurred were not honored by the manufacturer's warranty under the RMA process. There were no similar expenses incurred during the three and nine months ended March 31, 2023.

The extent of any continuing impact of the COVID-19 pandemic on Presto's business remains uncertain and difficult to predict, as government authorities may implement new restrictions in response to changes in the number of COVID-19 infections or new variants of the disease. Additionally, economies worldwide have been negatively impacted by the COVID-19 pandemic, which resulted in a global economic slowdown, supply chain issues and inflationary pressures.

Presto took several actions to mitigate the effects of the COVID-19 pandemic on its operations and franchisees. In April 2020, Presto received a loan of approximately $2.6 million under the U.S. Small Business Administration ("**SBA**") Paycheck Protection Program ("**PPP**"), to assist with the economic hardships caused by the pandemic. In March 2021, Presto received a second loan of $2.0 million under SBA PPP. In August 2021, Presto was granted forgiveness of the first loan in an amount of approximately $2.6 million. In July 2022, Presto was granted forgiveness of the second loan in an amount of approximately $2.0 million.

The severity of any continued impact of the COVID-19 pandemic or similar health emergencies or pandemics on Presto's business will depend on a number of factors, including, but not limited to, how long the pandemic will last, whether/when recurrences of the virus may arise, what restrictions on in-restaurant dining may be enacted or re-enacted, the availability and acceptance of vaccines, the timing and extent of consumer re-engagement with our customers and, in general, what the short- and long-term impacts on consumer discretionary spending may be on Presto and the restaurant industry as a whole, all of which are uncertain and cannot be predicted. Presto's future results of operations and liquidity could be impacted adversely by future dine-in restrictions and the failure of any initiatives or programs that Presto may undertake to address financial and operational challenges faced by it and its franchisees. As such, the extent to which our financial condition, liquidity, or results of operations may be negatively impacted by COVID-19 or other health emergencies or pandemics, resulting supply chain disruptions, inflationary pressures and general macroeconomic conditions remains highly uncertain.

**Our Revenue Model**

Our revenue is driven by our ability to attract new customers, retain existing customers, increase sales from both new and existing customers, and ultimately help our customers grow their businesses. We serve casual dining, quick serve and fast casual restaurants that are made up primarily of named logos with tens to thousands of locations, consisting of both corporates and franchisees.

During the three and nine months ended March 31, 2023 and 2022, we derived our revenues from two revenue streams: (1) sales and leases of the Presto Touch and AI Platform products ("**platform revenue**"), which includes hardware, hardware accessories, software and customer support and maintenance, and (2) Premium Content (gaming) and other revenue, which includes professional services ("**transaction revenue**").

- *Platform Revenue:* the platform revenue stream is generated from fees charged to customers for access to our Presto Touch product and is recognized ratably. Part of the total contract value is due upon execution of the contract, and the remainder is due when the customer goes live. Our contracts with customers are generally for a term ranging from 12 to 48 months. Amounts invoiced in excess of revenue recognized are recorded as deferred revenue. Revenue generated from the AI Platform (previously Voice and Vision) was not material for the three and nine months ended March 31, 2023 and 2022. Such revenue generated from the AI Platform is inclusive of $0.5 million and $1.1 million of contra-revenue related to the fair value of the warrant treated as a reduction to the transaction price of a customer during the three and nine months ended March 31, 2023, respectively. Refer to the Components of Results of Operations section below for further details.

  We also maintain arrangements with a certain legacy customer whereby we lease the Presto Touch product to that customer. Revenue associated with the lease was recognized on a straight-line basis as platform revenue over the lease term in the condensed consolidated statements of operations and comprehensive loss.

- *Transaction Revenue:* transaction revenue consists of a single performance obligation recognized at a point in time when the content is delivered and used. Transaction revenue is recognized on a gross basis as we are the principal in the relationship and the restaurant acts as a sales agent between us and the diner to upsell premium content purchases during the dining experience. We are the principal as we are the primary obligor responsible for fulfillment, we control the gaming license and its accessibility and have influence in establishing the price charged to the diner. The portion of gaming service collections withheld by the restaurant for sales commission is recorded to transaction cost of revenue.

We have historically incurred operating losses and negative cash flows from operating activities. We expect to continue to incur operating losses for the foreseeable future as we work to expand our customer base and the number of locations in which our products are used, increase sales of our AI Platform products, increase our platform revenues and maintain our relationships with current customers.

Our ability to achieve profitability and positive cash flows from operating activities will depend primarily on our ability to increase revenues due to the following factors:

- *Attracting New Customers and Expanding Locations in which Our Products are Used*. Our future growth depends on our ability to attract new customers and expand the locations across which our current and new customers use our products. For fiscal year 2023, we expect the majority of our new customer growth and new customer location expansion to come from sales of our AI Platform products. In an effort to attract new customers and expand our locations served, since the third quarter of fiscal year of 2022, we have signed several AI Platform pilot customers. Certain of these pilot customers have more than a thousand locations each. Our goal is to convert these pilot customers into broader customer relationships in fiscal years 2023 and 2024.

- *Increasing AI Platform Product Sales*. This AI Platform demand is due to the fact that our products mitigate the impact of severe nation-wide labor shortages faced by the restaurant and hospitality industry, as well as the increased cost of employment for these enterprises due to increasing minimum wages and higher costs of labor in general. For example, in January 2022, we announced the industry's first enterprise Voice rollout with Checkers, a nation-wide restaurant chain with approximately 840 locations. Our goal is to continue to increase sales of our AI Platform products to capture new customers.

- *Increase Platform Revenues*. As described above, we generate revenue through two main revenue streams: (i) platform revenue and (ii) transaction revenue. We believe our overall growth will be largely driven by platform revenue growth, which we eventually expect to have higher margins than transaction revenues. Platform revenue growth will in turn be driven by an increase in sales of our AI Platform products.

- *Maintain Relationships with Current Customers.* In order to help foster robust contract renewals, our account management and program management teams conduct quarterly business reviews with our top customers which generate the most value to us, in order to build a pathway to a successful renewal and product upgrade in each fiscal year. Successful renewal of our largest customers is critical to our near-term results of operations and is dependent on product execution, key customer relationships, and in part, health of the franchisees for our customers that have a predominantly franchised model.

We have encountered in the past, and may encounter in the future, risks and uncertainties frequently experienced by growing companies in rapidly changing industries. For example, the size and timing of customer rollouts from quarter-to-quarter can vary given our focus on large chain restaurants, which often have different decision-making cycles and levels of internal preparedness. Lastly, another COVID-19 surge could adversely affect the restaurant industry and our customer base by decreasing restaurant demand through a decrease in consumer visits and foot traffic (which we believe ultimately drives our customers' top line revenues), thereby decreasing demand for our equipment.

**Non-GAAP Financial Measures**

To supplement our condensed consolidated financial statements, which are prepared and presented in accordance with generally accepted accounting principles in the United States of America ("U. S. GAAP"), we use certain non-GAAP financial measures, as described below, to understand and evaluate our core operating performance. These non-GAAP financial measures, which may be different than similarly-titled measures used by other companies, are presented to enhance investors' overall understanding of our financial performance and should not be considered as substitutes for, or superior to, the financial information prepared and presented in accordance with GAAP contained in this Form 10-Q.

We believe that these non-GAAP financial measures provide useful information about our financial performance, enhance the overall understanding of our past performance and future prospects, and allow for greater transparency with respect to important metrics used by our management for financial and operational decision-making. We are presenting these non-GAAP metrics to assist investors in seeing our financial performance using a management view. We believe that these measures provide an additional tool for investors to use in comparing our core financial performance over multiple periods with other companies in our industry.

*Adjusted Gross Profit*

Adjusted Gross Profit is calculated as gross profit adjusted to add back depreciation, contra-revenue from warrants granted to a customer, and hardware repair expenses related to COVID.

We use Adjusted Gross Profit to understand and evaluate our core operating performance and trends. We believe this metric is a useful measure to us and to our investors to assist in evaluating our performance because it removes the impact of events that do not reflect our core operating performance, thereby providing consistency and direct comparability with our past financial performance and between fiscal periods.

The following table provides a reconciliation of gross profit to Adjusted Gross Profit for each of the periods indicated:

| | Three months ended March 31, | | Nine months ended March 31, | |
|---|---|---|---|---|
| **(in thousands)** | **2023** | **2022** | **2023** | **2022** |
| Gross profit | $ 489 | $ 1,013 | $ 931 | $ 2,632 |
| Depreciation | 291 | 279 | 873 | 1,206 |
| Contra-revenue associated with warrant agreement | 458 | — | 1,073 | — |
| Hardware repair expenses related to COVID | — | — | — | 1,110 |
| Adjusted Gross Profit | $ 1,238 | $ 1,292 | $ 2,877 | $ 4,948 |

*Adjusted EBITDA*

Adjusted EBITDA is defined as net loss, adjusted to exclude interest expense, other income, net, income taxes, depreciation and amortization expense, stock-based compensation expense, earnout stock-based compensation expense, change in fair value of warrant liabilities and convertible promissory notes, loss extinguishment of debt and financing obligations, other financing and financial instrument (costs) income, net, deferred compensation and bonuses earned upon closing of the Merger, public relations fee due upon closing of the Merger, loss on infrequent product repairs, contra-revenue from warrants granted to a customer, and hardware repair expenses related to COVID.

We believe Adjusted EBITDA is useful for investors to use in comparing our financial performance to other companies and from period to period. Adjusted EBITDA is widely used by investors and securities analysts to measure a company's operating performance without regard to items such as depreciation and amortization, interest expense, and interest income, which can vary substantially from company to company depending on their financing and capital structures and the method by which their assets were acquired. In addition, Adjusted EBITDA eliminates the impact of certain items that do not reflect our core operating performance, thereby providing consistency and direct comparability with our past financial performance and between fiscal periods. We have also excluded COVID-related expenses relating to loss on infrequent product repairs and excessive hardware repair expenses as the expenses are non-recurring as they occurred directly as a result of issues arising from COVID-19 protocols. They were not present in the years prior to the onset of COVID-19 and are not expected to recur. Excluding these COVID-related expenses serves to better reflect our operating performance and provides consistency and comparability with our past financial performance. We have also excluded nonrecurring costs related to the closing of the Merger, including a deferred compensation and bonuses earned upon the closing of the Merger, and a public relations fee due upon closing of the Merger. Excluding these costs attributable to the Merger better reflects our operating performance and provides consistency and comparability with our past financial performance. Adjusted EBITDA also has limitations as an analytical tool, and you should not consider this measure in isolation or as a substitute for analysis of our results as reported under GAAP. For example, although depreciation expense is a non-cash charge, the assets being depreciated may have to be replaced in the future, and Adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new asset acquisitions. In addition, Adjusted EBITDA excludes stock-based compensation expense, which has been, and will continue to be for the foreseeable future, a significant recurring expense for our business and an important part of our compensation strategy. Adjusted EBITDA also does not reflect changes in, or cash requirements for, our working capital needs; interest expense, or the cash requirements necessary to service interest or principal payments on our debt, which reduces the cash available to us; or tax payments that may represent a reduction in cash available to us. The expenses and other items we exclude in our calculation of Adjusted EBITDA may differ from the expenses and other items that other companies may exclude from Adjusted EBITDA when they report their financial results.

The following table provides a reconciliation of net loss to Adjusted EBITDA for each of the periods presented:

| (in thousands) | Three months ended March 31, 2023 | Three months ended March 31, 2022 | Nine months ended March 31, 2023 | Nine months ended March 31, 2022 |
|---|---|---|---|---|
| Net income (loss) | $ (15,680) | $ 8,954 | $ 2,080 | $ (34,062) |
| Provision (benefit) for income taxes | 3 | (3) | 8 | 21 |
| Interest expense | 2,991 | 1,162 | 9,397 | 3,418 |
| Other income, net | (257) | 12 | (2,612) | (2,629) |
| Depreciation and amortization | 418 | 338 | 1,262 | 1,391 |
| Stock-based compensation expense | 2,792 | 430 | 5,794 | 1,384 |
| Earnout stock-based compensation expense | 1,604 | — | 3,478 | — |
| Change in fair value of warrants and convertible promissory notes | (1,599) | (18,102) | (61,043) | 11,668 |
| Loss on extinguishment of debt and financial obligations | — | — | 8,095 | — |
| Other financing and financial instrument (costs) income, net | — | — | 1,768 | — |
| Deferred compensation and bonuses earned upon closing of the Merger | — | — | 2,232 | — |
| Public relations fee due upon closing of the Merger | — | — | 250 | — |
| Loss on infrequent product repairs(1) | — | 119 | — | 582 |
| Contra-revenue associated with warrant agreement | 458 | — | 1,073 | — |
| Hardware repair expense related to COVID(1) | — | — | — | 1,110 |
| Adjusted EBITDA | $ (9,270) | $ (7,090) | $ (28,218) | $ (17,117) |

(1) In June 2022, the Company received a favorable arbitrator ruling related to a matter with its third-party subcontractor and was awarded approximately $11.3 million in damages related to the Company’s loss on infrequent product repairs and to cover its legal expenses. This arbitration ruling was affirmed by the appellate court in the country of the arbitration ruling on March 6, 2023. On May 2, 2023, the vendor appealed the ruling to the highest court there. The award has not met the criteria to be considered realizable as of March 31, 2023. As a result, the Company has not recognized any gain related to this settlement in its condensed consolidated statement of operations and comprehensive loss.

**Key Performance Indicator**

We use one primary key performance indicator to evaluate our operational and financial performance: net revenue retention.

Our ability to retain and increase revenue from our existing customer base is a key driver of our business growth. We expand within our existing customer base by selling additional products, adding more locations, and helping restaurants generate greater sales per location.

Given the long-term and recurring nature of our customer contracts, we use net revenue retention as a key metric. Net revenue retention compares our revenue associated with a set of active restaurant logos in a one-year period to the same set of restaurant logos in the prior year period. We calculate net revenue retention by dividing a particular period’s recurring revenue, including both platform and transaction revenue, by the prior period’s recurring revenue using the same set of restaurant logos. Net revenue retention is an indicator of the propensity of our customers to continue working with us and expanding their relationship with us. We assess our net revenue retention on a rolling nine-month basis comparing year-over-year. For the nine months ended March 31, 2023, our net revenue retention was 94%, while for the nine months ended March 31, 2022, it was 102%. The slight decrease in the nine months ended March 31, 2023 was primarily due to contract terminations by a limited number of franchisees of existing enterprise and SMB customers.

We believe net revenue retention is useful for investors by providing a consistent comparison of customer results and growth across comparable periods within our core, established customer base, unaffected by the impact of new customers on our business.

## Key Factors Affecting Our Performance

***Support of our Customers' Revenue Growth***

We believe our long-term revenue growth is correlated with the growth of our existing customers' businesses, and we strive to support their success. Our revenue grows with that of our customers — as our customers generate more sales, we generally see higher platform and transaction revenue. We have a demonstrated track record of partnering with restaurants to help grow their revenue and will continue to invest in our customer success team and in new products that help customers thrive.

***Adoption of Additional Products***

We offer additional products to existing customers through a combination of customer relationship management investments, product-led growth, and the introduction of new products. We believe that we provide the most value when our customers have multiple touchpoints across our platform. We also believe that adoption of additional products will drive labor savings and profitability improvements for our customers, allowing them to reinvest in their success. Decisions by our customers to adopt more of our products will depend on a number of factors, including our customers' satisfaction with our platform, competition, pricing, and our ability to demonstrate the value proposition of our products.

***Expansion of Locations Per Customer***

As our customers grow their businesses and open new locations, we expect to see a corresponding increase in locations on our platform. To that end, we work closely with restaurants across our customer-facing teams to support their expansion efforts. We believe that we are well-positioned to extend our reach to and onboard these new locations based on our customers' desire to use a single, integrated platform across all locations. This impacts our ability to service individual customers with a dedicated, core team using the appropriate technological resources and personnel, creating operating efficiencies of scale while maintaining growth.

***Acquisition of New Locations***

We believe there is a substantial opportunity to continue to grow our restaurant solutions across the casual dining, quick service and fast casual sectors in the United States. We intend to continue to drive new location growth through our differentiated go-to-market strategy, including an industry advisor network, and enterprise sales representatives who are deeply integrated in the local restaurant and hospitality sector. In addition, we will continue to invest in marketing efforts in key U.S. cities to grow our brand awareness. Our ability to acquire new locations will depend on a number of factors, including the effectiveness and growth of our sales team, the success of our marketing efforts, and the continued satisfaction of, and word-of-mouth referrals generated by, our existing customers. We expect our absolute investment in sales and marketing and other customer acquisition costs related to our hardware and professional services to increase as we continue to grow.

The number of locations is not in itself a key performance indicator utilized by our management because of varying financial arrangements and contribution. Rather, our management uses number of locations as a general measure of scale across our platform.

***Innovation and Development of New Products***

We have a culture of continuous innovation evidenced by our history of consistent and timely product launches and refinements. We intend to continue to invest in research and development to expand and improve the functionality of our current platform and broaden our capabilities to address new market opportunities. As a result, we expect our total operating expenses will increase over time and, in some cases, have short-term negative impacts on our operating margin. Our ability to successfully develop, market, and sell new products to our customers will affect our competitive posture with our competitors.

***Seasonality***

We experience seasonality in our transaction revenue, which is largely driven by the level of gross payment volume processed through our platform. For example, customers typically have greater sales during the warmer months, though this effect varies regionally. As a result, our transaction revenue per location has historically been stronger in the second and third quarters. We believe that transaction revenue from both existing and potential future products will continue to represent a material proportion of our overall revenue mix at least in the near term and seasonality will continue to impact our results of operations.

## Components of Results of Operations

### *Revenue*

We generate revenue from two main sources that are further described below: (1) platform revenue and (2) transaction revenue.

Platform revenue is generated from fees charged to customers for access to Presto Touch and AI Platform products and is recognized ratably. For Presto Touch, part of the total contract value is due upon execution of the contract, and the remainder is due upon installation of the systems. Our contracts with customers are generally for a term ranging from 12 to 48 months. Amounts invoiced in excess of revenue recognized are recorded as deferred revenue. We also maintained arrangements with a certain legacy customer whereby we leased the Presto Touch product to that customer. Revenue associated with the lease was recognized on a straight-line basis as platform revenue over the lease term in the consolidated statements of operations and comprehensive loss. Pursuant to the primary AI Platform arrangement that we maintained during the three and nine months ended March 31, 2023, we remit a revenue share to our hardware and software vendor and accordingly, such revenue share is not recognized in our financial statements. Rather we have determined we are the agent and do not control the AI Platform hardware, software and other services and are not primarily responsible for fulfilling the promise to the customer. The revenue share paid to our hardware and software vendor under our AI Platform revenue share agreement ranged from 64% - 68% of the gross billings to the customer for the three and nine months ended March 31, 2023. Revenue, in our role as agent, that was generated from AI Platform products was not material for the three and nine months ended March 31, 2023 and 2022. Such revenue generated from AI Platform products is inclusive of $0.5 million and $1.1 million of contra-revenue related to the fair value of the warrant treated as a reduction to the transaction price of a customer for the three and nine months ended March 31, 2023, respectively.

Transaction revenue consists of a single performance obligation recognized at a point in time when the content is delivered and used. Transaction revenue is recognized on a gross basis as we are the principal in the relationship and the restaurant acts as a sales agent between us and the diner to upsell premium content purchases during the dining experience. We are the principal as we are the primary obligor responsible for fulfillment, we control the gaming license and its accessibility and have influence in establishing the price charged to the diner. The portion of gaming service collections withheld by the restaurant for sales commission is recorded to transaction cost of revenues. We also generate revenue from professional services, which primarily consists of fees from developing premium content to be used on the devices and installation. We recognize revenue from professional service engagements that occur over a period of time on a proportional performance basis as labor hours are incurred.

### *Cost of Revenue*

Platform cost of revenue consists of four categories: product costs, shipping/freight costs, installation costs and other costs. Product costs consist primarily of the cost to purchase the hardware and hardware accessories for the Presto Touch products. Shipping/freight costs consist of all costs to transport equipment to customers. Installation costs include the labor cost to install the hardware in each restaurant. Other costs include the amortization of capitalized software and product support costs, as well as certain costs paid to a vendor supporting the development of the vendor’s software and hardware offerings used in the AI Platform.

We also incur costs to refurbish and repair our tablets. These costs are expensed in the period they are incurred, as the costs are expected to be linear and therefore, will match with the timing of revenue recognition over time. In connection with these costs, we also accrue a liability at each reporting period for expected repair costs for customer tablets currently in our Return Merchandize Authorization (“**RMA**”) process as of the reporting period, which are charged to platform cost of revenue. Our hardware repair expense was higher in the three and nine months ended March 31, 2022 than in the three and nine months ended March 31, 2023 due to COVID-related volume, whereby customers sent back tablets either simply to be checked or reset, or for cosmetic reasons or minor repairs.

Transaction cost of revenue consists primarily of the portion of the fees collected from diners that are then paid to the restaurant as part of the revenue share agreement with each restaurant. As we bear the primary responsibility of the product, we are the principal in the premium content transactions and restaurants act as the agent, whereby we collect all of the fees paid as revenue and remit the revenue share to the restaurants as cost of revenue. The commissions paid to restaurants under our gaming revenue share agreements range on average between 84% - 90% and 83% - 90% of premium content revenue by customer logo for the three and nine months ended March 31, 2023, respectively. The commissions paid to restaurants under the Company’s gaming revenue share agreements ranged between 82% - 90% and 81% - 90% of premium content revenue by customer logo for the three and nine months ended March 31, 2022, respectively.

Depreciation and impairment cost of revenue consists primarily of the costs of leased assets that are included in property and equipment, net in the balance sheet that are amortized to cost of revenue and related impairment charges.

***Operating Expenses***

Operating expenses consist of sales and marketing, research and development, customer and warehouse operations, and general and administrative expenses. The largest single component of operating expenses is employee-related expenses, which include salaries, commissions and bonuses, stock-based compensation, and employee benefit and payroll costs.

*Research and development*. Research and development expenses consist primarily of employee-related costs associated with maintenance of our platform and the evaluation and development of new product offerings, as well as allocated overhead and expenses associated with the use of third-party software directly related to preliminary development and maintenance of our products and services. These costs are expensed as incurred unless they meet the requirements for capitalization.

We plan to continue to hire employees to support our research and development efforts to expand the capabilities and scope of our platform and related products and services. As a result, we expect that research and development expenses will increase on an absolute dollar basis as we continue to invest to support these activities and innovate over the long-term.

*Sales and Marketing*. Sales and marketing expenses consist primarily of employee-related costs incurred to acquire new customers and increase product adoption across our existing customer base. Marketing expenses also include fees incurred to generate demand through various advertising channels and allocated overhead costs.

We expect that sales and marketing expenses will increase on an absolute dollar basis as we invest to grow our field-based sales team, increase demand generation, and enhance our brand awareness. We expect sales and marketing expenses as a percentage of revenue will vary from period-to-period over the short-term and decrease over the long-term.

*General and administrative*. General and administrative expenses consist primarily of expenses related to facilities, finance, human resources and administrative personnel and systems. General and administrative expenses also include costs related to fees paid for certain professional services, including legal, tax and accounting services and bad debt expenses.

We expect that general and administrative expenses will increase on an absolute dollar basis as we add personnel and enhance our systems, processes, and controls to support the growth of our business as well as our increased compliance and reporting requirements as a public company. We expect general and administrative expenses as a percentage of revenue will vary from period-to-period over the short-term and decrease over the long-term.

*Loss on infrequent product repairs.* Loss on infrequent product repairs expenses consist primarily of charges incurred in connection with hardware returned for repair or replacement using an RMA. While we have incurred RMA charges in the past, in the three and nine months ended March 31, 2022, the volume of repair charges was extremely unusual and very high due to a liquid ingress issue resulting from COVID-19 related actions by our customers. Our devices failed primarily due to the use of extremely strong commercial disinfectant solutions by our customers to clean the hardware devices as a mandatory precaution protocol due to COVID-19. Due to use of commercial cleaning products, the solution leaked into the hardware causing significant damage to the devices and requiring replacement of such devices.

The standard warranty that we provide covers regular wear and tear and does not cover any damage caused by mishandling of the product. However, given the nature of issues, in order to prevent disruption to our customers' businesses, we incurred approximately $0.1 million and $0.6 million of repair and replacement expenses related to this issue during the three and nine months ended March 31, 2022. There were no similar expenses incurred during the three and nine months ended March 31, 2023. We have also made a claim to recover the costs from our third-party subcontractor who manufactures the hardware. In June 2022, the Company received a favorable arbitrator ruling related to a matter with its third-party subcontractor and was awarded approximately $11.3 million in damages related to the Company's loss on infrequent product repairs and to cover its legal expenses. This arbitration ruling was affirmed by the appellate court in the country of the arbitration ruling on March 6, 2023. On May 2, 2023, the vendor appealed the ruling to the highest court there. The award has not met the criteria to be considered realizable as of March 31, 2023. As a result, the Company has not recognized any gain related to this settlement in its condensed consolidated statement of operations and comprehensive income (loss).

***Change in Fair Value of Warrants and Convertible Promissory Notes***

We account for our warrants in accordance with ASC 815-40 as either liabilities or as equity instruments depending on the specific terms of the warrant agreement. Warrants are classified as liabilities when there is variability in the number of shares, and when the variability is not related to an input in the Black-Scholes valuation model. Liability-classified warrants are remeasured at each reporting date until settlement, with changes in the fair value recognized in the change in fair value of warrants and convertible promissory notes in the condensed consolidated statement of operations and comprehensive income (loss). Warrants that meet the fixed-for-fixed criteria or contain variability related to an input in the Black-Scholes valuation model are classified as equity instruments. Warrants classified as equity instruments are initially recognized at fair value and are not subsequently remeasured.

We elected the fair value option to account for the convertible promissory notes and embedded warrants because we believe it more accurately reflects the value of the debt in our financial statements. The principal amount of the convertible promissory notes is measured at fair value using the Monte Carlo valuation model. The valuation model utilized various key assumptions, such as enterprise value and the probability of expected future events.

***Other Income, Net***

Other income, net includes income of $2.0 million and $2.6 million due to the forgiveness of our PPP loans in the nine months ended March 31, 2023 and 2022, respectively. During the nine months ended March 31, 2023, the Company made an investment in a non-affiliated entity in the amount $2.0 million. The Company has determined that the investment does not have a readily determinable fair value and therefore accounts for the investment at cost, as adjusted for impairments and observable price changes. There were no adjustments recorded for impairments and observable price changes during the three and nine months ended March 31, 2023.

***Interest Expense***

Interest expense primarily consists of interest incurred on our financing obligations and outstanding loans.

***Loss on Extinguishment of Debt and Financial Obligations***

Loss on extinguishment of debt and financial obligations consists of losses incurred related to the extinguishment of our term loans outstanding prior to the Merger during the nine months ended March 31, 2023 and the extinguishment of our financial obligation with third party financiers during the nine months ended March 31, 2023.

***Other Financing and Financial Instrument (Costs) Income, Net***

Other financing and financial instrument (costs) income, net primarily consists of expense recognized related to the issuance of shares and the transfer of warrants upon termination of a convertible note agreement and associated legal fees, offset by the remeasurement of the liability related to the unvested founder shares.

We account for the arrangement related to the unvested founder shares in accordance with ASC 815-40 as equity-linked instruments and are not indexed to the entity's own stock and accordingly such instruments are liability classified.

***Provision for Income Taxes***

We account for income taxes using the asset and liability method whereby deferred tax asset and liability account balances are determined based on temporary differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. A valuation allowance is established when management estimates that it is more likely than not that deferred tax assets will not be realized. Realization of deferred tax assets is dependent upon future pretax earnings, the reversal of temporary differences between book and tax income, and the expected tax rates in future periods.

We are required to evaluate whether tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax benefits of positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax expense in the current year. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount that is initially recognized.

We record interest and penalties related to income tax matters in income tax expense.

**Results of Operations**

***Comparison of three and nine months ended March 31, 2023 and 2022***

The following table summarizes our results of operations:

| (in thousands) | Three months ended March 31, 2023 | Three months ended March 31, 2022 | Nine months ended March 31, 2023 | Nine months ended March 31, 2022 |
|---|---|---|---|---|
| Revenue | | | | |
| Platform | $ 3,088 | $ 5,083 | $ 11,617 | $ 14,754 |
| Transaction | 3,519 | 2,451 | 9,699 | 7,705 |
| Total revenue | 6,607 | 7,534 | 21,316 | 22,459 |
| Cost of revenue | | | | |
| Platform | 2,743 | 4,057 | 10,951 | 11,872 |
| Transaction | 3,084 | 2,185 | 8,561 | 6,749 |
| Depreciation and impairment | 291 | 279 | 873 | 1,206 |
| Total cost of revenue | 6,118 | 6,521 | 20,385 | 19,827 |
| Gross profit | 489 | 1,013 | 931 | 2,632 |
| Operating expenses: | | | | |
| Research and development | 5,496 | 3,927 | 16,877 | 11,733 |
| Sales and marketing | 2,127 | 1,966 | 6,753 | 4,791 |
| General and administrative | 7,408 | 2,978 | 19,608 | 7,110 |
| Loss on infrequent product repairs | — | 119 | — | 582 |
| Total operating expenses | 15,031 | 8,990 | 43,238 | 24,216 |
| Loss from operations | (14,542) | (7,977) | (42,307) | (21,584) |
| Change in fair value of warrants and convertible promissory notes | 1,599 | 18,102 | 61,043 | (11,668) |
| Interest expense | (2,991) | (1,162) | (9,397) | (3,418) |
| Loss on extinguishment of debt and financial obligations | — | — | (8,095) | — |
| Other financing and financial instrument (costs) income, net | — | — | (1,768) | — |
| Other income, net | 257 | (12) | 2,612 | 2,629 |
| Total other income (expense), net | (1,135) | 16,928 | 44,395 | (12,457) |
| Income (loss) before provision for income taxes | (15,677) | 8,951 | 2,088 | (34,041) |
| Provision (benefit) for income taxes | 3 | (3) | 8 | 21 |
| Net income (loss) and comprehensive income (loss) | $ (15,680) | $ 8,954 | $ 2,080 | $ (34,062) |

***Revenue***

| (in thousands) | Three months ended March 31, 2023 | Three months ended March 31, 2022 | Change Amount | Change % | Nine months ended March 31, 2023 | Nine months ended March 31, 2022 | Change Amount | Change % |
|---|---|---|---|---|---|---|---|---|
| Platform | $ 3,088 | $ 5,083 | $ (1,995) | (39)% | $ 11,617 | $ 14,754 | $ (3,137) | (21)% |
| Transaction | 3,519 | 2,451 | 1,068 | 44 % | 9,699 | 7,705 | 1,994 | 26 % |
| Total revenue | $ 6,607 | $ 7,534 | $ (927) | (12)% | $ 21,316 | $ 22,459 | $ (1,143) | (5)% |

Total revenue decreased 12% to $6.6 million for the three months ended March 31, 2023, as compared to $7.5 million for the three months ended March 31, 2022.

Platform revenue decreased 39% to $3.1 million for the three months ended March 31, 2023, as compared to $5.1 million for the three months ended March 31, 2022. The decrease is primarily attributable to contract terminations by a limited number of franchisees of existing enterprise customers.

Transaction revenue increased 44% to $3.5 million for the three months ended March 31, 2023, as compared to $2.5 million for the three months ended March 31, 2022. This is due to increases in pricing for the Company's gaming fees.

Total revenue decreased 5% to $21.3 million for the nine months ended March 31, 2023, as compared to $22.5 million for the nine months ended March 31, 2022.

Platform revenue decreased 21% to $11.6 million for the nine months ended March 31, 2023, as compared to $14.8 million for the nine months ended March 31, 2022. The decrease is primarily attributable to contract terminations by a limited number of franchisees of existing enterprise customers.

Transaction revenue increased 26% to $9.7 million for the nine months ended March 31, 2023, as compared to $7.7 million for the nine months ended March 31, 2022. This is due to increases in pricing for the Company's gaming fees.

At present, the substantial majority of our revenue is generated from our three largest customers (including, as applicable, the franchisees of such restaurants aggregated as a single customer for reporting purposes), which in the three and nine months ended March 31, 2023 generated an aggregate of approximately, 96% and 97% of our revenue, respectively, while for the three and nine months ended March 31, 2022, they generated an aggregate of approximately, 91% and 93%. The successful renewal of our agreements with those customers is critical to our near-term results of operations and is dependent on product execution, key customer relationships, and in part, the health of the franchisees of some of our customers that have a predominantly franchised model. Although we experienced customer relationship cancellations with one enterprise and certain associated franchisees, the most significant franchisee relationships are still in business and have renewed with us with existing equipment. Some of these agreements are subject to renewal in fiscal year 2023.

***Cost of Revenue***

| | Three months ended March 31, | | Change | | Nine months ended March 31, | | Change | |
|---|---|---|---|---|---|---|---|---|
| **(in thousands)** | **2023** | **2022** | **Amount** | **%** | **2023** | **2022** | **Amount** | **%** |
| Platform | $ 2,743 | $ 4,057 | $ (1,314) | (32)% | $ 10,951 | $ 11,872 | $ (921) | (8)% |
| Transaction | 3,084 | 2,185 | 899 | 41 % | 8,561 | 6,749 | 1,812 | 27 % |
| Depreciation and impairment | 291 | 279 | 12 | 4 % | 873 | 1,206 | (333) | (28)% |
| Total costs of revenue | $ 6,118 | $ 6,521 | $ (403) | (6)% | $ 20,385 | $ 19,827 | $ 558 | 3 % |

Cost of revenue decreased 6% to $6.1 million for the three months ended March 31, 2023, as compared to $6.5 million for the three months ended March 31, 2022.

Our platform cost of revenue decreased 32% to $2.7 million for the three months ended March 31, 2023, as compared to $4.1 million for the three months ended March 31, 2022. The decrease was primarily attributable to decreases in product deferred costs, installation and shipping costs during the three months ended March 31, 2023, relative to the three months ended March 31, 2022.

Our transaction cost of revenue increased 41% to $3.1 million for the three months ended March 31, 2023, as compared to $2.2 million for the three months ended March 31, 2022. The increase was primarily attributable to increases in the revenue share owed to restaurants as a result of increases in pricing for the Company's gaming fees.

Cost of revenue increased 3% to $20.4 million for the nine months ended March 31, 2023, as compared to $19.8 million for the nine months ended March 31, 2022.

Our platform cost of revenue decreased 8% to $11.0 million for the nine months ended March 31, 2023, as compared to $11.9 million for the nine months ended March 31, 2022. The decrease was primarily attributable to decreases in product deferred costs, installation and shipping costs during the nine months ended March 31, 2023, relative to the nine months ended March 31, 2022.

Our transaction cost of revenue increased 27% to $8.6 million for the nine months ended March 31, 2023, as compared to $6.7 million for the nine months ended March 31, 2022. The increase was primarily attributable to increases in the revenue share owed to restaurants as a result of increases in pricing for the Company's gaming fees.

*Cost of Revenue — Depreciation and Impairment*

Our depreciation and impairment cost of revenue remained flat for the three months ended March 31, 2023 and 2022 at $0.3 million. Depreciation and impairment cost of revenue decreased 28% for the nine months ended March 31, 2023 to $0.9 million from $1.2 million during the nine months ended March 31, 2022. The decrease was primarily attributable to the return of leased tablets in fiscal year 2022, which resulted in a lower amount of tablets in use and being depreciated.

***Operating Expenses***

| | Three months ended March 31, | | Change | | Nine months ended March 31, | | Change | |
|---|---|---|---|---|---|---|---|---|
| (in thousands) | 2023 | 2022 | Amount | % | 2023 | 2022 | Amount | % |
| Research and development | $ 5,496 | $ 3,927 | $ 1,569 | 40 % | $ 16,877 | $ 11,733 | $ 5,144 | 44 % |
| Sales and marketing | 2,127 | 1,966 | 161 | 8 % | 6,753 | 4,791 | 1,962 | 41 % |
| General and administrative | 7,408 | 2,978 | 4,430 | 149 % | 19,608 | 7,110 | 12,498 | 176 % |
| Loss on infrequent product repairs | — | 119 | (119) | (100)% | — | 582 | (582) | (100)% |
| Total operating expenses | $ 15,031 | $ 8,990 | $ 6,041 | 67 % | $ 43,238 | $ 24,216 | $ 19,022 | 79 % |

Operating expenses increased by 67% to $15.0 million for the three months ended March 31, 2023, as compared to $9.0 million for the three months ended March 31, 2022.

Operating expenses increased by 79% to $43.2 million for the nine months ended March 31, 2023, as compared to $24.2 million for the nine months ended March 31, 2022.

*Research and Development*

Research and development expenses increased 40% to $5.5 million for the three months ended March 31, 2023, as compared to $3.9 million for the three months ended March 31, 2022. The increase resulted primarily from an increase in stock-based compensation expense of $1.1 million as a result of the modification of the performance based vesting conditions of RSUs that was waived, and an increase in salaries and employee benefits expense of $0.3 million due to higher headcount.

Research and development expenses increased 44% to $16.9 million for the nine months ended March 31, 2023, as compared to $11.7 million for the nine months ended March 31, 2022. The increase resulted primarily from an increase of $2.3 million in salaries and employee benefits expense due to increase in headcount and bonuses to former Cyborg employees, an increase of $1.5 million in stock based compensation as a result of a modification of performance based vesting conditions of RSUs that was waived, $0.6 million increase in professional fees and $0.8 million in increase in other costs.

*Sales and Marketing*

Sales and marketing expenses remained flat at $2.1 million for the three months ended March 31, 2023, as compared to $2.0 million for the three months ended March 31, 2022.

Sales and marketing expenses increased 41% to $6.8 million for the nine months ended March 31, 2023, as compared to $4.8 million for the nine months ended March 31, 2022. The increase resulted primarily from an increase in salaries and employee benefits expense of $1.3 million, as a result of an increase in headcount, and a public relations fee paid upon the completion of the Merger of $0.3 million in the nine months ended March 31, 2023.

*General and Administrative*

General and administrative expenses increased 149% to $7.4 million for the three months ended March 31, 2023, as compared to $3.0 million for the three months ended March 31, 2022. The increase resulted primarily from an increase in stock-based compensation expense of $2.8 million, primarily due to award modifications for performance conditions on RSUs, for key executive terminations and new employee grants, an increase $1.6 million in outside professional fees for legal, audit and public company compliance expenses.

General and administrative expenses increased 176% to $19.6 million for the nine months ended March 31, 2023, as compared to $7.1 million for the nine months ended March 31, 2022. The increase resulted primarily from an increase in stock-based compensation expense of $6.0 million, primarily due to award modifications for performance conditions on RSUs, for key executive terminations and new employee grants, and an increase in legal expense, accounting services expense and temporary services expenses of $4.4 million, $0.8 million of which are ancillary professional services fees in preparation for the Merger, and an increase in salaries and employee benefits expense of $1.2 million.

*Loss on Infrequent Product Repairs*

We had no loss on infrequent product repairs for the three and nine months ended March 31, 2023, as compared to $119 thousand and $0.6 million for the three and nine months ended March 31, 2022, respectively. The decrease is due to the decrease in the repair and replacement expenses related to damage caused to hardware caused by our customers' use of extremely strong commercial disinfectant solutions to clean the hardware devices as a mandatory precaution protocol due to COVID-19 in the nine months ended March 31, 2023 and compared to the nine months ended March 31, 2022.

***Change in Fair Value of Warrants and Convertible Promissory Notes***

| | Three months ended March 31, | | Change | | Nine months ended March 31, | | Change | |
|---|---|---|---|---|---|---|---|---|
| **(dollars in thousands)** | **2023** | **2022** | **Amount** | **%** | **2023** | **2022** | **Amount** | **%** |
| Change in fair value of warrants and convertible promissory notes | $ 1,599 | $ 18,102 | $ (16,503) | 91 % | $ 61,043 | $ (11,668) | $ 72,711 | 623 % |

During the three months ended March 31, 2023, the change in fair value of warrants and convertible promissory notes was a gain of $1.6 million, as compared to a gain of $18.1 million during the three months ended March 31, 2022, primarily due to the fact that all of the convertible promissory notes converted due to the consummation of the Merger on September 21, 2022. During the three months ended March 31, 2022, all of the Company's outstanding convertible promissory notes and liability classified warrants were subject to remeasurement as such instruments were accounted for at fair value.

In the nine months ended March 31, 2023, the change in fair value of warrants and convertible promissory notes changed due to a gain of $61.0 million, as compared to a loss of $11.7 million in the nine months ended March 31, 2022.

The remeasurement gain recorded during the nine months ended March 31, 2023, was primarily driven by two factors. First, immediately prior to the closing of the Merger, the convertible notes and embedded warrants were remeasured to their then fair value of $41.4 million, resulting in a gain on remeasurement of $48.3 million. Second, with the close of the Merger, the Company assumed $9.4 million of warrant liabilities associated with the legacy private warrants of VTAQ and issued additional warrants with a fair value of $0.8 million. As of March 31, 2023, all of the Company's outstanding liability classified warrants were remeasured to fair value based on the March 31, 2023 stock price. As a result of the above, a $61.0 million gain on remeasurement was recorded for the nine months ended March 31, 2023. The primary factor affecting the change in fair value of the warrants was the assumption of the Private Warrants, the issuance of additional warrant shares, and the decrease in the Company's stock price during the nine months ended March 31, 2023.

During the nine months ended March 31, 2022, the convertible notes and embedded warrants had a change in fair value resulting in a loss of $11.7 million, reflecting the increased stock price of the then privately held entity. Such increases to the stock price were in contemplation of the anticipated Merger.

***Interest Expense***

| (dollars in thousands) | Three months ended March 31, 2023 | 2022 | Change Amount | % | Nine months ended March 31, 2023 | 2022 | Change Amount | % |
|---|---|---|---|---|---|---|---|---|
| Interest expense | $ 2,991 | $ 1,162 | $ 1,829 | 157 % | $ 9,397 | $ 3,418 | $ 5,979 | 175 % |

Interest expense increased 157% to $3.0 million for the three months ended March 31, 2023, as compared to $1.2 million for the three months ended March 31, 2022, while interest expense increased 175% to $9.4 million for the nine months ended March 31, 2023, as compared to $3.4 million for the nine months ended March 31, 2022. The increase was due to the Company having higher interest-bearing term loan debt outstanding during the three and nine months ended March 31, 2023 as compared to the three and nine months ended March 31, 2022.

***Loss on Extinguishment of Debt and Financial Obligations***

| (dollars in thousands) | Three months ended March 31, 2023 | 2022 | Change Amount | % | Nine months ended March 31, 2023 | 2022 | Change Amount | % |
|---|---|---|---|---|---|---|---|---|
| Loss on extinguishment of debt and financial obligations | $ — | $ — | $ — | N/A | $ 8,095 | $ — | $ 8,095 | N/A |

Loss on extinguishment of debt and financial obligations was $8.1 million for the nine months ended March 31, 2023 with no loss recorded in the three months ended March 31, 2023, as compared to no losses for the three and nine months ended March 31, 2022. The increase is due to the Company's loss on the extinguishment of its term loans outstanding prior to the Merger and extinguishment certain financing obligation during nine months ended March 31, 2023.

***Other Financing and Financial Instrument (Costs) Income, Net***

| (dollars in thousands) | Three months ended March 31, 2023 | 2022 | Change Amount | % | Nine months ended March 31, 2023 | 2022 | Change Amount | % |
|---|---|---|---|---|---|---|---|---|
| Other financing and financial instrument (costs) income, net | $ — | $ — | $ — | N/A | $ (1,768) | $ — | $ (1,768) | N/A |

Other financing and financial instrument costs, net were $1.8 million for the nine months ended March 31, 2023 due to the $2.4 million of expense related to the issuance of shares and transfer of warrants upon termination of a convertible note agreement and $0.5 million of associated legal fees, partially offset by $1.2 million of income from the remeasurement of the unvested founder shares liability.

***Other Income, Net***

| (dollars in thousands) | Three months ended March 31, 2023 | 2022 | Change Amount | % | Nine months ended March 31, 2023 | 2022 | Change Amount | % |
|---|---|---|---|---|---|---|---|---|
| Other income, net | $ 257 | $ (12) | $ 269 | (2,242)% | $ 2,612 | $ 2,629 | $ (17) | (1)% |

Other income, net increased to $0.3 million for the three months ended March 31, 2023, as compared to other expense of $12 thousand for the three months ended March 31, 2022. The increase was primarily due to interest earned on proceeds received from the Merger which were held in money market accounts during the three months ended March 31, 2023.

Other income, net was flat at $2.6 million for the nine months ended March 31, 2023, as compared to $2.6 million for the nine months ended March 31, 2022. The amounts in both periods were primarily due to the forgiveness of our PPP loans during the nine months ended March 31, 2023 and 2022, respectively.

***Provision for Income Taxes***

Provision for income taxes was not material in the three and nine months ended March 31, 2023 and 2022.

**Liquidity and Capital Resources**

As of March 31, 2023 and June 30, 2022, our principal sources of liquidity were cash and cash equivalents of $27.0 million and $3.0 million, respectively, which were held for working capital purposes.

Since inception, we have financed our operations primarily through financing transactions such as the issuance of convertible promissory notes and loans, and sales of convertible preferred stock. We have incurred recurring operating losses since our inception, including operating losses of $42.3 million and $21.6 million for the nine months ended March 31, 2023 and 2022, respectively. As of March 31, 2023 and June 30, 2022, we had an accumulated deficit of $198.7 million and $200.8 million, respectively, and we expect to continue to generate operating losses for the near term. Cash from operations could also be affected by various risks and uncertainties, including, but not limited to, the effects of the COVID-19 pandemic, including timing of cash collections from customers and other risks. While we received cash of $49.8 million from the completion of the Merger and net cash of $13.7 million from the issuance of the Credit Agreement and concurrent repayment of other debt obligations, additional capital infusion will be necessary in order to fund currently anticipated expenditures, and to meet our obligations as they come due. Our future capital requirements will depend on many factors, including the revenue growth rate, subscription renewal activity, billing frequency, the success of future product development, and the timing and extent of spending to support further sales and marketing and research and development efforts.

While the Merger and concurrent debt financing improved our financial position, in the future we expect to require additional funding from either public or private financing sources. These plans for additional financings are intended to mitigate the conditions or events that raise substantial doubt about our ability to continue as a going concern, however, as some aspects of the plans are outside of our control, we cannot ensure they will be effectively implemented. In the event that additional financing is required from outside sources, we cannot be sure that any additional financing will be available to us on acceptable terms if at all. If we are unable to raise additional capital when desired, our business, operating results, and financial condition could be materially and adversely affected. As a result, substantial doubt exists about our ability to continue as a going concern within one year after the date that the financial statements are available to be issued. Our financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business.

***Summary of Cash Flows***

The following table summarizes our cash flows for the periods indicated:

| | Nine months ended March 31, | | Change | |
|---|---|---|---|---|
| **(in thousands)** | **2023** | **2022** | **$** | **%** |
| Net cash (used in) operating activities | $ (35,719) | $ (38,415) | $ 2,696 | (7)% |
| Net cash (used in) investing activities | (5,813) | (1,463) | (4,350) | 297 |
| Net cash provided by financing activities | 65,493 | 13,367 | 52,126 | 390 |
| Net increase (decrease) in cash | $ 23,961 | $ (26,511) | $ 50,472 | (190)% |

*Operating Activities*

For the nine months ended March 31, 2023, net cash used in operating activities decreased by 6%, to $35.9 million, as compared to $38.4 million for the nine months ended March 31, 2022.

For the nine months ended March 31, 2023, net cash used in operating activities was $35.9 million. This consisted of our net income of $2.1 million and a net use of cash from changes in operating assets and liabilities of $3.0 million partially offset by adjustments for non-cash gains, net of $35.0 million. The net use of cash from changes in operating assets and liabilities primarily relate to an increase in accounts receivable of $0.7 million, an increase in prepaids and other current assets of $0.7 million, a decrease in accrued liabilities of $2.1 million and a decrease in deferred revenue of $9.0 million. Such uses of cash were partially offset by a decrease in deferred costs of $7.8 million and a decrease in accounts payable of $1.5 million. The non-cash adjustments primarily relate to gains associated with changes in fair value of warrants and convertible promissory notes of $48.3 million and change in fair value of our liability-classified warrants of $12.6 million, forgiveness of our outstanding PPP loan of $2.0 million, and change in fair value of unvested founder shares liability of $1.4 million, partially offset by loss on debt extinguishment of debt and financing obligations of $8.1 million, stock-based compensation expense of $5.8 million, paid in-kind interest expense of $4.6 million, share and warrant cost on termination of convertible note agreement of $2.4 million, earnout share stock-based compensation expense of $3.5

million, amortization of debt discount and debt issuance costs of $2.2 million, and depreciation, amortization and impairment of $1.3 million.

For the nine months ended March 31, 2022, net cash used in operating activities was $38.4 million. This consisted of our net loss of $34.1 million and a net use of cash from changes in operating assets and liabilities of $16.8 million partially offset by adjustments for non-cash charges of $12.4 million. The net use of cash from changes in operating assets and liabilities primarily relate to decreases in deferred revenue of $10.9 million, vendor financing facility of $6.8 million, accounts payable of $4.3 million and accrued liabilities of $2.6 million and increases in inventories of $0.9 million, partially offset by decreases in deferred costs of $9.0 million. The non-cash adjustments primarily relate to change in fair value of convertible promissory notes of $10.6 million, change in fair value of our liability-classified warrants of $1.1 million, depreciation and amortization of $1.5 million and stock-based compensation expense of $1.4 million, partially offset by forgiveness of one of our PPP loans of $2.6 million.

*Investing Activities*

For the nine months ended March 31, 2023, net cash used in investing activities increased to $5.8 million for the nine months ended March 31, 2023, as compared to $1.5 million for the nine months ended March 31, 2022.

For the nine months ended March 31, 2023, cash used in investing activities primarily consisted of cash outflows for capitalized software of $3.6 million and a cash outflow for an investment in non-affiliate of $2.0 million.

For the nine months ended March 31, 2022, cash used in investing activities was $1.5 million which primarily consisted of cash outflows for capitalized software of $1.2 million.

*Financing Activities*

For the nine months ended March 31, 2023, net cash provided by financing activities increased to $65.5 million of cash provided by financing activities for the nine months ended March 31, 2023, as compared to $13.4 million cash provided by financing activities for the nine months ended March 31, 2022.

For the nine months ended March 31, 2023, cash provided by financing activities was $65.7 million, which consisted primarily of proceeds from the issuance of term loans of $60.3 million, contributions from the Merger and PIPE financing, net of transaction costs, of $49.8 million, proceeds from the issuance of common stock of $1.0 million, partially offset by repayment of term loans of $33.0 million, penalties and other costs on extinguishment of debt of $6.1 million, payment of deferred transactions costs of $1.9 million, principal payments of financing obligations of $3.7 million, and payment of debt issuance costs of $1.1 million.

For the nine months ended March 31, 2022, cash provided by financing activities was $13.4 million, which consisted primarily of proceeds from the issuance of term loans of $12.6 million and proceeds from the issuance of convertible promissory notes of $5.5 million, partially offset by payments of financing obligations of $2.0 million, payments of deferred transaction costs of $1.5 million, and payments of debt issuance costs of $1.1 million.

***Financing Obligations***

As of March 31, 2023 and June 30, 2022, the Company’s financing obligations consisted of the following:

| (in thousands) | As of March 31, 2023 | As of June 30, 2022 |
|---|---|---|
| Receivable financing facility | $ 4,314 | $ 5,911 |
| Equipment financing facility | 1,266 | 2,929 |
| Total financing obligations | 5,580 | 8,840 |
| Less: financing obligations, current | (3,720) | (8,840) |
| Total financing obligations, non-current | $ 1,860 | $ — |

*Receivable Financing Facility*

On April 27, 2021, we entered into an investment arrangement to provide future receivables available to an outside investor to invest in exchange for an upfront payment. Through this arrangement, we obtained financing in the form of a large upfront payment, which we have accounted for as a borrowing by recording the proceeds received as a financing obligation, which will be repaid through payments collected from accounts receivable debtors relating to future receivables. The financing obligation is non-recourse; however, we are responsible for collections as we must first collect payments from the debtors and remit them to the investor. We recognize interest on the financed amount using the effective interest method. The effective interest rate is the interest rate that equates the present value of the cash amounts to be received by the investor with the present value of the cash amounts paid by the investor to us. The receivable financing facility has a term of 5 years and the arrangement allows us and the financier to mutually agree to roll forward our borrowings as they come due.

On August 15, 2021, November 16, 2021, February 22, 2022, May 31, 2022, and August 18, 2022, in accordance with the terms of the receivable financing facility, we rolled forward the receivable financing facility, enabling us to continue our quarterly borrowings for a minimum of twelve-months. Subject to the approval of the financier, we may continue rolling forward the receivable financing facility.

On April 15, 2023, the Company entered into an amended and restated investment arrangement to amend the payment due dates and periodic payment amounts to be made under the investment agreement. The agreement calls for payments of principal and interest of $0.7 million, $3.5 million and $0.9 million in fiscal years 2023, 2024 and 2025, respectively.

*Equipment Financing Facility*

Beginning in 2019, we entered into arrangements with third party financiers to secure payments of certain tablet purchases. Such arrangements generally have terms ranging from 3 to 5 years and interest rates ranging from 8% to 14%. We then lease the tablets monetized by the financiers to our customers through operating leases that have 4-year terms.

In fiscal year 2023, due to our liquidity position and other commitments, we postponed certain payments on certain arrangements with third party financiers, which resulted in us defaulting on said arrangements. We have remedied the matter via repayment agreements with our third party financiers, as discussed below.

On November 4, 2022, the Company executed an amendment with one of its third-party financiers to defer non-payments, which increased the monthly payments due for the remaining term of the arrangement.

On November 21, 2022, the Company executed an amendment with one of its third-party financiers. The Company repaid one of the arrangements by making a cash disbursement of $0.4 million, of which extinguished all obligations and resulted in $0.3 million being recorded as a loss on extinguishment of debt and financial obligations on the condensed consolidated statement of operations and comprehensive income (loss).

As a result of the amendment executed on November 4, 2022 and early termination executed on November 21, 2022, the default on payments due as described above has been waived and the Company is in compliance as of March 31, 2023. We have classified all of our obligations under these arrangements as short-term within financing obligations, current as of March 31, 2023 and June 30, 2022.

***Debt Arrangements***

As of March 31, 2023 and June 30, 2022, our outstanding debt, net of debt discounts, consisted of the following:

| (in thousands) | As of March 31, 2023 | As of June 30, 2022 |
|---|---|---|
| Convertible promissory notes | $ — | $ 89,663 |
| Term loans | 53,979 | 25,443 |
| PPP Loans | — | 2,000 |
| Total debt | 53,979 | 117,106 |
| Less: debt, current | (53,979) | (115,106) |
| Total debt, noncurrent | $ — | $ 2,000 |

*Credit Agreement*

On September 21, 2022, in connection with the consummation of the Merger, we entered into a Credit Agreement (the “Credit Agreement”) with the subsidiary guarantors party thereto, Metropolitan Partners Group Administration, LLC, as administrative, payment and collateral agent (the “Agent”), the lenders (“Lenders”) and other parties party thereto, pursuant to which the Lenders extended term loans having an aggregate original principal amount of $55.0 million (the “Term Loans”).

In March 2023, the we entered into a First Amendment to Credit Agreement (the “First Amendment”) in which we amended certain covenants and payment provisions of the existing Credit Agreement. In connection with the First Amendment, we entered into the Amended and Restated Fee Letter (the “Fee Letter”) with Metropolitan, pursuant to which we paid an amendment fee equal to $0.2 million and granted warrants to purchase 400,000 shares of common stock, par value $0.0001 per share (“Common Stock”) of Presto, with an exercise price of $0.01 per share (the “Warrants”), to Metropolitan Levered Partners Fund VII, LP, Metropolitan Partners Fund VII, LP, Metropolitan Offshore Partners Fund VII, LP and CEOF Holdings LP (the “Metropolitan Entities”). We recorded additional debt discount of $0.8 million in which represents the fees paid plus the fair value of the warrants and recorded the warrants as liabilities.

The Term Loans were borrowed in full at closing. Amounts outstanding under the Credit Agreement will incur interest at the rate of 15% per annum. During the first 18 months following the closing date, we may elect to pay a portion of the accrued and unpaid interest by capitalizing the amount of such interest on a monthly basis and adding the same to the principal balance of the Term Loans, after which such capitalized interest shall accrue interest at the interest rate and otherwise constitute principal under the Term Loan (“PIK Interest”). With respect to interest accruing during the first nine months after the closing date, we may elect for 100% of the interest payment to be capitalized as PIK Interest on a monthly basis. With respect to interest accruing after the nine month anniversary of the closing date, but before the 18 month anniversary of the closing date, we may elect for 50% of the interest payment to be capitalized as PIK Interest on a monthly basis. The Term Loans mature on March 21, 2025.

The Term Loans may be prepaid by us; however, any voluntary or mandatory prepayment made prior to the 18 month anniversary of the closing date must be accompanied by payment of a make whole premium equal to the interest and fees that would have accrued on the aggregate principal amount of the Term Loans (including any interest that could have been capitalized as PIK Interest during such period) from the date of payment through the 18 month anniversary of the closing date. The Term Loans may not be reborrowed once repaid. We are required to pay the Agent certain upfront fees and administrative fees in connection with the Term Loans. Our obligations under the Credit Agreement are secured by substantially all of our assets.

We must comply with certain financial covenants as set forth in the Credit Agreement, including a minimum cash covenant and maximum net leverage ratio of 1.20 to 1.00. The minimum cash covenant requires us to maintain cash in a separate account in an amount equal to the prior six months of operating expenses plus $1.1 million.  Were unable to comply with these financial covenants and, as noted below, have obtained a waiver. The Credit Agreement also contains customary affirmative and restrictive covenants, including covenants regarding the incurrence of additional indebtedness or liens, investments, transactions with affiliates, delivery of financial statements, payment of taxes, maintenance of insurance, dispositions of property, mergers or acquisitions, among other customary covenants. We are also restricted from paying dividends or making other distributions or payments on our capital stock, subject to limited exceptions. The Credit Agreement also includes customary representations and warranties, events of default and termination provisions, upon which the Term Loans may be accelerated and the interest rate applicable to any outstanding payment obligations will increase by 5%. As of March 31, 2023, the Company obtained a waiver in the First Amendment noted above, of the minimum cash covenant for February 28, 2023 and March 31, 2023, the net leverage ratio for the period from February 28, 2023 through May 31, 2023 and any default occurring from the Chief Executive Officer separation from the Board of Directors. The Company is seeking a further waiver in conjunction with its efforts to raise additional financing. The Company is in compliance with all other applicable covenants. However, since the Company cannot be certain it will be in compliance with all covenants in the next twelve months if additional financing is not secured, the Company has classified the balance of the Credit Agreement as current on the condensed consolidated balance sheets as of March 31, 2023.

In conjunction with the Credit agreement, we issued 1,500,000 warrants to purchase common stock to the Lenders. Such warrants were determined to be equity classified and we recorded the value associated with such warrants of $2.1 million within additional paid in capital, with an offsetting debt discount being recorded.

As a condition to entering into the Credit Agreement, Ventoux Acquisition Holdings LLC and Chardan International Investments LLC, the co-sponsors of VTAQ (“the Sponsors”) agreed to transfer 600,000 shares to the Lenders to the Credit Agreement. The share transfer by the Sponsor to the Lenders to the Credit Agreement was such that the substance of the transaction was that the Sponsors made a capital contribution to us, and we then made a share-based payment to the Lenders as an incentive for the Lenders to enter into the Credit Agreement. Accordingly, we recorded the transaction as debt issuance costs discount of $2.8 million in our condensed consolidated balance sheet with an offsetting increase to additional paid-in capital for the contribution.

We incurred cash debt issuance costs of $1.0 million in conjunction with the signing of the Credit Agreement which were recorded as a debt discount.

During the three and nine months ended March 31, 2023, we recorded PIK interest expense amounts of $2.1 million and $4.5 million, respectively, which has been reflected as an increase to the outstanding debt balance. Further, during the three and nine months ended March 31, 2023, we recorded interest expense associated with the amortization of debt discounts in the amount $0.6 million and $1.2 million, respectively. Accordingly at March 31, 2023, the term loans, noncurrent balance of $54.0 million reflects $55.0 million of principal and $4.5 million PIK interest accrual, as reduced by unamortized debt issuance costs of $5.5 million.

*Convertible Promissory Notes*

As of June 30, 2022, we had convertible notes outstanding to various investors, all of which were accounted for under the fair value option. As of June 30, 2022, the fair value of such convertible promissory notes was $89.7 million. In conjunction with the Merger, all convertible promissory notes converted into shares of common stock. Further certain convertible notes which were together with warrants also had the related warrants converted into shares of common stock. As a consequence of the note and warrant conversion, 8,147,938 shares of common stock were issued. Immediately prior to conversion, the convertible promissory notes were remeasured to the then fair value of $41.4 million, resulting in a gain on remeasurement of $48.3 million which was recorded within change in fair value of warrants and convertible promissory notes on the condensed consolidated statement of operations and comprehensive income (loss) for the nine months ended March 31, 2023.

During the nine months ended March 31, 2022 we issued the July 2021 notes for $0.5 million of convertible promissory notes and issued the February 2022 notes for $25.7 million and repaid the June 2021 notes for $20.0 million with the February 2022 notes. During the three and nine months ended March 31, 2022, we recorded a gain on remeasurement of $19.2 million and loss of $10.6 million, respectively, on all outstanding convertible promissory notes, which were recorded within change in fair value of warrants and convertible promissory notes on the condensed consolidated statement of operations and comprehensive income (loss).

*Term Loans*

*Horizon Loan*

On March 4, 2021, we entered into a loan agreement (the “Horizon Loan”) with Horizon Technology Finance Corporation (“Horizon”), which provided us with $15.0 million, bears interest at prime rate plus 6.5% per annum, and has a term of 54 months from each loan funding date. The Horizon Loan payment terms require repayment of accrued interest only on the outstanding principal amount over the first 24 payment dates and an equal payment of principal plus accrued interest on the next 30 payment dates identified in the notes applicable to the loan. We pledged certain assets against the Horizon Loan. The Horizon Loan contains financial covenants that require the maintenance of an unrestricted cash plus accounts receivable balance and achievement of quarterly bookings targets. On March 11, 2022, we amended the Horizon Loan to shorten the total term to 24 months with a maturity date of March 20, 2023.

In connection with the entry into the Credit Agreement, (defined below), on September 21, 2022, we repaid the Horizon Loan making a cash disbursement of $17.0 million, of which $15.0 million was repayment of principal and $0.6 million was payment of interest expense and accrued interest. Further, $1.7 million was recorded as a loss on extinguishment of debt and financial obligations on our condensed consolidated statement of operations and comprehensive income (loss).

*Lago Loans*

On March 11, 2022, we entered into a loan agreement (the “Lago Loan”) with Lago Innovation Fund I & II, LLC, which provided us with $12.6 million, bears interest at the greater of 12% plus the greater of 1% or 30 day LIBOR, bears 2% payable in kind interest, and matures on April 1, 2023. We pledged certain assets against the Lago Loan. The Lago Loan payment terms require repayment of accrued interest only on the outstanding principal over the first 12 payment dates and payment of principal plus remaining accrued interest on the last payment date identified in the notes applicable to the loan. We may prepay at any time for a fee, dependent on the time of prepayment. The Lago Loan contains financial covenants that require the maintenance of unrestricted cash plus accounts receivable balance and achievement of quarterly bookings targets. We issued 205,602 warrants to purchase common stock with the Lago Loan. Refer to Note 10 of Item 1 of this Quarterly Report on Form 10-Q for further details.

On August 4, 2022, we received an additional tranche of term loan in the amount of $5.3 million via an amendment to the Lago Loan. Further, we issued an additional 169,310 warrants to purchase common stock with the additional tranche. We determined that the amendment with the lender should be accounted for as an extinguishment and recorded a loss on extinguishment of debt and financial obligations of $6.0 million on our condensed consolidated statement of operations and comprehensive income (loss).

In connection with the entry into the Credit Agreement (defined below) on September 21, 2022, we repaid all outstanding loans by making a cash disbursement of $22.4 million, of which $17.8 million was repayment of principal and $0.1 million was payment of payable in kind interest. Further $4.4 million of cash was paid related to prepayment and other penalties.

*Paycheck Protection Program Loan*

In April 2020, the Company obtained a Paycheck Protection Program (“PPP”) loan for $2.6 million through the U.S. Small Business Administration. In March 2021, a second PPP loan was obtained in the amount of $2.0 million, for a total of $4.6 million. The loans will be fully forgiven if the funds are used for payroll costs, interest on mortgages, rent, and utilities, with at least 60% being used for payroll. We used the funds for these expenses and applied for loan forgiveness of the PPP funds. No collateral or personal guarantees were required for the loan. The PPP loans would bear an interest rate of 1% and a maturity of two years for the first loan and five years for the second loan. We account for the loans as debt subject to the accounting guidance in ASC 470, *Debt*.

During the nine months ended March 31, 2022 we received forgiveness for the first PPP loan of $2.6 million and recognized as other income, net.  In July 2022, we were granted forgiveness of the second loan in an amount of approximately $2.0 million, which was recognized as other income, net on the condensed consolidated statement of operations and comprehensive income (loss) for the nine months ended March 31, 2023.

**Off-Balance Sheet Arrangements**

We did not have any off-balance sheet arrangements as of March 31, 2023 and June 30, 2022.

**Other Recent Developments**

In June 2022, we received a favorable arbitrator ruling related to a matter with our third-party subcontractor and were awarded approximately $11.3 million in damages related to our loss on infrequent product repairs and to cover our legal expenses. This arbitration ruling was affirmed by the appellate court in the country of the arbitration ruling on March 6, 2023. On May 2, 2023, the vendor appealed the ruling to the highest court there. The award has not met the criteria to be considered realizable as of March 31, 2023. As a result, we have not recognized any gain related to this settlement in our condensed consolidated statement of operations and comprehensive income (loss).

**Related Party Transactions**

We have certain convertible promissory notes and embedded warrants with entities in which a member of our board of directors is an officer of the entity and has a financial interest in the entity (“affiliated entities”). As of June 30, 2022, $9.6 million of our convertible promissory notes and embedded warrants balance is due to a related party, all of which are due within 12 months. The convertible notes and embedded warrants converted into shares of common stock during the nine months ended March 31, 2023. Refer to Note 7 for further details.

During the nine months ended March 31, 2023, we received an equity investment of $1,000 from an investor in exchange for 133,333 shares of common stock in the Company. Refer to Note 9 of Item 1 of this Quarterly Report on Form 10-Q for further details. for further details.

In addition, during the nine month ended March 31, 2023 we granted 1,200,000 of RSUs to a director and interim CEO of the Company with a grant date fair value of $4.56 per RSU. Refer to Note 11 of Item 1 of this Quarterly Report on Form 10-Q for further details.

## Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with U.S. GAAP requires us to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities, revenues, expenses and disclosures. Our most significant estimates and judgments are related to collectability of accounts receivable, the useful lives of property and equipment and intangible assets, inventory valuation, the fair value of financial instruments, valuation of deferred tax assets and liabilities, valuation assumptions utilized in calculating the estimated value of stock-based compensation, valuation of warrants, earnout and unvested founder shares arrangements, valuation of investments in non-affiliates, valuation of goodwill and intangible assets acquired and impairment of long-lived assets. Actual results may differ from these estimates. To the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operations, and cash flows will be affected.

We believe that the accounting policies described below involve a greater degree of judgment and complexity. Accordingly, these are the policies we believe are the most critical to aid in fully understanding and evaluating our financial condition and results of operations. For further information, see Note 1 to the audited consolidated financial statements as of and for the years ended June 30, 2022 and 2021 and the related notes contained in exhibit 99.1 of the Current Report on Form 8-K filed with the SEC on December 16, 2022.

### *Revenue Recognition*

Revenue is recognized when promised goods or services are transferred to the customer in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services, net of any taxes collected from customers (e.g., sales and other indirect taxes), which are subsequently remitted to government authorities.

During the three and nine months ended March 31, 2023 and 2022, we derived our revenues from two revenue streams: (1) sales and leases of the Presto Touch and AI Platform products ("**Platform revenue**"), which includes hardware, hardware accessories, software, customer support and maintenance, and (2) Premium Content (gaming) and other revenue, which includes professional services ("**Transaction revenue**").

*Platform Revenue*

The platform revenue stream is generated from fees charged to customers for access to our Presto Touch product and is recognized ratably. Part of the total contract value is due upon execution of the contract, and the remainder is due monthly over the term of the contract. Our contracts with customers are generally for a term ranging from 12 to 48 months. Amounts invoiced in excess of revenue recognized are recorded as deferred revenue. Revenue generated from AI Platform products was not material for the three and nine months ended March 31, 2023 and 2022. Such revenue generated from AI Platform products is inclusive of $0.5 million and $1.1 million of contra-revenue related to the fair value of the warrant treated as a reduction to the transaction price of a customer for the three and nine months ended March 31, 2023, respectively. Refer to the Components of Results of Operations above for further details. We also maintain arrangements with a certain customer whereby we leased the Presto Touch product to that customer. Revenue associated with the lease was recognized on a straight-line basis as platform revenue over the lease term in the condensed consolidated statements of operations and comprehensive income (loss). Refer to the Components of Results of Operations section above for further details.

*Transaction Revenue*

Transaction revenue consists of a single performance obligation recognized at a point in time when the content is delivered and used. Transaction revenue is recognized on a gross basis as we are the principal in the relationship and the restaurant acts as a sales agent between us and the diner to upsell premium content purchases during the dining experience. We are the principal as we are the primary obligor responsible for fulfillment, we control the gaming license and its accessibility and have influence in establishing the price charged to the diner. The portion of gaming service collections withheld by the restaurant for sales commission is recorded to transaction cost of revenue.

We determine revenue recognition through the following steps:

1. Identification of the contract, or contracts, with a customer — We enter into a master sales agreement ("**MSA**") with the customer which is signed by both parties. The rights and obligations are outlined in the MSA and payment terms are

clearly defined. We then enter into a license agreement, typically with each franchisee, which outlines the specified goods and services to be provided. We also enter into separate gaming agreements with diners, whereby our customer agrees to pay for use of the premium content. Each MSA, in conjunction with a license agreement, and each gaming agreement, has commercial substance, whereby we are to provide products and services in exchange for payment, and collectability is probable.

2. Identification of the performance obligations in the contract — Our contracts with customers include promises to transfer multiple services. For all arrangements with multiple services, we evaluate whether the individual services qualify as distinct performance obligations. In our assessment of whether a service is a distinct performance obligation, we determine whether the customer can benefit from the service on its own or with other readily available resources and whether the service is separately identifiable from other services in the contract. This evaluation requires us to assess the nature of each individual service offering and how the services are provided in the context of the contract, including whether the services are significantly integrated, highly interrelated, or significantly modify each other, which may require judgment based on the facts and circumstances of the contract.

   We identified the following performance obligations: for the MSAs and license agreements, 1) sales or leases of hardware, SaaS and maintenance as one combined performance obligation for the Presto Touch product, and for gaming agreements, 2) premium content, or gaming. Professional services were insignificant during the three and nine months ended March 31, 2023 and 2022.

   Our Presto Touch is considered to have a single performance obligation because each element of the Presto Touch product is interdependent and cannot function independently. The software and hardware for the Presto Touch product represents one combined output and the customer cannot benefit from the use of one element without the other.

   When we enter into gaming agreements, our Presto Touch product includes the capability of providing entertainment services, designed (either on its own or through other subcontractors) and provided by us via internet, that can be purchased by diners. The games are only accessible over the internet, and upon the diner making the decision to pay for the content, the diner receives the right to access the game on the Presto Touch product. Gaming fees are usage based through the diner's use of the device and stipulated in a separate contract with the diner. Any fees that are incurred are collected by the restaurant as part of the normal payment for the dining check from the diner and remitted back to us, net of commissions paid to the restaurant as the sales. Premium content revenue, or gaming revenue, is therefore one performance obligation.

3. Determination of the transaction price — our MSAs stipulate the terms and conditions, and separate license agreements dictate the transaction price, and typically outlines as a price per store location or number of Presto Touch product. The transaction price is generally fixed fee, with a portion due upfront upon signing of the contract and the remainder due upon installation of the Presto Touch products. The transaction price for transaction revenue is a fixed fee charged per game. We occasionally provide consideration payable to a customer, which is recorded as a capitalized asset upon payment and included as part of deferred costs and amortized as contra-revenue over the expected customer life.

4. Allocation of the transaction price to the performance obligations in the contract — The Presto Touch and premium content contracts are each comprised of one performance obligation and do not require reallocation of the contract price.

5. Recognition of revenue when, or as, we satisfy a performance obligation — As the customer simultaneously receives and consumes the benefits provided by us through continuous access to our SaaS platform, revenue from the Presto Touch and the AI Platform is satisfied ratably over the contract period as the service is provided, commencing when the subscription service is made available to the customer. Transaction revenue does not meet the criteria for ratable recognition and is recognized at a point in time when the gaming service is provided.

***Stock-Based Compensation***

We have a stock incentive plan under which incentive stock options and restricted stock units ("RSUs") are granted to employees and non-qualified stock options are granted to employees, investors, directors and consultants. The options and RSU's granted vest over time with a specified service period, except for performance-based grants. Stock-based compensation expense related to equity awards is recognized based on the fair value of the awards granted. The fair value of our common stock underlying the awards has historically been determined by the board of directors with input from management and third-party valuation specialists, as there was no public market for our common stock. The board of directors determines the fair value of the common stock by considering a number of objective and subjective factors including: the valuation of comparable companies, our operating and financial performance, the lack of liquidity of common stock, transactions in our preferred or common stock, and general and industry specific economic outlook, amongst other factors.

The fair value of each option award is estimated on the grant date using the Black-Scholes option pricing model. The Black-Scholes option pricing model requires the input of subjective assumptions, including the fair value of the underlying common stock, risk-free interest rates, the expected term of the option, expected volatility, and expected dividend yield. The fair value of each RSU is the fair value of the underlying common stock on the grant date. The related stock-based compensation expense is recognized on a straight-line basis over the requisite service period of the awards, which is generally four years. For awards with performance conditions, the related cumulative stock-based compensation expense from inception to date is recognized when it is probable that the performance condition will be achieved. We account for forfeitures as they occur.

We estimated the fair values of each option awarded on the date of grant using the Black-Scholes-Merton option pricing model utilizing the assumptions noted below.

- ***Risk-free interest rate*** — The risk-free interest rate was calculated using the average of the published interest rates of U.S. Treasury zero-coupon issues with maturities that approximate the expected term. The dividend yield assumption is zero as we have no history of, nor plans to distribute, dividend payments.

- ***Expected term*** — The expected term of the options is based on the average period the stock options are expected to remain outstanding, calculated as the midpoint of the options vesting term and the contractual expiration period, as we did not have sufficient historical information to develop reasonable expectations about future exercise patterns and post-vesting employment termination behavior.

- ***Expected volatility*** — The expected stock price volatility for our stock was determined by examining the historical volatilities of our industry peers as we did not have any trading history of our common stock.

- ***Expected dividend yield*** — The dividend yield assumption is zero as we have no history of, nor plans to distribute, dividend payments.

We did not grant options during the three and nine months ended March 31, 2023.

The earnout shares are equity classified since they do not meet the liability classification criteria outlined in ASC 480, *Distinguishing Liabilities from Equity* and are under ASC 815-40 are both (i) indexed to the Company's own shares and (ii) meet the criteria for equity classification. The fair value of the earnout shares is determined based on "Level 3" inputs, due to a lack of market data over inputs such as the volatility and the time incurred to meet the minimum VWAP as discussed above. At initial recognition, the earnout shares were measured at fair value using the Monte Carlo valuation model. The valuation model utilized various key assumptions, such as volatility, discount rate and time incurred to meet the minimum VWAP.

***Inventories***

Inventories are valued at the lower of cost or net realizable value using the weighted average cost method, which approximates the first-in first-out inventory method. This method is consistent and valued separately across new inventories and refurbished inventories. Inventories are comprised of finished goods (tablets) and related component parts. We purchase our inventories from a third-party manufacturer as finished goods and store the inventory partially in our own warehouse and partially at a third-party warehouse. We establish provisions for excess and obsolete inventories after an evaluation of historical sales, future demand and market conditions, expected product life cycles, and current inventory levels to reduce such inventories to their estimated net realizable value. Such provisions are made in the normal course of business and are charged to cost of revenue in the consolidated statements of operations and comprehensive loss. The provision for excess and obsolete inventories was immaterial for the three and nine months ended March 31, 2023 and 2022.

***Fair Value Measurements***

Fair value is defined as the exchange price that would be received from the sale of an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. We measure financial assets and liabilities at fair value at each reporting period using a fair value hierarchy which requires us 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. Three levels of inputs may be used to measure fair value:

- Level 1 — Quoted prices in active markets for identical assets as of the reporting date.
- Level 2 — Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets.
- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets.

Financial instruments consist of cash equivalents, accounts receivable, accounts payable, convertible promissory notes and embedded warrants, warrant liabilities, and unvested founder shares liability. Accounts receivable and accounts payable are stated at their carrying value, which approximates fair value due to the short time to the expected receipt or payment date.

We elected the fair value option to account for the convertible promissory notes and embedded warrants because we believe it more accurately reflects the value of the debt in the financial statements. The principal amount of the convertible promissory notes, embedded warrants and accrued interest is measured at fair value using the Monte Carlo valuation model. The valuation model utilized various key assumptions, such as enterprise value and management assessments of the probability of expected future events, including conversion upon next private financing of preferred stock, conversion upon next financing in a public liquidity event, conversion upon a change in control, conversion upon maturity and default. Other inputs included a discount rate of 16.5% for the principal amount of the convertible promissory notes as of June 30, 2022. Changes in the fair value of the convertible promissory notes and embedded warrants were included in change in fair value of warrants and convertible promissory notes in the condensed consolidated statement of operations and comprehensive loss.

The fair value of the unvested founder shares liability was determined using a Monte Carlo valuation model, which requires significant estimates including the expected volatility of our common stock. The expected annual volatility of our common stock was estimated to be 76.2% and 71.9% as of the Merger date and March 31, 2023, respectively, based on the historical volatility of comparable publicly traded companies.

***Investment in Non-Affiliate***

Investments in non-affiliates include equity security investments in third party entities without a readily determinable fair value in which the Company's influence is deemed not to be significant. Investments in non-affiliates are recorded using the measurement alternative for investments without readily determinable fair values, whereby the investment is measured at cost less any impairment recorded or observable price changes. Any impairments or observable price changes are reported in other income, net on the condensed consolidated statements of operations and comprehensive income (loss).

***Impairment of Long-Lived Assets***

We evaluate the carrying value of long-lived assets on an annual basis, or more frequently whenever circumstances indicate a long-lived asset may be impaired. When indicators of impairment exist, we estimate future undiscounted cash flows attributable to such assets. In the event cash flows are not expected to be sufficient to recover the recorded value of the assets, the assets are written down to their estimated fair value.

***Business Combinations***

The Company accounts for acquisitions using the acquisition method of accounting. Assets acquired and liabilities assumed are recorded at their respective fair values at the acquisition date. The fair value of the consideration transferred in a business combination, including any contingent consideration, is allocated to the assets acquired and liabilities assumed based on their respective fair values. The excess of the consideration transferred over the fair values of the assets acquired and the liabilities assumed is recorded as goodwill.

### Recent Accounting Pronouncements

See the sections entitled "*Recently Adopted Accounting Standards*" and "*Recently Issued Accounting Standards Not Yet Adopted*" in Note 1 of Item 1 of this Quarterly Report on Form 10-Q for recently adopted accounting pronouncements and recently issued accounting pronouncements not yet adopted as of the filing date of this Quarterly Report on Form 10-Q.

### Emerging Growth Company

We are an emerging growth company, as defined in the JOBS Act. The JOBS Act provides that an emerging growth company can take advantage of an extended transition period for complying with new or revised accounting standards. This provision allows an emerging growth company to delay the adoption of some accounting standards until those standards would otherwise apply to private companies. We have elected to use the extended transition period under the JOBS Act for the adoption of certain accounting standards until the earlier of the date we (i) are no longer an emerging growth company or (ii) affirmatively and irrevocably opt out of the extended transition period provided in the JOBS Act. As a result, our financial statements may not be comparable to companies that comply with new or revised accounting pronouncements as of public company effective dates.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have operations in the United States and in Canada, and we are exposed to market risks in the ordinary course of our business. These risks primarily include interest rate, credit and inflation risks. We are not exposed to significant foreign exchange risk.

*Interest Rate Sensitivity*

Our cash and cash equivalents are held primarily in cash deposits and money market funds. The fair value of our cash and cash equivalents would not be significantly affected by either an increase or decrease in interest rates due mainly to the short-term nature of these instruments. A hypothetical 10% change in interest rates would not have a material impact on our current results of operations due to the short-term nature of our cash and cash equivalents. Additionally, changes to interest rates will not impact the cost of our currently outstanding borrowings. Interest rates on the Credit Agreement are fixed. Potential changes in interest rates would also not materially impact the interest expense associated with our financing obligations.

*Credit Risk*

We are exposed to credit risk on accounts receivable and merchant cash advance balances. A small number of customers represent significant portions of our consolidated accounts receivable and revenue. We evaluate the solvency of our customers on an ongoing basis to determine if allowances for doubtful accounts need to be recorded.

The following customers accounted for more than 10% of revenues during the following periods:

| | Three months ended March 31, | | Nine months ended March 31, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| Customer A | 62 % | 51 % | 61 % | 51 % |
| Customer B | 16 % | 26 % | 21 % | 26 % |
| Customer C | 18 % | 14 % | 15 % | 16 % |
| | 96 % | 91 % | 97 % | 93 % |

The following customers accounted for more than 10% of accounts receivable as of March 31, 2023 and June 30, 2022:

| | As of March 31, 2023 | As of June 30, 2022 |
|---|---|---|
| Customer A | 39 % | 31 % |
| Customer B | 20 % | 41 % |
| Customer D | 27 % | 11 % |
| | 86 % | 83 % |

* Customer C represents less than 10% of accounts receivable and therefore was omitted from the above schedule.

We are exposed to vendor concentration risk as we supply tablets from one vendor and currently source some of our hardware and software components used in the AI Platform from one vendor. Our operating results could be adversely affected should any of the following occur: the vendor used to supply tablets increases their prices or either vendor incurs disruptions in its supply of goods or services.

*Inflation Risk*

Our results of operations and financial condition are presented based on historical cost. While it is difficult to accurately measure the impact of inflation due to the imprecise nature of the estimates required, we believe the effects of inflation, if any, on our results of operations and financial condition have been immaterial. We cannot assure you our business will not be affected in the future by inflation.

*Financial Institutions*

Financial instruments that potentially expose us to concentrations of credit risk consist principally of cash and cash equivalents on deposit with financial institutions, the balances of which frequently exceed federally insured limits. On March 10, 2023, SVB was closed by the California Department of Financial Protection and Innovation, which appointed the FDIC as receiver. If any of the financial institutions with whom we do business were to be placed into receivership, we may be unable to access to the cash we have on deposit with such institutions. If we are unable to access our cash and cash equivalents as needed, our financial position and ability to operate our business could be adversely affected. The Company has $26.5 million in deposits in excess of the FDIC limits as of March 31, 2023.

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our principle executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the fiscal quarter ended March 31, 2023, as such term is defined in Rules 13a-15(e) and 15d-15(e) under Securities Exchange Act of 1934, as amended (the “Exchange Act”). Disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow for timely decisions regarding required disclosure. Based on this evaluation, our principal executive officer and principal financial officer have concluded that as of March 31, 2023, our disclosure controls and procedures were not effective due to material weaknesses in our internal control over financial reporting, as discussed in more detail below. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of a company’s annual or interim financial statements will not be prevented or detected on a timely basis.

Notwithstanding the identified material weaknesses, management, including our principal executive officer and principal financial officer, believes the condensed consolidated financial information included in this Quarterly Report on Form 10-Q fairly represent in all material respects our financial condition, results of operations and cash flows at and for the periods presented in accordance with U.S. GAAP.

**Material Weakness**

We previously identified four material weaknesses, as disclosed in our S-1 registration statement, filed with the SEC on October 21, 2022. The material weaknesses as of June 30, 2022 that we have identified are listed below.

- We did not maintain an effective control environment, including not having designed a risk assessment process and not having designed formalized internal controls, including a lack of policies supporting segregation of duties.

- We did not design and maintain effective controls to address the initial application of complex accounting standards and accounting of non-routine, unusual or complex events and transactions. Further, we did not maintain sufficient accounting resources with appropriate technical knowledge to support our financial reporting requirements.

- We did not design and maintain effective controls over our financial statement closing process. Specifically, we did not design and maintain effective controls over certain account analyses and account reconciliations.

- We did not maintain internal accounting records to adequately support the reporting of certain transactions in our financial statements.

These material weaknesses could result in a misstatement of account balances or disclosures that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

**Management’s Remediation Initiatives**

We are in the early stages of designing and implementing a plan to remediate the material weaknesses identified. Our plan includes the following actions:

- Designing and implementing a risk assessment process supporting the identification of risks facing Presto.
- Implementing controls to enhance our review of significant accounting transactions and other new technical accounting and financial reporting issues and preparing and reviewing accounting memoranda addressing these issues. Hiring additional experienced accounting, financial reporting and internal control personnel and changing roles and responsibilities of our personnel as we transition to complying with Section 404 of the Sarbanes Oxley Act of 2002. We have recently hired additional resources and we are engaging with a third-party consulting firm to assist us with our formal internal control plan and provide staff augmentation of our internal audit function.
- Implementing controls to enable an effective and timely review of account analyses and account reconciliations.
- Implementing controls to enable an accurate and timely review of accounting records that support our accounting processes and maintain documents for internal accounting reviews.

We cannot assure you that these measures will significantly improve or remediate the material weaknesses described above. The implementation of these remediation measures is in the early stages and will require validation and testing of the design and operating effectiveness of our internal controls over a sustained period of financial reporting cycles and, as a result, the timing of when we will be able to fully remediate the material weaknesses is uncertain and we may not fully remediate these material weaknesses during the year ended June 30, 2023. If the steps we take do not remediate the material weaknesses in a timely manner, there could be a reasonable possibility that these control deficiencies or others may result in a material misstatement of our annual or interim financial statements that would not be prevented or detected on a timely basis. This, in turn, could jeopardize our ability to comply with our reporting obligations, limit our ability to access the capital markets and adversely impact our stock price.

**Changes in Internal Control over Financial Reporting**

Other than the actions taken as described in “Management’s Remediation Initiatives” above to improve the Company’s internal control over financial reporting, there have been no changes in our internal control over financial reporting during the most recent fiscal quarter that materially affected, or which are reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

From time to time, we may be subject to claims arising in the ordinary course of business or become involved in litigation or other legal proceedings. We are not currently a party to any litigation or legal proceedings that, in the opinion of our management, are likely to have a material adverse effect on our business. Regardless of outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

### Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors disclosed in our Current Report on Form 8-K filed with the SEC on September 27, 2022, and the other reports that we have filed with the SEC. Any of the risks discussed in such reports, as well as additional risks and uncertainties not currently known to us or that we currently deem immaterial, could materially and adversely affect our results of operations, financial condition or prospects. During the period covered by this Quarterly Report on Form 10-Q, there have been no material changes in our risk factors as previously disclosed.

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

None.

### Item 3. Defaults upon Senior Securities

None.

### Item 4. Mine Safety Disclosures.

Not applicable.

### Item 5. Other Information.

None.

**Item 6. Exhibits.**

The following exhibits are filed or furnished as an exhibit to this Quarterly Report on Form 10-Q.

| Exhibit Number | Description |
| --- | --- |
| 2.1† | Merger Agreement, dated as of November 10, 2021, by and among VTAQ, Ventoux Merger Sub I, Ventoux Merger Sub II and Legacy Presto (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed on November 10, 2021). |
| 2.2 | Amendment No. 1 to Merger Agreement, dated as of April 1, 2022, by and among VTAQ, Ventoux Merger Sub I, Ventoux Merger Sub II and Presto (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed on April 4, 2022). |
| 2.3 | Amendment No. 2 to Merger Agreement, dated as of July 25, 2022, by and among VTAQ, Ventoux Merger Sub I, Ventoux Merger Sub II and Presto (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed on July 26, 2022). |
| 3.1 | Second Amended & Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on September 27, 2022). |
| 3.2 | Bylaws of Presto Automation Inc. (incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K filed on September 27, 2022). |
| 10.1†† | Consulting Agreement between Presto Automation Inc. and Ashish Gupta, dated March 4, 2023 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on March 7, 2023). |
| 10.2 | Waiver and First Amendment to Credit Agreement, dated March 31, 2023, by and among Presto Automation Inc., E La Carte, LLC, Metropolitan Partners Group Administration, LLC and certain lenders party thereto (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on April 6, 2023). |
| 10.3 | Amended and Restated Fee Letter, dated March 31, 2023, by and among Presto Automation Inc., E La Carte, LLC, Metropolitan Partners Group Administration LLC and certain lenders party thereto (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed on April 6, 2023). |
| 10.4 | Warrant to Purchase Common Stock, dated March 31, 2023, by and between Presto Automation Inc. and Metropolitan Levered Partners Fund VII, LP (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed on April 6, 2023). |
| 10.5 | Warrant to Purchase Common Stock, dated March 31, 2023, by and between Presto Automation Inc. and Metropolitan Partners Fund VII, LP (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed on April 6, 2023). |
| 10.6 | Warrant to Purchase Common Stock, dated March 31, 2023, by and between Presto Automation Inc. and Metropolitan Offshore Partners Fund VII, LP (incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K filed on April 6, 2023). |
| 10.7 | Warrant to Purchase Common Stock, dated March 31, 2023, by and between Presto Automation Inc. and CEOF Holdings, LP (incorporated by reference to Exhibit 10.6 to the Current Report on Form 8-K filed on April 6, 2023). |
| 10.8 | Registration Rights Agreement, dated as of March 31, 2023, by and among Presto Automation Inc. and certain persons listed therein (incorporated by reference to Exhibit 10.7 to the Current Report on Form 8-K filed on April 6, 2023). |
| 10.9 | Offer of Employment, Daniel Mosher, dated May 12, 2023* |
| 10.10 | Offer of Employment, Xavier Casanova, dated April 25, 2023* |
| 31.1 | Certification of Chief Executive Officer (Principal Executive Officer) Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.* |
| 31.2 | Certification of Chief Financial Officer (Principal Financial and Accounting Officer) Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.* |
| 32.1 | Certification of Chief Executive Officer (Principal Executive Officer) Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.** |
| 32.2 | Certification of Chief Financial Officer (Principal Financial and Accounting Officer) Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.** |
| 101.INS | Inline XBRL Instance Document.* |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document.* |

| | |
|---|---|
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document.* |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document.* |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document.* |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document.* |
| 104 | Cover Page Interactive Data File (Embedded within the Inline XBRL document and included in Exhibit) |

† Certain of the exhibits and schedules to this Exhibit have been omitted in accordance with Regulation S-K Item 601(a)(5). The Company agrees to furnish a copy of all omitted exhibits and schedules to the SEC upon its request.

†† Denotes management contract of compensatory plan or arrangement.

* Filed herewith.

** Furnished herewith.

## SIGNATURE

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.

Dated: May 19, 2023

**PRESTO AUTOMATION INC.**

By: /s/ Krishna Gupta
Name: Krishna Gupta
Title: Chief Executive Officer
(Principal Executive Officer)

By: /s/ Ashish Gupta
Name: Ashish Gupta
Title: Principal Financial Officer

Presto Automation Inc.
985 Industrial Road
San Carlos, CA 94720

May 12, 2023

Daniel Mosher
138 Cypress Ave.
Kentfield, CA 94904

**Re:** Offer of Employment

Dear Dan,

We are delighted that you have been promoted to President of Presto Automation, Inc., a Delaware corporation, including any subsidiaries or affiliates (the "Company"), on the terms and conditions set forth in this agreement (the "Agreement").:

1. Title; Function; Duties.

   a. Your title during the Term shall be President. You will have duties and responsibilities appropriate to this position, as well as other duties and responsibilities as may be assigned from time to time by the Company by (i) the CEO or the Interim CEO, as the case may be, and (ii) the Board of Directors of the Company (the "Board" and, together with the CEO or the Interim CEO, "Company Leadership"). You shall serve the Company faithfully and to the best of your ability and shall devote your full time, energy, experience and talents to the business of the Company; provided, however, that you may manage your personal investments or to engage in or serve such civic, community, charitable, educational, or religious organizations as you may select, so long as such service does not create a conflict of interest with, or interfere with the performance of, your duties hereunder or conflict with any of your other obligations to the Company.

   b. You shall report directly to the CEO or the Interim CEO, as the case may be, and have a dotted reporting relationship to the Board.

2. Start Date. The term of your employment as President shall begin on March 24, 2023 (the "Start Date") and continue until otherwise determined by the Company Leadership (the "Term").

3. Work Location. Your work location will be Presto's headquarters or your home office in CA (or such other location as designated by the Company from time to time), subject to required business travel.

4. Base Salary; Expenses. You will receive a base salary ("Base Salary") at the rate of $**350,000** per annum (less applicable tax withholdings and authorized deductions), payable in accordance with the Company's regular payroll practices. Your position is classified as exempt and, therefore, you are not eligible to receive payment for overtime. You will be reimbursed for reasonable business expenses actually incurred by you in connection with your employment in accordance with the Company's expense reimbursement policies.

5. Discretionary Bonus.

a. You are eligible to receive a discretionary bonus (the "Bonus") of seventy-seven percent (77%) of your Base Salary for the period from the Start Date through the end of Presto's current fiscal year, June 30, 2023, (the "Initial Term"). 100% of the Bonus, if paid, would equal $67,500 on a pro-rated basis for the Initial Term. The amount of the Bonus awarded to you shall be determined by the Company Leadership in its sole discretion based upon targets mutually agreed upon by you and the Company Leadership.

b. Any such Bonus shall be payable (less applicable tax withholdings and authorized deductions) to you within thirty (30) days of the end of the Initial Term, provided that you must be employed on the bonus payment date to receive any such Bonus. You will not, however, receive any such bonus (or any pro-rated portion thereof) if you have resigned (or provided notice thereof) or been terminated for any reason by the Company (or received notice thereof) prior to the date that the Company pays such bonuses, if any, to its employees.

6. Equity. You will also receive three hundred thousand (**300,000)** Restricted Stock Units (RSUs) (the "Equity Grant") as of the Start Date in consideration of your position as President, according to the Company-wide vesting schedule of four (4) years and in accordance with the terms of the 2022 Equity Incentive Plan ("RSU Form") which is incorporated herein by reference. The Vesting Commencement Date shall be the Start Date and the vesting will be quarterly. This Equity Grant is payable (less applicable tax withholdings and authorized deductions) to you as long as you are serving as the Company's President.

7. Conditions of Employment. During the period of your employment, you shall adhere to all requests and directives, written or verbal, of the Company Leadership with respect to the Company's strategic or operational direction. You shall consult the Company Leadership prior to taking material actions that affect key Company strategy, operations, and other matters, and allow the Company Leadership to deliberate and evaluate such matters in a timely manner. Should there be a question of what is "material", you shall deem that the matter in question is material and consult with the Company Leadership.

8. Benefits. Because you are already a Company employee, you will continue to participate in the benefit plans offered by the Company, including a group health insurance plan, subject to the terms and conditions of the applicable plan documents (including any eligibility and vesting requirements). Such plans may be amended or terminated, in whole or in part, at any time in the sole discretion of the Company.

9. Paid Time Off. You will be eligible for paid time off days each calendar year (pro-rated for any partial calendar years of employment), in accordance with the Company's paid time off policies.

10. At-Will Employment. Your employment is on an "at-will" basis and may be terminated by either you or the Company at any time, with or without Cause and with or without notice. Nothing herein is intended to alter the at-will status of your employment.

11. Termination/Severance. In the event that you are terminated without Cause or you resign due to a material adverse change in the nature or status of your responsibilities and duties as set forth herein except with respect to any corporate action initiated or recommended by you (the date of either such termination shall be the "Termination Date"), you shall receive, as severance, (i) six (6) months of your Base Salary paid in accordance with the Company's regular payroll schedule and (ii) your Bonus, pro-rated to the Termination Date (with (i), "Severance"). In addition, your granted but unvested Equity Grant shall continue to vest, in accordance with the schedule set forth herein, for four months following

the Termination Date. Lastly, following the Termination Date, you shall be eligible for Company-wide benefits in accordance with Company policy and applicable law. For the purposes of this agreement, "Cause" shall be defined as:

a. the willful and material breach by you of any provision of this Agreement or any other written agreement between you and the Company, which breach continues without the cure thereof (if capable of being cured) by you for a period of thirty (30) days following written notice thereof from the Company to you; identifying in reasonable detail the alleged breach;

b. the fraudulent or criminal conduct by you and/or your conviction of or plea of guilty or nolo contendere with respect to felonious criminal conduct;

c. any breach of your fiduciary duties to the Company or any unauthorized disclosure of any material Confidential Information as defined herein;

d. your chronic alcoholism or chronic unlawful drug use, or your repeated commission of any acts involving moral turpitude, which, in each case, interferes with your performance as a senior executive of the Company or has a material adverse effect on your reputation of or on the Company or on the products or trademarks of the Company; or

e. the commission by you of any willful, reckless, or grossly negligent act or failure to act in connection with the performance of your duties to the Company or any commission by you of any material act of dishonesty or fraudulent behavior, that, in each case, materially interferes with your performance as a senior executive of the Company or has a material adverse effect on your reputation or on the Company or on the products or trademarks of the Company that, if curable, continues without the satisfactory cure thereof by you for a period of thirty (30) days following written notice thereof from the Company to you, identifying in reasonable detail the alleged facts giving rise to Cause.

12. Confidential Information. During and as a result of your employment, you will have access to or become familiar with or develop information, contained in any medium and whether or not in writing, of a confidential or proprietary nature (regardless of whether it is marked as such) that pertains to the actual or prospective business, financial affairs or operations of the Company to which you have any duties or responsibilities or about which you obtain confidential information, whether having existed, now existing or created during your employment and that is not publicly-available or known to its and their respective competitors (collectively, "Confidential Information"). Such Confidential Information includes, but is not limited to, (a) information relating to the Company's business, operations, customers, clients, suppliers and vendors, including, but not limited to, information received from third parties under confidential conditions, business plans, customer lists, customer files, pricing, products and services offered or in development, strategic direction, marketing strategies and plans, software, technologies, systems designs, procedures, formulas, processes, research, financial data and results of operations; and (b) other know-how, ideas, inventions, discoveries, techniques, concepts, trade secrets, and methodologies and technical, business, or financial information relating to the business of the Company. You acknowledge that the Confidential Information is, among other things, not readily available to the public, extremely valuable to the Company's operations, and the Company has expended great effort and significant funds in developing, and maintaining the confidentiality of, the Confidential Information. Without limiting any other confidentiality obligations you may owe to the Company, you agree to treat and preserve all Confidential Information as strictly confidential and not to disclose any Confidential Information, directly or indirectly, or use it in any way or for any purpose, either during your employment with the Company or any time thereafter, except as required in the course of your employment for the Company, unless and until (a) such Confidential Information has

become publicly-available other than through your breach of any confidentiality obligations or through a third party's breach of confidentiality obligations owed to the Company or (b) you are required by law or regulation or legally compelled by court order or legal process (provided that, in such cases, to the extent permitted by law, you must provide prompt notice to the Company prior to responding to such court order or legal process and cooperate with the Company if it elects to contest such court order or legal processor or to obtain a protective order or to otherwise restrict such disclosure, and you only disclose Confidential Information to the minimum extent necessary to comply with any such law, regulation or order). You further agree not to copy or record or allow to be copied or recorded any such Confidential Information, except as required in the course of your employment.

(b) Notwithstanding anything to the contrary in this Section 11, you are not prohibited from reporting possible unlawful conduct to governmental agencies or entities or, if applicable, self-regulatory organizations, or otherwise cooperating or communicating with any such agencies, entities or organizations that may be investigating possible unlawful conduct (including providing documents or other information without notice to the Company).

13. Return of Property. You agree to deliver promptly to the Company upon the termination of your employment for any reason or at any time upon the Company's request all documents, materials and computer media in any form (and all copies thereof) belonging to the Company or containing Confidential Information and all property of the Company.

14. Policies. You will be subject to all policies and procedures as currently in effect for the Company's employees and as may be established and/or amended from time to time, including but not limited to, all terms and conditions in any employee handbook applicable to the Company's employees.

15. Governing Law; Severability. This offer letter is governed by and construed in accordance with the laws of the State of California, without regard to its conflicts of laws principles. The Company and you hereby irrevocably and unconditionally agree that the exclusive jurisdiction for any disputes arising out of or relating to this offer letter or your employment with the Company shall be the state and federal courts located within the State of California. With respect to any order or judgment obtained in accordance with the immediately preceding sentence, any party may enforce such order or judgment in any court having personal jurisdiction over the party against whom the order or judgment will be enforced. If any provision of this offer letter is determined by a court of competent jurisdiction not to be enforceable in the manner set forth herein, the Company and you agree that such provision shall be modified to make it enforceable to the maximum extent possible under applicable law. If any provision of this offer letter is declared invalid, illegal or unenforceable for any reason in any jurisdiction and cannot be modified to be enforceable, such provision shall immediately become null and void leaving the remainder of this offer letter in full force and effect.

16. Successors and Assigns. This offer letter shall bind and inure to the benefit of and be enforceable by the Company and its successors and assigns and you and your heirs, executors, administrators, and successors; provided that the services provided by you are of a personal nature and you cannot sell, convey, assign, delegate, transfer or otherwise dispose of, directly or indirectly, any of your rights, or obligations under this Agreement (and any such purported action by you shall be null and void); provided further that the Company may assign this offer letter to, and all rights hereunder shall inure to the benefit of, any subsidiary or affiliate of the Company or any person, firm or corporation resulting from the reorganization of the Company or succeeding to the business or assets of the Company by purchase, merger, consolidation or otherwise.

17. Entire Agreement; No Reliance; Modification. You acknowledge that you have not relied on any oral or written promises, representations or understandings other than those explicitly stated in this offer letter, that this offer letter constitutes the entire understanding of the parties regarding the subject matter hereof, and that this offer letter supersedes all prior or contemporaneous oral or written promises, representations or understandings regarding your employment with the Company. This offer letter cannot be modified except in a writing (other than an email) signed by an authorized member of the Company Leadership (other than yourself).

18. Counterparts; Original. This offer letter may be executed in counterparts, each of which will be deemed an original, but all of which will be deemed one and the same instrument. Any facsimile or pdf copy (or electronic signature) of any party's executed counterpart of this offer letter will be deemed to be an executed original thereof.

19. Work Status. This offer of employment (and continued employment) is contingent upon your maintaining authorization to be employed in the United States commensurate with the business needs of the Company.

20. Conflict of Interest. By signing below, you represent that you are not bound by the terms of any agreement with any person or entity which restricts in any way the performance of your expected job duties with the Company.

21. Acceptance. This offer will remain valid until April 12, 2023. If you accept our offer, please sign the enclosed copy of this letter in the space indicated and return it to the Company. Your signature will acknowledge that you have read and understood and agreed to the terms and conditions of this offer letter. Should you have anything else that you wish to discuss, please do not hesitate to reach out to Human Resources at hr@presto.com.

*Signatures on the next page*

The parties hereto have executed this Agreement as of the Effective Date.

| **PRESTO AUTOMATION INC.** | **DANIEL MOSHER** |
|---|---|
| By: __/s/ Krishna Gupta_ ___________ | By: _/s/ Daniel Mosher_____________ |
| Name: Krishna Gupta | Name: Daniel Mosher |
| Title: Interim Chief Executive Officer | Title: Chief Revenue Officer |
| Date: _______________________________ | Date: _______________________________ |

Presto Automation Inc.

985 Industrial Road
San Carlos, CA 94720

April 25, 2023

Xavier Casanova
13036 Houston Court
Saratoga, CA 95070

**Re:** Offer of Employment

Dear Xavier,

We are delighted that you have been promoted to Chief Operating Officer of Presto Automation Inc., a Delaware corporation, including any subsidiaries or affiliates (the "Company"), on the following terms and conditions:

1. Title; Function; Duties:

   a. Your title during the Term shall be Chief Operating Officer (COO). You will have duties and responsibilities appropriate to this position, as well as other duties and responsibilities as may be assigned from time to time by the Company by (i) the CEO or the Interim CEO, as the case may be and (ii) the Board of Directors of the Company (the "Board" and, together with the CEO or the Interim CEO, "Company Leadership"). You shall serve the Company faithfully and to the best of your ability and shall devote your full time, energy, experience and talents to the business of the Company; provided, however, that you may manage your personal investments or to engage in or serve such civic, community, charitable, educational, or religious organizations as you may select, so long as such service does not create a conflict of interest with, or interfere with the performance of, your duties hereunder or conflict with any of your other obligations to the Company.

   b. You shall report directly to the CEO or the Interim CEO, as the case may be and have a dotted reporting relationship to the Board.

2. Start Date: The term of your employment as COO shall begin on March 24, 2023 (the "Start Date") and continue until otherwise determined by the Company Leadership (the "Term").

3. Work Location: Your work location will be Presto's headquarters or your home office in CA (or such other location as designated by the Company from time to time), subject to required business travel.

4. Base Salary; Expenses: You will receive a base salary ("Base Salary") at the rate of 340,000 per annum (less applicable tax withholdings and authorized deductions), payable in accordance with the Company's regular payroll practices. Your position is classified as exempt and, therefore, you are not eligible to receive payment for overtime. You will be reimbursed for reasonable business expenses actually incurred by you in connection with your employment in accordance with the Company's expense reimbursement policies.

5. Discretionary Bonus:

a. You are eligible to receive a discretionary bonus (the "Bonus") of fifty percent (50%) of your Base Salary for the period from the Start Date through the end of Presto's current fiscal year, June 30, 2023 (the "Initial Term"). 100% of the Bonus, if paid, would equal **$40,650** on a pro-rated basis for the Initial Term.

The amount of the Bonus awarded to you shall be determined by the Company Leadership in its sole discretion based upon targets mutually agreed upon by you and the Company Leadership. The Bonus shall be reviewed by Company Leadership annually but, in no event, shall your Bonus be less than 50% of your annual Base Salary.

b. Any such Bonus shall be payable (less applicable tax withholdings and authorized deductions) to you within thirty (30) days of the end of the Initial Term or subsequent Terms provided that you must be employed on the bonus payment date to receive any such Bonus. You will not, however, receive any such bonus (or any pro-rated portion thereof) if you have resigned (or provided notice thereof) or been terminated for any reason by the Company (or received notice thereof) prior to the date that the Company pays such bonuses, if any, to its employees.

c. You shall receive a bonus of $68,210 (the "CPO Bonus") upon the execution of this letter, such bonus which was due under your offer letter dated July 15, 2022 (the "July Offer Letter") for your prior position of Chief Product Officer since it has not been paid to you to date. The CPO Bonus is the pro-rated amount of the $100,000 bonus set forth in the July Offer Letter, covering the period from July 18 ,2022 until March 24, 2023.

6. Equity: You will also receive 140,000 Restricted Stock Units (RSUs) (the "Equity Grant") as of the Start Date in consideration of your position as COO, according to the Company-wide vesting schedule of four (4) years and in accordance with the terms of the 2022 Equity Incentive Plan ("RSU Form") which is incorporated herein by reference. The Vesting Commencement Date shall be the Start Date. This Equity Grant is payable (less applicable tax withholdings and authorized deductions) to you as long as you are serving as the Company's COO.

7. Conditions of Employment. During the period of your employment, you shall adhere to all requests and directives, written or verbal, of the Company Leadership with respect to the Company's strategic or operational direction. You shall consult the Company Leadership prior to taking material actions that affect key Company strategy, operations, and other matters, and allow the Company Leadership to deliberate and evaluate such matters in a timely manner. Should there be a question of what is "material", you shall deem that the matter in question is material and consult with the Company Leadership.

8. Benefits: Because you are already a Company employee, you will continue to participate in the benefit plans offered by the Company, including a group health insurance plan, subject to the terms and conditions of the applicable plan documents (including any eligibility and vesting requirements). Such plans may be amended or terminated, in whole or in part, at any time in the sole discretion of the Company.

9. Paid Time Off: You will be eligible for paid time off days each calendar year (pro-rated for any partial calendar years of employment), in accordance with the Company's paid time off policies.

10. At-Will Employment: Your employment, however, is on an "at will" basis and may be terminated by either you or the Company at any time, with or without cause and with or without notice. Nothing herein is intended to alter the at will status of your employment.

11. Termination/Severance. In the event that you are terminated without Cause or you resign due to a material adverse change in the nature or status of your responsibilities and duties as set forth herein except with respect to any corporate action initiated or recommended by you (the date of either such termination shall be the "Termination Date"), you shall receive, as severance, (i) six (6) months of your Base Salary paid in accordance with the Company's regular payroll schedule and (ii) your Bonus, pro-rated to the Termination Date (with (i), "Severance"). In addition, your granted but unvested Equity Grant shall continue to vest, in accordance with the schedule set forth herein, for four months following the Termination Date. Lastly, following the Termination Date, you shall be eligible for Company-wide benefits in accordance with Company policy and applicable law.

For the purposes of this agreement, "Cause" shall be defined as:

a. the willful and material breach by you of any provision of this Agreement or any other written agreement between you and the Company, which breach continues without the cure thereof (if capable of being cured) by you for a period of thirty (30) days following written notice thereof from the Company to you; identifying in reasonable detail the alleged breach;

b. the fraudulent or criminal conduct by you and/or your conviction of or plea of guilty or nolo contendere with respect to felonious criminal conduct;

c. any breach of your fiduciary duties to the Company or any unauthorized disclosure of any material Confidential Information as defined herein;

d. your chronic alcoholism or chronic unlawful drug use, or your repeated commission of any acts involving moral turpitude, which, in each case, interferes with your performance as a senior executive of the Company or has a material adverse effect on your reputation of or on the Company or on the products or trademarks of the Company; or

e. the commission by you of any willful, reckless, or grossly negligent act or failure to act in connection with the performance of your duties to the Company or any commission by you of any material act of dishonesty or fraudulent behavior, that, in each case, materially interferes with your performance as a senior executive of the Company or has a material adverse effect on your reputation or on the Company or on the products or trademarks of the Company that, if curable, continues without the satisfactory cure thereof by you for a period of thirty (30) days following written notice thereof from the Company to you, identifying in reasonable detail the alleged facts giving rise to Cause.

12. Confidential Information: During and as a result of your employment, you will have access to or become familiar with or develop information, contained in any medium and whether or not in writing, of a confidential or proprietary nature (regardless of whether it is marked as such) that pertains to the actual or prospective business, financial affairs or operations of the Company to which you have any duties or responsibilities or about which you obtain confidential information, whether having existed, now existing or created during your employment and that is not publicly-available or known to its and their respective competitors (collectively, "Confidential Information"). Such Confidential Information includes, but is not limited to, (a) information relating to the Company's business, operations, customers, clients, suppliers and vendors, including, but not limited to, information received from third parties under confidential conditions, business plans, customer lists, customer files, pricing, products and services offered or in development, strategic direction, marketing strategies and plans, software, technologies, systems designs, procedures, formulas, processes, research, financial data and results of operations; and (b) other know-how, ideas, inventions, discoveries, techniques, concepts, trade secrets, and methodologies and technical, business, or financial information relating to the business of the Company. You acknowledge that the Confidential Information is, among other things, not readily

available to the public, extremely valuable to the Company's operations, and the Company has expended great effort and significant funds in developing, and maintaining the confidentiality of, the Confidential Information. Without limiting any other confidentiality obligations you may owe to the Company, you agree to treat and preserve all Confidential Information as strictly confidential and not to disclose any Confidential Information, directly or indirectly, or use it in any way or for any purpose, either during your employment with the Company or any time thereafter, except as required in the course of your employment for the Company, unless and until (a) such Confidential Information has become publicly-available other than through your breach of any confidentiality obligations or through a third party's breach of confidentiality obligations owed to the Company or (b) you are required by law or regulation or legally compelled by court order or legal process (provided that, in such cases, to the extent permitted by law, you must provide prompt notice to the Company prior to responding to such court order or legal process and cooperate with the Company if it elects to contest such court order or legal processor or to obtain a protective order or to otherwise restrict such disclosure, and you only disclose Confidential Information to the minimum extent necessary to comply with any such law, regulation or order). You further agree not to copy or record or allow to be copied or recorded any such Confidential Information, except as required in the course of your employment.

(b) Notwithstanding anything to the contrary in this Section 11, you are not prohibited from reporting possible unlawful conduct to governmental agencies or entities or, if applicable, self-regulatory organizations, or otherwise cooperating or communicating with any such agencies, entities or organizations that may be investigating possible unlawful conduct (including providing documents or other information without notice to the Company).

13. Return of Property: You agree to deliver promptly to the Company upon the termination of your employment for any reason or at any time upon the Company's request all documents, materials and computer media in any form (and all copies thereof) belonging to the Company or containing Confidential Information and all property of the Company.

14. Policies: You will be subject to all policies and procedures as currently in effect for the Company's employees and as may be established and/or amended from time to time, including but not limited to, all terms and conditions in any employee handbook applicable to the Company's employees.

15. Governing Law; Severability. This offer letter is governed by and construed in accordance with the laws of the State of California, without regard to its conflicts of laws principles. The Company and you hereby irrevocably and unconditionally agree that the exclusive jurisdiction for any disputes arising out of or relating to this offer letter or your employment with the Company shall be the state and federal courts located within the State of California. With respect to any order or judgment obtained in accordance with the immediately preceding sentence, any party may enforce such order or judgment in any court having personal jurisdiction over the party against whom the order or judgment will be enforced. If any provision of this offer letter is determined by a court of competent jurisdiction not to be enforceable in the manner set forth herein, the Company and you agree that such provision shall be modified to make it enforceable to the maximum extent possible under applicable law. If any provision of this offer letter is declared invalid, illegal or unenforceable for any reason in any jurisdiction and cannot be modified to be enforceable, such provision shall immediately become null and void leaving the remainder of this offer letter in full force and effect.

16. Successors and Assigns. This offer letter shall bind and inure to the benefit of and be enforceable by the Company and its successors and assigns and you and your heirs, executors, administrators, and successors; provided that the services provided by you are of a personal nature and you cannot sell, convey, assign, delegate, transfer or otherwise dispose of, directly or indirectly, any of your rights, or

obligations under this Agreement (and any such purported action by you shall be null and void); provided further that the Company may assign this offer letter to, and all rights hereunder shall inure to the benefit of, any subsidiary or affiliate of the Company or any person, firm or corporation resulting from the reorganization of the Company or succeeding to the business or assets of the Company by purchase, merger, consolidation or otherwise.

17. Entire Agreement; No Reliance; Modification. You acknowledge that you have not relied on any oral or written promises, representations or understandings other than those explicitly stated in this offer letter, that this offer letter constitutes the entire understanding of the parties regarding the subject matter hereof, and that this offer letter supersedes all prior or contemporaneous oral or written promises, representations or understandings regarding your employment with the Company. This offer letter cannot be modified except in a writing (other than an email) signed by an authorized member of the Company Leadership (other than yourself).

18. Counterparts; Original. This offer letter may be executed in counterparts, each of which will be deemed an original, but all of which will be deemed one and the same instrument. Any facsimile or pdf copy (or electronic signature) of any party's executed counterpart of this offer letter will be deemed to be an executed original thereof.

19. Work Status. This offer of employment (and continued employment) is contingent upon your maintaining authorization to be employed in the United States commensurate with the business needs of the Company.

20. Conflict of Interest. By signing below, you represent that you are not bound by the terms of any agreement with any person or entity which restricts in any way the performance of your expected job duties with the Company.

21. Acceptance. This offer will remain valid until April 13, 2023. If you accept our offer, please sign the enclosed copy of this letter in the space indicated and return it to the Company. Your signature will acknowledge that you have read and understood and agreed to the terms and conditions of this offer letter. Should you have anything else that you wish to discuss, please do not hesitate to reach out to Human Resources at hr@presto.com.

*Signatures on the next page*

The parties hereto have executed this Agreement as of the Effective Date.

| | |
|---|---|
| **PRESTO AUTOMATION INC.** | **XAVIER CASANOVA** |
| By: _/s/ Krishna Gupta_______________ | By: /s/ Xavier Casanova_________ |
| Name: Krishna Gupta | Name: Xavier Casanova |
| Title: Interim CEO | Title: Chief Product Officer |
| Date: _________________________________ | Date: _________________________________ |

**Exhibit 31.1**

**Certification of Principal Executive Officer**
**Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a)**
**Under the Securities Exchange Act of 1934, as Amended**

**as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Krishna Gupta, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended March 31, 2023 of Presto Automation Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 19, 2023

/s/ Krishna Gupta
Krishna Gupta
Interim Chief Executive Officer
(Principal Executive Officer)

**Exhibit 31.2**

**Certification of Principal Financial Officer**
**Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a)**
**Under the Securities Exchange Act of 1934, as Amended**

**as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Ashish Gupta, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended March 31, 2023 of Presto Automation Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May19, 2023

/s/ Ashish Gupta
Ashish Gupta
Principal Financial Officer
(Principal Financial Officer and Accounting Officer)

**Exhibit 32.1**

**Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350**
**as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Krishna Gupta, Interim Chief Executive Officer of Presto Automation Inc. (the “Company”), hereby certify, that, to my knowledge:

1. the Quarterly Report on Form 10-Q for the quarter ended March 31, 2023 (the “Report”) of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 19, 2023

/s/ Krishna Gupta
Krishna Gupta
Interim Chief Executive Officer
(Principal Executive Officer)

**Exhibit 32.2**

**Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350**
**as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Ashish Gupta, Principal Financial and Accounting Officer of Presto Automation Inc. (the “Company”), hereby certify, that, to my knowledge:

1. the Quarterly Report on Form 10-Q for the quarter ended March 31, 2023 (the “Report”) of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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|---|---|
| Date: May 19, 2023 | /s/ Ashish Gupta |
| | Ashish Gupta<br>Principal Financial Officer<br>(Principal Financial Officer and<br>Accounting Officer) |