

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 June 30, 2022

Remark Holdings

Commission File Number 001-33720

Remark Holdings, Inc.

Delaware
State of Incorporation

33-1135689
IRS Employer Identification Number

800 S. Commerce St.
Las Vegas, NV 89106

Address, including zip code, of principal executive offices

702-701-9514

Registrant's telephone number, including area code

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

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.001 par value per share	MARK	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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

As of August 12, 2022, a total of 105,157,769 shares of our common stock were outstanding.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The matters discussed in this Quarterly Report on Form 10-Q (this “Form 10-Q”) include “forward-looking statements” about the plans, strategies, objectives, goals or expectations of Remark Holdings, Inc. and subsidiaries (“Remark”, “we”, “us”, “our”). You will find forward-looking statements principally in the sections entitled [Risk Factors](#) and [Management’s Discussion and Analysis of Financial Condition and Results of Operations](#). Such forward-looking statements are identifiable by words or phrases indicating that Remark or management “expects,” “anticipates,” “plans,” “believes,” or “estimates,” or that a particular occurrence or event “will,” “may,” “could,” “should,” or “will likely” result, occur or be pursued or “continue” in the future, that the “outlook” or “trend” is toward a particular result or occurrence, that a development is an “opportunity,” “priority,” “strategy,” “focus,” that we are “positioned” for a particular result, or similarly-stated expectations. You should not place undue reliance on these forward-looking statements, which speak only as of the date of this report or such other report, release, presentation, or statement.

In addition to other risks and uncertainties described in connection with the forward-looking statements contained in this report and other periodic reports filed with the Securities and Exchange Commission (“SEC”), there are many important factors that could cause actual results to differ materially. Such risks and uncertainties include general business conditions, changes in overall economic conditions, our ability to integrate acquired assets, the impact of competition and other factors which are often beyond our control.

This should not be construed as a complete list of all of the economic, competitive, governmental, technological and other factors that could adversely affect our expected consolidated financial position, results of operations or liquidity. Additional risks and uncertainties not currently known to us or that we currently believe are immaterial also may impair our business, operations, liquidity, financial condition and prospects. We undertake no obligation to update or revise our forward-looking statements to reflect developments that occur or information that we obtain after the date of this report.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

REMARK HOLDINGS, INC. AND SUBSIDIARIES Condensed Consolidated Balance Sheets (dollars in thousands, except share and per share amounts)

	June 30, 2022	December 31, 2021
	(Unaudited)	
Assets		
Cash	\$ 1,063	\$ 14,187
Trade accounts receivable, net	9,483	10,267
Inventory, net	1,489	1,346
Investment in marketable securities	12,532	42,349
Prepaid expense and other current assets	6,812	6,363
Total current assets	31,379	74,512
Property and equipment, net	1,442	357
Operating lease assets	181	194
Other long-term assets	359	440
Total assets	\$ 33,361	\$ 75,503
Liabilities		
Accounts payable	\$ 8,568	\$ 10,094
Advances from related parties	1,517	—
Accrued expense and other current liabilities	5,665	5,963
Contract liability	415	576
Notes payable, net of unamortized discount and debt issuance cost of \$320 and \$2,189 at June 30, 2022 and December 31, 2021, respectively	23,478	27,811
Total current liabilities	39,643	44,444
Long-term debt	—	—
Operating lease liabilities, long-term	40	25
Total liabilities	39,683	44,469
Commitments and contingencies		
Stockholders' Equity (Deficit)		
Preferred stock, \$0.001 par value; 1,000,000 shares authorized; zero issued	—	—
Common stock, \$0.001 par value; 175,000,000 shares authorized; 105,157,769 shares issued and outstanding at each of June 30, 2022 and December 31, 2021	105	105
Additional paid-in-capital	365,263	364,239
Accumulated other comprehensive loss	(692)	(270)
Accumulated deficit	(370,998)	(333,040)
Total stockholders' equity (deficit)	(6,322)	31,034
Total liabilities and stockholders' equity (deficit)	\$ 33,361	\$ 75,503

See Notes to Unaudited Condensed Consolidated Financial Statements

REMARK HOLDINGS, INC. AND SUBSIDIARIES
Unaudited Condensed Consolidated Statements of Operations and Comprehensive Loss
(dollars in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Revenue, including amounts from China Business Partner (See Note 14)	\$ 2,558	\$ 4,016	\$ 7,225	\$ 8,422
Cost and expense				
Cost of revenue (excluding depreciation and amortization)	1,847	2,252	6,117	5,004
Sales and marketing	188	398	336	1,399
Technology and development	508	1,305	963	2,855
General and administrative	3,933	2,482	7,872	5,179
Depreciation and amortization	37	49	78	115
Total cost and expense	6,513	6,486	15,366	14,552
Operating loss	(3,955)	(2,470)	(8,141)	(6,130)
Other income (expense)				
Interest expense	(1,774)	(380)	(3,960)	(615)
Change in fair value of warrant liability	—	1,322	—	(288)
Loss on investment	(6,952)	—	(26,008)	—
Other gain (loss), net	152	(24)	151	20
Total other income (expense), net	(8,574)	918	(29,817)	(883)
Loss before income taxes	(12,529)	(1,552)	(37,958)	(7,013)
Provision for income taxes	—	(9)	—	(9)
Net loss	\$ (12,529)	\$ (1,561)	\$ (37,958)	\$ (7,022)
Other comprehensive income				
Foreign currency translation adjustments	(424)	13	(422)	55
Comprehensive loss	\$ (12,953)	\$ (1,548)	\$ (38,380)	\$ (6,967)
Weighted-average shares outstanding, basic and diluted	105,157,769	99,917,452	105,157,769	99,838,456
Net loss per share, basic and diluted	\$ (0.12)	\$ (0.02)	\$ (0.36)	\$ (0.07)

See Notes to Unaudited Condensed Consolidated Financial Statements

REMARK HOLDINGS, INC. AND SUBSIDIARIES
 Unaudited Condensed Consolidated Statements of Stockholders' Equity (Deficit)
 (in thousands, except number of shares)

Three Months Ended June 30, 2022						
	Common Stock Shares	Common Stock Par Value	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
Balance at March 31, 2022	105,157,769	\$ 105	\$ 364,753	\$ (268)	\$ (358,469)	6,121
Net loss	—	—	—	—	(12,529)	(12,529)
Share-based compensation	—	—	510	—	—	510
Foreign currency translation	—	—	—	(424)	—	(424)
Balance at June 30, 2022	<u>105,157,769</u>	<u>\$ 105</u>	<u>\$ 365,263</u>	<u>\$ (692)</u>	<u>\$ (370,998)</u>	<u>\$ (6,322)</u>
Three Months Ended June 30, 2021						
	Common Stock Shares	Common Stock Par Value	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
Balance at March 31, 2021	99,916,941	\$ 100	\$ 352,387	\$ (184)	\$ (365,973)	\$ (13,670)
Net loss	—	—	—	—	(1,561)	(1,561)
Share-based compensation	—	—	6	—	—	6
Equity instrument exercises	2,000	—	1	—	—	1
Foreign currency translation	—	—	—	13	—	13
Balance at June 30, 2021	<u>99,918,941</u>	<u>\$ 100</u>	<u>\$ 352,394</u>	<u>\$ (171)</u>	<u>\$ (367,534)</u>	<u>\$ (15,211)</u>
Six Months Ended June 30, 2022						
	Common Stock Shares	Common Stock Par Value	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
Balance at December 31, 2021	105,157,769	\$ 105	\$ 364,239	\$ (270)	\$ (333,040)	\$ 31,034
Net loss	—	—	—	—	(37,958)	(37,958)
Share-based compensation	—	—	1,024	—	—	1,024
Foreign currency translation	—	—	—	(422)	—	(422)
Balance at June 30, 2022	<u>105,157,769</u>	<u>\$ 105</u>	<u>\$ 365,263</u>	<u>\$ (692)</u>	<u>\$ (370,998)</u>	<u>\$ (6,322)</u>
Six Months Ended June 30, 2021						
	Common Stock Shares	Common Stock Par Value	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
Balance at December 31, 2020	99,505,041	\$ 100	\$ 351,546	\$ (226)	\$ (360,512)	\$ (9,092)
Net loss	—	—	—	—	(7,022)	(7,022)
Share-based compensation	—	—	25	—	—	25
Equity instrument exercises	413,900	—	823	—	—	823
Foreign currency translation	—	—	—	55	—	55
Balance at June 30, 2021	<u>99,918,941</u>	<u>\$ 100</u>	<u>\$ 352,394</u>	<u>\$ (171)</u>	<u>\$ (367,534)</u>	<u>\$ (15,211)</u>

See Notes to Unaudited Condensed Consolidated Financial Statements

REMARK HOLDINGS, INC. AND SUBSIDIARIES
Unaudited Condensed Consolidated Statements of Cash Flows
(dollars in thousands)

	Six Months Ended June 30,	
	2022	2021
Cash flows from operating activities:		
Net loss	\$ (37,958)	\$ (7,022)
Adjustments to reconcile net loss to net cash used in operating activities:		
Change in fair value of warrant liability	—	288
Depreciation, amortization and impairments	78	115
Share-based compensation	759	98
Amortization of debt issuance costs and discount	1,870	182
Loss on investment in marketable securities	26,008	—
Loss on disposal of long-lived assets	—	30
Other	(25)	44
Changes in operating assets and liabilities:		
Accounts receivable	221	(2,915)
Inventory	(146)	(1,051)
Prepaid expense and other assets	(601)	672
Operating lease assets	5	162
Accounts payable, accrued expense and other liabilities	(1,169)	2,942
Contract liability	(142)	280
Operating lease liabilities	18	(96)
Net cash used in operating activities	(11,082)	(6,271)
Cash flows from investing activities:		
Proceeds from sale of investment	3,809	—
Purchases of property, equipment and software	(166)	(54)
Payment of amounts capitalized to software in progress	(999)	—
Net cash provided by (used in) investing activities	2,644	(54)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net	—	823
Proceeds from debt issuance	—	4,770
Advances from related parties	1,517	—
Repayments of debt	(6,203)	—
Net cash provided by (used in) financing activities	(4,686)	5,593
Net change in cash	(13,124)	(732)
Cash:		
Beginning of period	14,187	854
End of period	\$ 1,063	\$ 122
Supplemental cash flow information:		
Cash paid for interest	\$ 2,147	\$ —
Supplemental schedule of non-cash investing and financing activities:		
Accrual of debt issuance cost	\$ —	\$ 285
Change in liability for China Cash Bonuses (Note 12)	\$ 265	\$ 74

See Notes to Unaudited Condensed Consolidated Financial Statements

NOTE 1. ORGANIZATION AND BUSINESS

Organization and Business

Remark Holdings, Inc. and its subsidiaries (“Remark”, “we”, “us”, or “our”), and the variable-interest entities (“VIEs”) that Remark consolidates, constitute a diversified global technology business with leading artificial intelligence (“AI”) and data-analytics, as well as a portfolio of digital media properties. The common stock of Remark Holdings, Inc. is listed on the Nasdaq Capital Market under the ticker symbol MARK.

We and the VIEs primarily sell AI-based products and services. We recognize revenue from sales in the U.S., while the VIEs generate substantially all of their revenue from China.

Corporate Structure

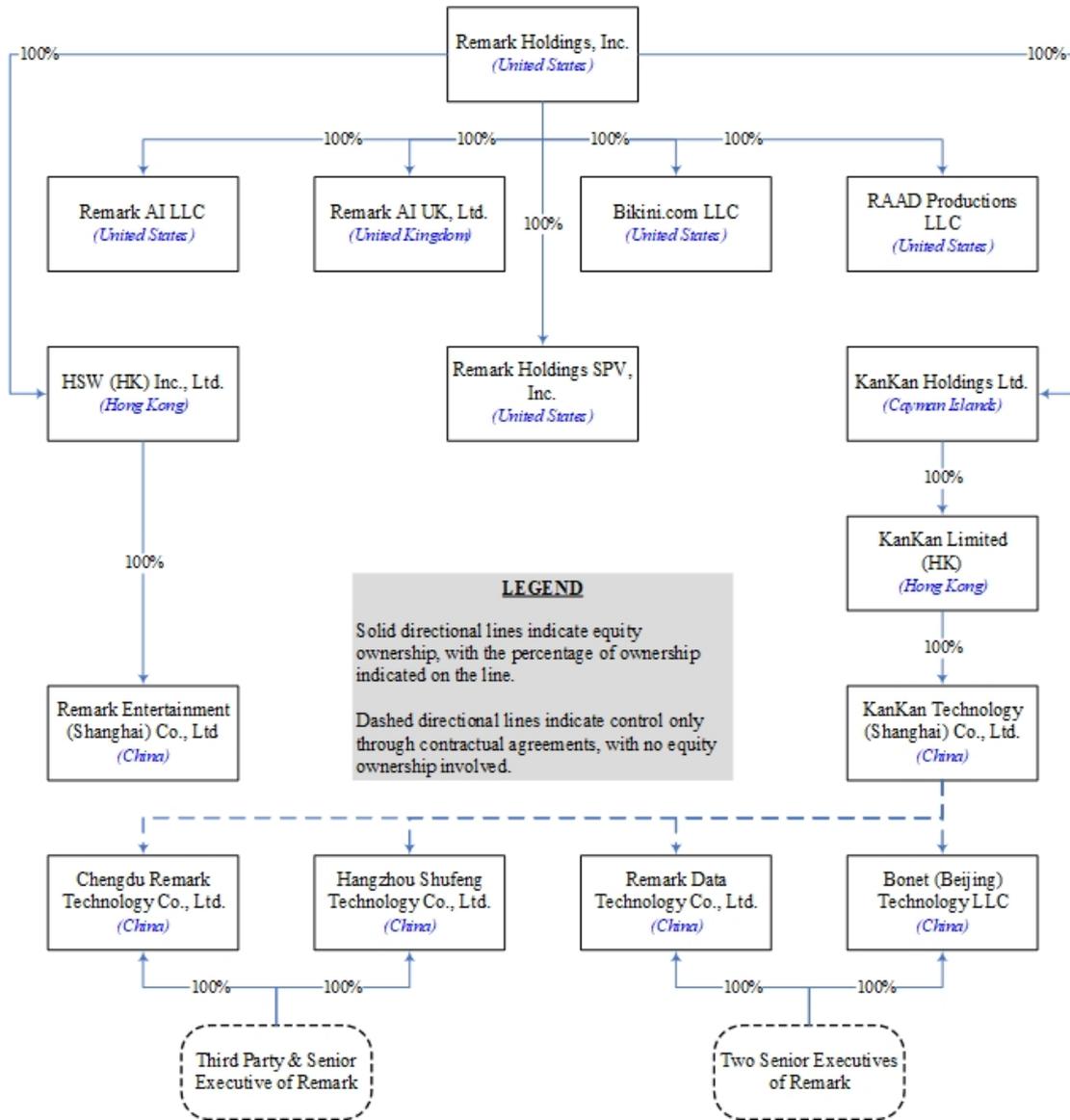
We are a holding company incorporated in Delaware and not a Chinese operating company. As a holding company, we conduct a significant part of our operations through our subsidiaries and through contractual arrangements with the VIEs based in China. We use the VIE structure to address challenges resulting from laws, policies and practices that may disfavor foreign-owned entities that operate within industries deemed sensitive by the Chinese government. We own 100% of the equity of a wholly foreign owned enterprise (“WFOE”), which has entered into contractual arrangements with the VIEs, which are owned by members of our management team in China and/or by third parties.

We fund the registered capital and operating expenses of the VIEs on behalf of the shareholders of the VIEs by making advances to, or on behalf of, the VIEs. We believe that we are the primary beneficiary of the VIEs because the contractual arrangements governing the relationship between the VIEs and our WFOE, which include an exclusive call option agreement, exclusive business cooperation agreement, a proxy agreement and an equity pledge agreement, enable us to (i) exercise effective control over the VIEs, (ii) receive substantially all of the economic benefits of the VIEs, and (iii) have an exclusive call option to purchase, at any time, all or part of the equity interests in and/or assets of the VIEs to the extent permitted by Chinese laws. Because these contractual arrangements with the VIEs provide us with the power to direct the activities of the VIEs, for accounting purposes we are the primary beneficiary of the VIEs and we have consolidated the financial results of the VIEs in our consolidated financial statements in accordance with U.S. generally accepted accounting principles (“GAAP”).

The agreements governing the VIE contractual arrangements have not been tested in a court of law. However, an article published in China Business Law Journal indicated that a China International Economic and Trade Arbitration Commission (“CIETAC”) Shanghai tribunal ruled in 2010 and 2011 in two related cases involving the contractual arrangement of an online game operating company that the contractual arrangement was void on the grounds that such arrangement violated the mandatory administrative regulations prohibiting foreign investors from investing in the online game operation business and constituted “concealing illegal intentions with a lawful form.” According to publicly available information, while the agreements entered into by the parties in the aforementioned CIETAC cases are typical VIE agreements, the PRC domestic company involved in such cases was mainly engaged in online game operation. Although the PRC foreign investment regime restricts or prohibits foreign investment in certain industries, online game operation is one of few industries where there are rules specifically prohibiting foreign investors from controlling and participating in the business indirectly through contractual or technical support arrangements. Though the agreements in the CIETAC cases are similar to our contractual arrangements with the VIEs, we and the VIEs do not operate in the online game operation industry and, to our knowledge, the business conducted by the VIEs is not prohibited from investment from foreign investors in China. We also note that the rulings in the CIETAC cases are not binding on Chinese courts or other arbitration tribunals.

The following diagram illustrates our corporate structure, including our significant subsidiaries, and the relationship between our WFOE and the VIEs as of the date of this Form 10-Q. The diagram omits certain entities which are immaterial to our results of operations and financial condition. Equity interests depicted in this diagram are 100% owned. The relationships between each of Chengdu Remark Technology Co., Ltd., Hangzhou Shufeng Technology Co., Ltd., Remark Data Technology Co., Ltd. and Bonet (Beijing) Technology LLC, which constitute the VIEs, on the one hand, and KanKan Technology (Shanghai) Co., Ltd., our WFOE, on the other hand, as illustrated in the following diagram are governed by contractual arrangements and do not constitute equity ownership.

REMARK HOLDINGS, INC. AND SUBSIDIARIES
Entity Organizational Chart



Because we do not directly hold equity interests in the VIEs, we are subject to risks and uncertainties of the interpretations and applications of Chinese laws and regulations, including but not limited to, the validity and enforcement of the contractual arrangements among the WFOE, the VIEs and the shareholders of the VIEs. We are also subject to the risks and uncertainties about any future actions of the Chinese government in this regard that could disallow the VIE structure, which would likely result in a material change in our operations and may cause the value of our common stock to depreciate significantly or become worthless.

The contractual arrangements may not be as effective as direct ownership in providing operational control and we face contractual exposure in such arrangements. For instance, the VIEs and their shareholders could breach their contractual arrangements with us by, among other things, failing to conduct their operations in an acceptable manner or taking other actions that are detrimental to our interests. The shareholders of the VIEs may not act in the best interests of our Company or may not perform their obligations under these contracts. Such risks exist throughout the period in which we intend to operate certain portions of our business through the contractual arrangements with the VIEs. In the event that the VIEs or their shareholders fail to perform their respective obligations under the contractual arrangements, we may have to incur substantial costs and expend additional resources to enforce such arrangements. In addition, even if legal actions are taken to enforce such arrangements, there is uncertainty as to whether Chinese courts would recognize or enforce judgments of U.S. courts against us or such persons predicated upon the civil liability provisions of the securities laws of the United States or any state.

Risks of Doing Business in China

We are subject to certain legal and operational risks associated with having a significant portion of our operations in China. Chinese laws and regulations governing our current business operations, including the enforcement of such laws and regulations, are sometimes vague and uncertain and can change quickly with little advance notice. The Chinese government may intervene or influence our operations and the operations of the VIEs at any time and may exert more control over offerings conducted overseas and/or foreign investment in China-based issuers, which could result in a material change in our operations and/or the value of our securities. In addition, any actions by the Chinese government to exert more oversight and control over offerings that are conducted overseas and/or foreign investment in China-based issuers could significantly limit or completely hinder our ability to offer or continue to offer our securities to investors and cause the value of such securities to significantly decline or become worthless. Recently, the Chinese government adopted a series of regulatory actions and issued statements to regulate business operations in China, including those related to the use of variable interest entities, data security and anti-monopoly concerns. As of the date of this Form 10-Q, neither we nor the VIEs have been involved in any investigations on cybersecurity review initiated by any Chinese regulatory authority, nor has any of them received any inquiry, notice or sanction. As of the date of this Form 10-Q, no relevant laws or regulations in China explicitly require us to seek approval from the China Securities Regulatory Commission (the “CSRC”) for any securities listing. As of the date of this Form 10-Q, neither we nor the VIEs have received any inquiry, notice, warning or sanctions regarding our planned overseas listing from the CSRC or any other Chinese governmental authorities relating to securities listings. However, since these statements and regulatory actions are newly published, official guidance and related implementation rules have not been issued. It is highly uncertain what potential impact such modified or new laws and regulations will have on our ability to conduct our business, accept investments or list or maintain a listing on a U.S. or foreign exchange.

As of the date of this Form 10-Q, we and the VIEs are not required to seek permissions from the CSRC, the Cyberspace Administration of China (the “CAC”), or any other entity that is required to approve of the operations of the VIEs. Nevertheless, Chinese regulatory authorities may in the future promulgate laws, regulations or implement rules that require us, our subsidiaries or the VIEs to obtain permissions from such regulatory authorities to approve the operations of the VIEs or any securities listing.

Holding Foreign Companies Accountable Act

The Holding Foreign Companies Accountable Act (the “HFCA Act”) was enacted on December 18, 2020. The HFCA Act states if the Securities and Exchange Commission (the “SEC”) determines that a company has filed audit reports issued by a registered public accounting firm that has not been subject to inspection by the Public Company Accounting Oversight Board (the “PCAOB”) for three consecutive years beginning in 2021, the SEC shall prohibit such shares from being traded on a national securities exchange or in the over the counter trading market in the United States. On June 22, 2021, the U.S. Senate passed a bill which, if passed by the U.S. House of Representatives and signed into law, would reduce the number of consecutive non-inspection years required for triggering the prohibitions under the HFCA Act from three years to two. On December 2, 2021, the SEC adopted amendments to finalize rules implementing the submission and disclosure requirements in the HFCA Act. The rules apply to registrants that the SEC identifies as having filed an annual report with an audit report issued by a registered public accounting firm that is located in a foreign jurisdiction and that the PCAOB is unable to inspect or investigate completely because of a position taken by an authority in a foreign jurisdiction. On December 16, 2021, the PCAOB issued a report on its determination that it is unable to inspect or investigate completely PCAOB-registered public accounting firms headquartered in China and in Hong Kong because of positions taken by Chinese and Hong Kong authorities in those jurisdictions. The PCAOB has made such determination as mandated under the HFCA Act. Pursuant to each annual

determination by the PCAOB, the SEC will, on an annual basis, identify issuers that have used non-inspected audit firms and thus are at risk of such suspensions in the future.

Our auditor, Weinberg & Company, an independent registered public accounting firm headquartered in the United States, is not subject to the determinations announced by the PCAOB on December 16, 2021. Our auditor is currently subject to PCAOB inspections and has been inspected by the PCAOB on a regular basis. However, if the PCAOB is unable to inspect the work papers of our accounting firm in the future, such lack of inspection could cause trading in our common stock to be prohibited under the HFCA Act, and as a result, an exchange may determine to delist our common stock. The delisting and the cessation of trading of our common stock, or the threat of our common stock being delisted and prohibited from being traded, may materially and adversely affect the value of your investment. See “Risk Factors—Risks Relating to Doing Business in China—Trading in our securities may be prohibited under the Holding Foreign Companies Accountable Act if the PCAOB determines that it cannot inspect or fully investigate our auditors, and as a result, Nasdaq may determine to delist our securities.”

Transfer of Cash or Assets

Dividend Distributions

As of the date of this Form 10-Q, none of our subsidiaries or any of the consolidated VIEs have made any dividends or distributions to us.

We have never declared or paid dividends or distributions on our common equity. We currently intend to retain all available funds and any future consolidated earnings to fund our operations and continue the development and growth of our business; therefore, we do not anticipate paying any cash dividends.

Under Delaware law, a Delaware corporation’s ability to pay cash dividends on its capital stock requires the corporation to have either net profits or positive net assets (total assets less total liabilities) over its capital. If we determine to pay dividends on any of our common stock in the future, as a holding company, we may rely on dividends and other distributions on equity from our WFOE for cash requirements, including the funds necessary to pay dividends and other cash contributions to our stockholders.

Our WFOE’s ability to distribute dividends is based upon its distributable earnings. Current Chinese regulations permit our WFOE to pay dividends to their shareholders only out of its registered capital amount, if any, as determined in accordance with Chinese accounting standards and regulations, and then only after meeting the statutory reserve equal to 50% of registered capital. If our WFOE incurs debt in the future, the instruments governing the debt may restrict its ability to pay dividends or make other payments to us. Any limitation on the ability of our WFOE to distribute dividends or other payments to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses, pay dividends or otherwise fund and conduct our business. In addition, any cash dividends or distributions of assets by our WFOE to its stockholder are subject to a Chinese withholding tax of as much as 10%.

The Chinese government also imposes controls on the conversion of RMB into foreign currencies and the remittance of currencies out of China. Therefore, we may experience difficulties in completing the administrative procedures necessary to obtain and remit foreign currency for the payment of dividends from our profits, if any. If we are unable to receive all of the revenues from our operations through the current VIE contractual arrangements, we may be unable to pay dividends on our common stock.

For us to pay dividends to our stockholders, we will rely on payments made from the VIEs to our WFOE in accordance with the VIE contractual arrangements, and the distribution of payments from the WFOE to the Delaware holding company as dividends. Certain payments from the VIEs to the WFOE pursuant to the VIE contractual arrangements are subject to Chinese taxes, including a 6% VAT and 25% enterprise income tax.

Our Company's Ability to Settle Amounts Owed under the VIE Contractual Arrangements

Under the VIE contractual arrangements, the VIEs are obligated to make payments to our WFOE, in cash or in kind, at the WFOE's request. We will be able to settle amounts owed under the VIE contractual arrangements through dividends paid by our WFOE to our Company. Such ability may be restricted or limited as follows:

First, any payments from the VIEs to our WFOE are subject to Chinese taxes, including a 6% VAT and 25% enterprise income tax.

Second, current Chinese regulations permit our WFOE to pay dividends to their shareholders only out of its registered capital amount, if any, as determined in accordance with Chinese accounting standards and regulations, and then only after meeting the statutory reserve equal to 50% of registered capital. In addition, if our WFOE incurs debt in the future, the instruments governing the debt may restrict its ability to pay dividends or make other payments to the Delaware holding company.

Third, the Chinese government also imposes controls on the conversion of RMB into foreign currencies and the remittance of currencies out of China. Therefore, we may experience difficulties in completing the administrative procedures necessary to obtain and remit foreign currency for the payment of dividends from profits, if any.

COVID-19

Our consolidated financial statements for the six months ended June 30, 2022 were impacted by the effects of the COVID-19 pandemic. The response to the COVID-19 pandemic will likely continue to adversely affect our business and financial results, as could economic and geopolitical conditions in some international regions, and we do not yet know what will be the ultimate effects on our business. The COVID-19 pandemic caused a broad shift towards remote working arrangements for many businesses worldwide and injected uncertainty and delay into decision-making processes for such businesses. Varying degrees of preventative measures are still in place in China and other parts of the world, including city-wide lockdowns, travel restrictions, closures of non-essential businesses and other quarantine measures. In particular, the preventative measures in China as a result of the Chinese government's "Zero-COVID" policy have significantly limited the operational capabilities of the VIEs. Many cities across large swaths of China have recently been fully or partially locked down for weeks or even months, including economically significant regions such as Shanghai. Such lockdowns have had a material adverse impact on our business and we expect them to continue to have a material adverse impact on our business at least through the third quarter of 2022.

The full extent of the impact of the pandemic on our business and financial results will depend largely on future developments, including resurgences and further spread of existing or new COVID-19 variants, the duration of any remaining preventative measures implemented by domestic and foreign governments, the impact on capital and financial markets and the related impact on the financial circumstances of our customers, all of which are highly uncertain and cannot be predicted. The pandemic-related situation continues to change rapidly, and additional impacts of which we are not currently aware may arise. We are closely monitoring worldwide developments and are continually assessing the potential impact on our business.

Going Concern

During the six months ended June 30, 2022, and in each fiscal year since our inception, we have incurred operating losses which have resulted in a stockholders' deficit of \$6.3 million as of June 30, 2022. Additionally, our operations have historically used more cash than they have provided. Net cash used in operating activities was \$11.1 million during the six months ended June 30, 2022. As of June 30, 2022, our cash balance was \$1.1 million.

Our history of recurring operating losses, working capital deficiencies and negative cash flows from operating activities give rise to, and management has concluded that there is, substantial doubt regarding our ability to continue as a going concern. Our independent registered public accounting firm, in its report on our consolidated financial statements for the year ended December 31, 2021, has also expressed substantial doubt about our ability to continue as a going concern. Our consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We intend to fund our future operations and meet our financial obligations through revenue growth from our AI offerings, as well as through sales of our thermal-imaging products. We cannot, however, provide assurance that revenue, income and cash flows generated from our businesses will be sufficient to sustain our operations in the twelve months following the filing of this Form 10-Q. As a result, we are actively evaluating strategic alternatives including debt and equity financings and reactively pursuing the sale of our Bikini.com subsidiary.

Conditions in the debt and equity markets, as well as the volatility of investor sentiment regarding macroeconomic and microeconomic conditions (in particular, as a result of the COVID-19 pandemic, global supply chain disruptions, inflation and other cost increases, and the geopolitical conflict in Ukraine), will play primary roles in determining whether we can successfully obtain additional capital. We cannot be certain that we will be successful at raising additional capital or in selling our Bikini.com subsidiary.

A variety of factors, many of which are outside of our control, affect our cash flow; those factors include the effects of the COVID-19 pandemic, regulatory issues, competition, financial markets and other general business conditions. Based on financial projections, we believe that we will be able to meet our ongoing requirements for at least the next 12 months with existing cash and based on the probable success of one or more of the following plans:

- develop and grow new product line(s)
- monetize Bikini.com
- obtain additional capital through debt and/or equity issuances.

However, projections are inherently uncertain and the success of our plans is largely outside of our control. As a result, there is substantial doubt regarding our ability to continue as a going concern, and we may fully utilize our cash resources prior to August 15, 2023.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

We prepared the accompanying unaudited Condensed Consolidated Balance Sheet as of June 30, 2022, with the audited Consolidated Balance Sheet amounts as of December 31, 2021 presented for comparative purposes, and the related unaudited Condensed Consolidated Statements of Operations and Comprehensive Loss, the Condensed Consolidated Statements of Cash Flows and the Condensed Consolidated Statements of Stockholders' Deficit in accordance with the instructions for Form 10-Q. In compliance with those instructions, we have omitted certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with U.S. GAAP, though management believes the disclosures made herein are sufficient to ensure that the information presented is not misleading.

Our results of operations and our cash flows as of the end of the interim periods reported herein do not necessarily indicate the results we may experience for the remainder of the year or for any other future period.

Management believes that we have included all adjustments (including those of a normal, recurring nature) considered necessary to fairly present our unaudited Condensed Consolidated Balance Sheet and our unaudited Condensed Consolidated Statement of Stockholders' Deficit, each as of June 30, 2022, as well as our unaudited Condensed Consolidated Statements of Operations and Comprehensive Loss and Condensed Consolidated Statements of Cash Flows for all periods presented. You should read our unaudited condensed consolidated interim financial statements and footnotes in conjunction with our consolidated financial statements and footnotes included within the Annual Report on Form 10-K for the year ended December 31, 2021 (the "2021 Form 10-K").

Consolidation

We include all of our subsidiaries and the VIEs in our condensed consolidated financial statements, eliminating all significant intercompany balances and transactions during consolidation.

Use of Estimates

We prepare our consolidated financial statements in conformity with GAAP. While preparing our financial statements, we make estimates and assumptions that affect amounts reported and disclosed in the consolidated financial statements and accompanying notes. Accordingly, actual results could differ from those estimates. On an ongoing basis, we evaluate our estimates, including those related to accounts receivable, share-based compensation, deferred income taxes, and inventory reserve, among other items.

The impact of the COVID-19 pandemic continues to unfold. As a result, many of our estimates and assumptions required increased judgment and carry a higher degree of variability and volatility. As events continue to evolve and additional information becomes available, our estimates may change materially in future periods.

Cash

Our cash consists of funds held in bank accounts.

We maintain cash balances in United States dollars (“USD”) and British pounds (“GBP”), while the VIEs maintain cash balances in USD, Chinese Renminbi (“RMB”) and Hong Kong dollars (“HKD”). The following table, reported in USD, disaggregates our cash balances by currency denomination (in thousands):

	<u>June 30, 2022</u>	<u>December 31, 2021</u>
Cash denominated in:		
USD	\$ 186	\$ 13,277
RMB	326	2,345
GBP	545	6,450
HKD	6	1,000
Total cash	<u>\$ 1,063</u>	<u>\$ 14,172</u>

We maintain substantially all of our USD-denominated cash at a U.S. financial institution where the balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At times, however, our cash balances may exceed the FDIC-insured limit. As of June 30, 2022, we do not believe we have any significant concentrations of credit risk. Cash held by our non-U.S. subsidiaries and the VIEs is subject to foreign currency fluctuations against the USD, although such risk is somewhat mitigated because we transfer U.S. funds to China to fund local operations. If, however, the USD is devalued significantly against the RMB, our cost to further develop our business in China could exceed original estimates.

Marketable Securities

Investment in marketable securities consists of marketable equity securities. We classify marketable securities as current or noncurrent based on the nature of the securities and their availability for use in current operations. Marketable securities are stated at fair value with all realized and unrealized gains and losses recognized in our Statement of Operations. The realized and unrealized gains and losses on marketable securities are determined using the specific identification method and quoted prices in an active market.

Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (an exit price). When reporting the fair values of our financial instruments, we prioritize those fair value measurements into one of three levels based on the nature of the inputs, as follows:

- Level 1: Valuations based on quoted prices in active markets for identical assets and liabilities;
- Level 2: Valuations based on observable inputs that do not meet the criteria for Level 1, including quoted prices in inactive markets and observable market data for similar, but not identical instruments; and
- Level 3: Valuations based on unobservable inputs, which are based upon the best available information when external market data is limited or unavailable.

The fair value hierarchy requires us to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. For some products or in certain market conditions, observable inputs may not be available.

We believe the reported carrying amounts for cash, marketable securities, receivables, prepaids and other current assets, accounts payable, accrued expense and other current liabilities, and short-term debt approximate their fair values because of the short-term nature of these financial instruments.

Foreign Currency Translation

We report all currency amounts in USD. The VIEs, however, maintain their books and records in their functional currency, which is RMB.

In general, when consolidating our subsidiaries or the VIEs with non-USD functional currencies, we translate the amounts of assets and liabilities into USD using the exchange rate on the balance sheet date, and the amounts of revenue and expense are translated at the average exchange rate prevailing during the period. The gains and losses resulting from translation of financial statement amounts into USD are recorded as a separate component of accumulated other comprehensive loss within stockholders' deficit.

We used the exchange rates in the following table to translate amounts denominated in non-USD currencies as of and for the periods noted:

	2022	2021
Exchange rates at June 30th:		
GBP:USD	1.215	—
RMB:USD	0.149	0.155
HKD:USD	0.127	0.129
Average exchange rate during the six months ended June 30th:		
RMB:USD	0.149	0.156
GBP:USD	1.232	—

Revenue Recognition

AI-Based Products

We and the VIEs generate revenue by developing AI-based products, including fully-integrated AI solutions which combine our proprietary technology with third-party hardware and software products to meet end-user specifications. Under one type of contract for our AI-based products, we provide a single, continuous service to clients who control the assets as we create them. Accordingly, we recognize the revenue over the period of time during which we provide the service. Under another type of contract, we have performance obligations to provide fully-integrated AI solutions to our customer and we recognize revenue at the point in time when each performance obligation is completed and delivered to, tested by and accepted by our customer.

We recognize revenue when we transfer control of the promised goods or services to our customers, and we recognize an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. If there is uncertainty related to the timing of collections from our customer, which may be the case if our customer is not the ultimate end user of our goods, we consider this to be uncertainty of the customer's ability and intention to pay us when consideration is due. Accordingly, we recognize revenue only when we have transferred control of the goods or services and collectability of consideration from the customer is probable.

When customers pay us prior to when we satisfy our obligation to transfer control of promised goods or services, we record the amount that reflects the consideration to which we expect to be entitled as a contract liability until such time as we satisfy our performance obligation.

For our contracts with customers, we generally extend short-term credit policies to our customers, typically up to one year for large-scale projects.

We record the incremental costs of obtaining contracts as an expense when incurred.

We and the VIEs offer extended warranties on our products for periods of one to three years. Revenue from these extended warranties is recognized on a straight-line basis over the warranty contract term.

Other

We generate revenue from other sources, such as from advertising and marketing services or e-commerce activity in which we sell goods to our customers. We recognize the revenue from these contracts at the point in time when we transfer control of the good sold to the customer or when we deliver the promised promotional materials or media content. Substantially all of our contracts with customers that generate Other revenue are completed within one year or less.

Inventory

We and the VIEs use the first-in first-out method to determine the cost of our inventory, then we report inventory at the lower of cost or net realizable value. We regularly review our inventory quantities on hand and record a provision for excess and obsolete inventory based primarily on our estimated sales forecasts. At June 30, 2022 and December 31, 2021, reserve for inventory was \$0.9 million and \$1.0 million, respectively.

Internal Use Software

We acquire or develop applications and other software that help us meet our internal needs with respect to operating our business. For such projects, planning cost and other costs related to the preliminary project stage, as well as costs incurred for post-implementation activities, are expensed as incurred. We capitalize costs incurred during the application development phase only when we believe it is probable the development will result in new or additional functionality. The types of costs capitalized during the application development phase include fees incurred with third parties for consulting, programming and other development activities performed to complete the software. We amortize our internal use software on a straight-line basis over an estimated useful life of three years. If we identify any internal use software to be abandoned, the cost less the accumulated amortization, if any, is recorded as amortization expense. Once we have fully amortized internal use software costs that we capitalized, we remove such amounts from their respective accounts.

Net Income (Loss) per Share

We calculate basic net income (loss) per share using the weighted-average number of common stock shares outstanding during the period. For the calculation of diluted net income (loss) per share, we give effect to all the shares of common stock that were outstanding during the period plus the number of additional common shares that would have been outstanding if all dilutive potential common shares had been issued, using the treasury stock method. Potential common shares are excluded from the computation when their effect is anti-dilutive. Dilutive potential shares of common stock consist of incremental shares of common stock issuable upon exercise of stock options and warrants.

For the three and six months ended June 30, 2022 and 2021, there were no reconciling items related to either the numerator or denominator of the loss per share calculation, as their effect would have been anti-dilutive.

Securities which may have affected the calculation of diluted earnings per share for the three and six months ended June 30, 2022 and 2021 if their effect had been dilutive include 14,978,432 and 9,526,565 outstanding stock options, respectively, and 10,114,408 and 40,000 outstanding stock warrants, respectively.

Segments

Existing GAAP, which establishes a management approach to segment reporting, defines operating segments as components of an entity about which separate, discrete financial information is available for evaluation by the chief operating decision maker. We have identified our Chief Executive Officer as our chief operating decision maker, who reviews operating results to make decisions about allocating resources and assessing performance based upon only one operating segment.

Recently Issued Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-13 (“ASU 2016-13”), *Measurement of Credit Losses on Financial Instruments (Topic 326)*. The ASU requires entities to use a forward-looking approach based on current expected credit losses to estimate credit losses on certain types of financial instruments, including trade receivables, which may result in the earlier recognition of allowances for losses. With regard to our financial reporting, ASU 2016-13 will be effective beginning January 1, 2023, and early adoption is permitted. We do not believe the impact of the ASU will be material to our financial position, results of operations and cash flows.

We have reviewed all accounting pronouncements recently issued by the FASB and the SEC. The authoritative pronouncements that we have already adopted did not have a material effect on our financial condition, results of operations, cash flows or reporting thereof, and except as otherwise noted above, we do not believe that any of the authoritative pronouncements that we have not yet adopted will have a material effect upon our financial condition, results of operations, cash flows or reporting thereof.

NOTE 3. REVENUE

We and the VIEs primarily sell AI-based products and services. In the U.S., that includes our Remark AI Thermal Kits and rPads, while the VIEs sell various customized products in China based upon computer vision and other technologies.

We do not include disclosures related to remaining performance obligations because substantially all our contracts with customers have an original expected duration of one year or less or, with regard to our stand-ready obligations, the amounts involved are not material.

Disaggregation of Revenue

The following table presents a disaggregation of our revenue by category of products and services (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
AI-based products and services, including amounts from China Business Partner in 2022 (See Note 14)	\$ 2,472	\$ 3,852	\$ 7,018	\$ 7,872
Other	86	164	207	550
Revenue	\$ 2,558	\$ 4,016	\$ 7,225	\$ 8,422

The following table presents a disaggregation of our revenue by country (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
China	\$ 2,472	\$ 1,418	\$ 7,018	\$ 5,135
United States	86	2,598	207	3,287
Revenue	\$ 2,558	\$ 4,016	\$ 7,225	\$ 8,422

The VIEs generated substantially all of the revenue from China noted in the table above, though one of our subsidiaries generated amounts of revenue from China that were not material in each period.

Significant Judgments

When accounting for revenue we make certain judgments, such as whether we act as a principal or as an agent in transactions or whether our contracts with customers fall within the scope of current GAAP regarding revenue, that affect the determination of the amount and timing of our revenue from contracts with customers. Based on the current facts and circumstances related to our contracts with customers, none of the judgments we make involve an elevated degree of qualitative significance or complexity such that further disclosure is warranted in terms of their potential impact on the amount and timing of our revenue.

Contract Assets and Contract Liabilities

We do not currently generate material contract assets. During the six months ended June 30, 2022, our contract liability changed only as a result of routine business activity.

During the six months ended June 30, 2022 and 2021, the amount of revenue we recognized that was included in the beginning balance of Contract liability was not material.

During the six months ended June 30, 2022 and 2021, we did not recognize revenue from performance obligations that were satisfied in previous periods.

NOTE 4. TRADE ACCOUNTS RECEIVABLE

	June 30, 2022	December 31, 2021
Gross accounts receivable balance	\$ 10,688	\$ 11,551
Allowance for bad debt	(1,205)	(1,284)
Accounts receivable, net	<u>\$ 9,483</u>	<u>\$ 10,267</u>

Generally, it is not unusual for Chinese entities to pay their vendors on longer timelines than the timelines typically observed in U.S. commerce. Trade receivables related to the VIEs' AI projects, including \$4.2 million of trade receivables from projects related to work with our China Business Partner (see [Note 14](#) for more information regarding our China Business Partner and related accounting), represent 99% of our gross trade receivables.

NOTE 5. INVESTMENT

In 2009, we co-founded a U.S.-based venture, Sharecare, Inc. ("Legacy Sharecare"), to build a web-based platform that simplifies the search for health and wellness information. The other co-founders of Legacy Sharecare were Dr. Mehmet Oz, HARPO Productions, Discovery Communications, Jeff Arnold and Sony Pictures Television. At December 31, 2021, we reported our \$1.0 million investment in Legacy Sharecare as an investment in unconsolidated affiliate.

On July 1, 2021, Legacy Sharecare completed a business combination with Falcon Capital Acquisition Corp., a special purpose acquisition company, as a result of which the common stock of the surviving entity of such business combination ("New Sharecare") became listed on the Nasdaq Stock Market LLC. In connection with the completion of such business combination, the shares of common stock of Legacy Sharecare that we held immediately prior to the business combination converted into approximately \$2.3 million in cash and approximately 9.4 million shares of common stock of New Sharecare. We do not maintain a seat on the board of directors of New Sharecare. The cash received was recorded as a realized gain on the investment, and the investment is revalued at fair value at the end of each reporting period using the closing sales price of the shares on the principal securities exchange on which such shares are then traded.

As of June 30, 2022 and December 31, 2021, the value of our investment in New Sharecare was \$12.5 million and \$42.3 million, respectively, based upon the closing stock price of New Sharecare, an input we classify in Level 1 of the fair value hierarchy, on such dates. We sold 1,500,000 shares of New Sharecare during the six months ended June 30, 2022 for cash of \$3.8 million. The total loss on investment during the six months ended June 30, 2022 was as follows:

Net losses recognized during the period on investments sold during the period	\$ 1,411
Unrealized loss recognized during the period on investments still held at the end of the period	24,597
Total loss	<u>\$ 26,008</u>

Please see [Note 16](#) for more information regarding our investment in New Sharecare.

NOTE 6. PREPAID EXPENSE AND OTHER CURRENT ASSETS

The following table presents the components of prepaid expense and other current assets (in thousands):

	June 30, 2022	December 31, 2021
Receivable from China Business Partner (See Note 14)	\$ —	\$ 3,980
Deferred cost of revenue	5,063	589
Other receivables	8	9
Prepaid expense	1,482	1,558
Deposits	259	221
Other current assets	—	6
Total	<u>\$ 6,812</u>	<u>\$ 6,363</u>

NOTE 7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following (in thousands, except estimated lives):

	Estimated Life (Years)	June 30, 2022	December 31, 2021
Vehicles	3	153	—
Computers and equipment	3	1,135	1,133
Furniture and fixtures	3	42	42
Software	3	4,964	5,055
Leasehold improvements	3	199	196
Software development in progress		1,136	128
Total property, equipment and software		<u>\$ 7,629</u>	<u>\$ 6,554</u>
Less accumulated depreciation		<u>(6,187)</u>	<u>(6,197)</u>
Total property, equipment and software, net		<u>\$ 1,442</u>	<u>\$ 357</u>

For the six months ended June 30, 2022 and 2021, depreciation (and amortization of software) expense was \$0.1 million and \$0.1 million, respectively.

NOTE 8. LEASES

We and the VIEs lease office space under contracts we classify as operating leases. None of our leases are financing leases.

The following table presents the detail of our lease expense, which is reported in General and administrative expense (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Operating lease expense	\$ 70	\$ 61	\$ 141	\$ 163
Short-term lease expense	343	369	781	630
Lease expense	<u>\$ 413</u>	<u>\$ 430</u>	<u>\$ 922</u>	<u>\$ 793</u>

We reported within operating cash flows for the six months ended June 30, 2022 and 2021, \$0.1 million and \$0.1 million, respectively, of cash paid for amounts included in the measurement of operating lease liabilities.

As of June 30, 2022, our operating leases had a weighted-average remaining lease term of approximately 14 months, and we used a weighted-average discount rate of approximately 13% to measure our operating lease liabilities.

Maturity of Lease Liabilities

The following table presents information regarding the maturities of undiscounted remaining operating lease payments, with a reconciliation to the amount of the liabilities representing such payments as presented in our June 30, 2022 Consolidated Balance Sheet (in thousands):

Operating lease liabilities maturing during the next:

One year	\$ 171
Two years	42
Total lease payments	<u>\$ 213</u>
Less: Imputed interest/present value discount	(15)
Present value of cash flows	<u>\$ 198</u>

Lease liabilities on balance sheet:

Short-term (included in accrued expenses - Note 9)	\$ 158
Long-term	40
Total lease liabilities	<u>\$ 198</u>

Significant Judgments

When accounting for our leases, we make certain judgments, such as whether a contract contains a lease or what discount rate to use, that affect the determination of the amount of our lease assets and liabilities. Based on the current facts and circumstances related to our contracts, none of the judgments we make involve an elevated degree of qualitative significance or complexity such that further disclosure is warranted.

NOTE 9. ACCRUED EXPENSE AND OTHER CURRENT LIABILITIES

The following table presents the components of Accrued expense and other current liabilities (in thousands):

	June 30, 2022	December 31, 2021
Accrued compensation and benefit-related expense	\$ 711	\$ 821
Accrued interest	327	385
Other accrued expense	967	1,073
Other payables	2,335	2,324
Registration rights agreement penalty	800	600
Operating lease liability - current	158	187
China Cash Bonuses	174	439
Other current liabilities	193	134
Total	\$ 5,665	\$ 5,963

NOTE 10. NOTES PAYABLE

The following table presents our notes payable (in thousands) as of:

	June 30, 2022	December 31, 2021
Principal balance of Mudrick Loans	\$ 23,798	\$ 30,000
Unamortized discount and debt issuance cost	(320)	(2,189)
Notes payable, net of unamortized discount and debt issuance cost	\$ 23,478	\$ 27,811

On December 3, 2021, we entered into senior secured loan agreements (the “Mudrick Loan Agreements”) with certain of our subsidiaries as guarantors (the “Guarantors”) and certain institutional lenders affiliated with Mudrick Capital Management, LP (collectively “Mudrick”), pursuant to which Mudrick extended credit to us consisting of term loans in the aggregate principal amount of \$30.0 million (the “Mudrick Loans”). The Mudrick Loans bear interest at 16.5% per annum, which shall be payable on the last business day of each month commencing on December 31, 2021. All amounts outstanding under the Mudrick Loans, as amended, including all accrued and unpaid interest, will be due and payable in full on October 31, 2022 (originally due July 31, 2022). To secure the payment and performance of the obligations under the Mudrick Loan Agreements, we, together with the Guarantors, have granted to TMI Trust Company, as the collateral agent for the benefit of Mudrick, a first priority lien on, and security interest in, all assets of Remark and the Guarantors, subject to certain customary exceptions. The Mudrick Loan Agreements contain representations, warranties, events of default, indemnifications and other provisions customary for financings of this type. The occurrence of any event of default under the Mudrick Loan Agreements may result in the principal amount outstanding and unpaid interest thereon becoming immediately due and payable.

In connection with our entry into the Mudrick Loan Agreements, we paid to Mudrick an upfront fee equal to 5.0% of the amount of the Mudrick Loans, which amount was netted against the drawdown of the Mudrick Loans. We recorded the upfront fee as a debt discount of \$1.5 million, and recorded debt issuance cost totaling \$1.1 million. We are amortizing the discount on the Mudrick Loans and the debt issuance cost over the life of the Mudrick Loans and, during the six months ended June 30, 2022, we amortized \$1.9 million of such discount and debt issuance cost.

On August 3, 2022, we entered into a First Amendment to the Mudrick Loan Agreements, which amends the Senior Secured Loan Agreements. See [Note 16](#) for additional information regarding the First Amendment.

NOTE 11. COMMITMENTS AND CONTINGENCIES

At June 30, 2022, we had no material commitments outside the normal course of business.

Contingencies

As of June 30, 2022, we were neither a defendant in any material pending legal proceeding nor are we aware of any material threatened claims against us and, therefore, we have not accrued any contingent liabilities.

Registration Rights Agreement

On September 27, 2021, we entered into a securities purchase agreement (the “Armistice Purchase Agreement”) with Armistice Capital Master Fund Ltd. (“Armistice Capital”) pursuant to which we issued shares of our common stock together with warrants to purchase our common stock, subject to certain customary anti-dilution adjustments (the “Armistice Warrants”).

In connection with our entry into the Armistice Purchase Agreement, we also entered into a registration rights agreement with Armistice Capital, pursuant to which we are obligated to file one or more registration statements, as necessary, to register under the Securities Act of 1933, as amended, the resale of the shares we issued to Armistice Capital and the shares underlying the Armistice Warrants (collectively, the “Armistice Registrable Securities”) and to obtain effectiveness of such registration statement no later than 90 days following September 27, 2021. While we have filed a registration statement to register the resale of the Armistice Registrable Securities (the “Armistice Resale Registration Statement”), we are currently in a comment letter process with the SEC staff with respect to such registration statement and have not been able to achieve effectiveness of the Armistice Resale Registration Statement. As a result, we have accrued a total of \$1.0 million as of June 30, 2022, representing our best estimate of the liquidated damages we will be required to pay until the SEC declares the Armistice Resale Registration Statement effective or until our registration obligations in the Armistice Registration Rights Agreement terminate. The Armistice Registration Rights Agreement caps such liquidated damages at \$1.0 million. During the six months ended June 30, 2022, we paid \$0.2 million of this amount, resulting in an unpaid amount of \$0.8 million included in other accrued expense at June 30, 2022.

Bid Price Deficiency

On February 25, 2022, we received written notice from the Listing Qualifications Department of The Nasdaq Stock Market LLC (“Nasdaq”) notifying us that, for a period of 30 consecutive business days, the bid price of our common stock closed below the minimum of \$1.00 per share required for continued listing on the Nasdaq Capital Market pursuant to Nasdaq Listing Rule 5550(a)(2). In accordance with Nasdaq Listing Rule 5810(c)(3)(A), we have 180 calendar days, or until August 24, 2022, to regain compliance with the minimum bid price requirement. If, at any time during the 180-day grace period, the closing bid price of our common stock is at least \$1.00 per share for a minimum of 10 consecutive business days, we will have regained compliance and Nasdaq will provide us with written confirmation of such.

If we fail to regain compliance before August 24, 2022, but meet the continued listing requirement for market value of publicly-held shares and all other initial listing standards for the Nasdaq Capital Market, we may be eligible for additional time to regain compliance with the minimum bid price requirement. If we do not meet all of the requirements to obtain an additional grace period, we will receive written notification from Nasdaq that our common stock is subject to delisting. At that time, we expect to appeal Nasdaq’s delisting determination and submit a plan to regain compliance with Nasdaq listing requirements. The Hearings Panel may grant us up to 180 calendar days to implement our plan, though there can be no assurance that our appeal would be successful.

Our common stock will continue to be listed and traded on the Nasdaq Capital Market during the 180-day grace period, subject to our compliance with the other continued listing requirements of the Nasdaq Capital Market.

NOTE 12. STOCKHOLDERS' EQUITY (DEFICIT)

Warrants

The following table summarizes information related to our equity-classified stock warrant issuances as of and for the dates and periods noted:

	Shares	Weighted Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2021	10,114,408	\$ 4.01	4.7	\$ —
Granted	—	—		
Exercised	—	—		
Forfeited, cancelled or expired	—	—		
Outstanding at June 30, 2022	10,114,408	\$ 4.01	4.2	\$ —

Share-Based Compensation

We are authorized to issue equity-based awards under our 2014 Incentive Plan and our 2017 Incentive Plan, each of which our stockholders have approved. We also award cash bonuses (“China Cash Bonuses”) to our employees in China, which grants are not subject to a formal incentive plan and which can only be settled in cash. We grant such awards to attract, retain and motivate eligible officers, directors, employees and consultants. Under each of the plans, we have granted shares of restricted stock and options to purchase common stock to our officers and employees with exercise prices equal to or greater than the fair value of the underlying shares on the grant date.

Stock options and China Cash Bonuses generally expire 10 years from the grant date. All forms of equity awards and China Cash Bonuses vest upon the passage of time, the attainment of performance criteria, or both. When participants exercise stock options, we issue any shares of our common stock resulting from such exercise from new authorized and unallocated shares available at the time of exercise.

The following table summarizes activity under our equity incentive plans related to equity-classified stock option grants as of and for the dates and periods noted:

	Shares	Weighted Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2021	14,839,020	\$ 3.30	6.1	\$ 159
Granted	214,912	0.58		
Exercised	—	—		
Forfeited, cancelled or expired	(75,500)	1.39		
Outstanding at June 30, 2022	14,978,432	\$ 3.28	5.5	\$ 3
Exercisable at December 31, 2021	12,776,520	3.62	5.7	\$ 957
Exercisable at June 30, 2022	13,797,432	3.44	5.3	\$ 3

The following table summarizes activity related to our liability-classified China Cash Bonuses as of and for the dates and periods noted:

	Shares	Weighted Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2021	1,036,000	\$ 3.97	5.4	\$ 159
Forfeited, cancelled or expired	(33,000)	6.14		
Outstanding at June 30, 2022	1,003,000	\$ 3.90	4.8	\$ —
Exercisable at December 31, 2021	886,000	4.41	4.9	\$ —
Exercisable at June 30, 2022	913,000	4.15	4.5	\$ —

The following table presents the change in the liability associated with our China Cash Bonuses included in Accrued expense and other current liabilities (in thousands):

	Six Months Ended June 30, 2022	Year Ended December 31, 2021
Balance at beginning of period	\$ 439	\$ 679
Share-based compensation expense related to China Cash Bonuses	(265)	(240)
Balance at end of period	\$ 174	\$ 439

On July 27, 2020, the compensation committee of our board of directors approved grants to employees, directors and other service providers, excluding our CEO, of options to purchase approximately 5.4 million shares of our common stock. The option agreements governing the grants contain a stipulation that, regardless of vesting, such options do not become exercisable unless and until stockholders approve an amendment to our Amended and Restated Certificate of Incorporation to increase in the number of authorized shares of our common stock in an amount sufficient to allow for the exercise of the options and we have filed a corresponding Certificate of Amendment to our Amended and Restated Certificate of Incorporation reflecting such increase in the number of authorized shares of our common stock.

On July 8, 2021, our stockholders approved an amendment to our Amended and Restated Certificate of Incorporation to increase the number of authorized shares of our common stock to 175,000,000, and we filed a Certificate of Amendment to our Amended and Restated Certificate of Incorporation with the Secretary of State of the State of Delaware on July 9, 2021 to reflect this amendment, which became effective immediately upon filing.

As a result of the increase in the number of authorized shares of our common stock, we determined that July 8, 2021 was the grant date for accounting purposes of the stock options we originally issued on July 27, 2020. The grant date fair value of the options granted on July 27, 2020 was approximately \$6.3 million. To estimate the fair value of the options with an accounting grant date of July 8, 2021, we used the Black-Scholes-Merton option pricing model with an expected volatility of 85%, a risk-free interest rate of 0.34%, and expected term of six years and no expected dividends.

Effective as of January 25, 2022, we entered into a one-year agreement with a consultant that requires us to issue to him each month an option to purchase shares of our common stock. The number of shares purchasable under each option contract to be granted is based upon certain agreed terms and assumptions, and each such option contract is intended to compensate the consultant with an aggregate fair value of \$15,000. As of June 30, 2022, we had issued to the consultant options to purchase 214,912 shares of our common stock, and such options collectively represented a total share-based compensation expense of approximately \$0.1 million.

The following table presents a breakdown of share-based compensation cost included in operating expense (in thousands):

	Six Months Ended June 30,	
	2022	2021
Stock options	\$ 1,024	\$ 25
China Cash Bonuses	(265)	73
Total	\$ 759	\$ 98

We record share-based compensation expense in the books of the subsidiary that incurs the expense, while for equity-classified stock options we record the change in additional paid-in capital on the corporate entity because the corporate entity's equity underlies such stock options.

The following table presents information regarding unrecognized share-based compensation cost associated with stock options and China Cash Bonuses:

	June 30, 2022
Unrecognized share-based compensation cost for non-vested awards (in thousands):	
Stock options	1,051
China Cash Bonuses	22
Weighted-average years over which unrecognized share-based compensation expense will be recognized:	
Stock options	0.6
China Cash Bonuses	0.6

NOTE 13. RELATED PARTY TRANSACTIONS

As of June 30, 2022, we owed approximately \$1.5 million to a member of senior management representing various operating expense payments made on our behalf. Substantially all of such amount was repaid in July 2022.

NOTE 14. CHINA BUSINESS PARTNER

We and the VIEs interact with an unrelated entity (the "China Business Partner") in more than one capacity. Firstly, since 2020, one of the VIEs has been working with the China Business Partner to earn revenue by obtaining business from some of the largest companies in China. Secondly, our artificial intelligence business in the U.S. has, to date, purchased substantially all of its inventory from a subsidiary of the China Business Partner which manufactures certain equipment to our specifications; though, during the six months ended June 30, 2022, we did not make a material amount of such purchases. In addition, a member of our senior leadership team maintains a role in the senior management structure of the China Business Partner.

During the prior years, one of the VIEs advanced an aggregate of approximately \$4.0 million to the China Business Partner pursuant to an agreement between the two entities. Under the executed agreement, the VIE had an obligation to advance as much as an aggregate amount of \$5.1 million over the loan term of five years, and the VIE could elect to convert amounts due to it under the agreement into equity of the China Business Partner upon any equity financing the China Business Partner undertook during the term of the agreement. The business purpose for the advances was to allow the China Business Partner to purchase and modify hardware to integrate with our software and market such integrated product to potential customers, including some of the largest companies in China. During the three months ended March 31, 2022, the China Business Partner repaid the advances in full.

During the three and six months ended June 30, 2022, the VIEs recognized approximately \$1.2 million and \$3.4 million, respectively, of revenue from the relationship with the China Business Partner. Such amounts are included in the \$4.2 million of accounts receivable from the China Business partner at June 30, 2022.

NOTE 15. ADDITIONAL VARIABLE INTEREST ENTITY DISCLOSURE

Please see [Note 1](#) for information regarding our corporate structure and our relationship to the VIEs. The following table presents the amounts of assets and liabilities, included in our Consolidated Balance Sheets as of the dates shown, of the VIEs that we consolidate.

	June 30, 2022	December 31, 2021
Assets		
Cash	\$ 294	\$ 240
Trade accounts receivable, net	9,477	10,234
Inventory, net	55	58
Prepaid expense and other current assets	5,073	4,525
Property and equipment, net	2	—
Operating lease assets	111	81
Other long-term assets	27	24
Liabilities		
Accounts payable	\$ 4,364	\$ 6,475
Accounts payable - related party	76	—
Accrued expense and other current liabilities	2,677	2,583
Contract liability	156	165
Operating lease liabilities, long-term	40	—

NOTE 16. SUBSEQUENT EVENTS

On July 1, 2022, we sold 1,681,920 shares of New Sharecare for \$2.5 million in cash.

On July 2, 2022, we received a Notice of Trigger Event and Mandatory Payment from Mudrick where pursuant to the Mudrick Loan Agreements, Mudrick requested that we make a prepayment of the Mudrick Loans by delivering to each lender to the Mudrick Loan Agreements shares of common stock of New Sharecare in the fair market amount applicable to each such lender to prepay the Mudrick Loans. We delivered the shares to Mudrick on July 11, 2022, representing a reduction of approximately \$9.7 million of principal on the Mudrick Loans. Subsequent to the delivery of the common stock shares of New Sharecare to Mudrick, we no longer own any equity interests of New Sharecare.

On August 3, 2022, we entered into a First Amendment to the Mudrick Loan Agreements (the "First Amendment"), which amends the Senior Secured Loan Agreements, dated as of December 3, 2021 (collectively, as amended by the First Amendment, the "Mudrick Loan Agreements") by and among Remark, certain of our subsidiaries as guarantors and Mudrick. Pursuant to the First Amendment, Mudrick agreed, among other things, to (i) waive certain existing events of default under the Mudrick Loan Agreement, (ii) extend the original July 31, 2022 maturity date to October 31, 2022 (provided, however, that if we prepay the principal amount of the loans in an amount of at least \$5 million, the maturity date will be automatically extended to November 30, 2022), and (iii) defer payment of interest for the month of July 2022 to August 31, 2022. In addition, on and after the effective date of the First Amendment, the outstanding loans under the Mudrick Loan Agreement will bear interest at 18.5% per annum, payable on the last business day of each month commencing on August 31, 2022. We have also agreed to commence marketing and sale efforts with respect to our Bikini.com business. In consideration for Mudrick's agreement to enter into the First Amendment and extend the maturity date, we agreed to pay Mudrick an amendment and extension payment in the amount of 2.0% of the unpaid principal balance of the loans outstanding as of the date of the First Amendment, which was paid in kind and added to the principal balance of the loans as of the effective date of the First Amendment.

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

You should read our discussion and analysis of our financial condition and results of operations for the three and six months ended June 30, 2022 in conjunction with our condensed consolidated financial statements and notes thereto set forth in Part I, Item 1 of this Quarterly Report on Form 10-Q. Such discussion and analysis includes forward-looking statements that involve risks and uncertainties and that are not historical facts, including statements about our beliefs and expectations. You should also read Business, Risk Factors and Special Note Regarding Forward-Looking Statements in this Form 10-Q.

OVERVIEW

We and the VIEs that we consolidate constitute a diversified global technology business with leading AI and data-analytics, as well as a portfolio of digital media properties.

OUR BUSINESS

Corporate Structure

We are a holding company incorporated in Delaware and not a Chinese operating company. As a holding company, we conduct a significant part of our operations through our subsidiaries and through contractual arrangements with the VIEs based in China. We use the VIE structure to address challenges resulting from laws, policies and practices that may disfavor foreign-owned entities that operate within industries deemed sensitive by the Chinese government. We own 100% of the equity of a WFOE, which has entered into contractual arrangements with the VIEs, which are owned by members of our management team in China and/or by third parties.

We fund the registered capital and operating expenses of the VIEs on behalf of the shareholders of the VIEs by making advances to, or on behalf of, the VIEs. We believe that we are the primary beneficiary of the VIEs because the contractual arrangements governing the relationship between the VIEs and our WFOE, which include an exclusive call option agreement, exclusive business cooperation agreement, a proxy agreement and an equity pledge agreement, enable us to (i) exercise effective control over the VIEs, (ii) receive substantially all of the economic benefits of the VIEs, and (iii) have an exclusive call option to purchase, at any time, all or part of the equity interests in and/or assets of the VIEs to the extent permitted by Chinese laws. Because these contractual arrangements with the VIEs provide us with the power to direct the activities of the VIEs, for accounting purposes we are the primary beneficiary of the VIEs and we have consolidated the financial results of the VIEs in our consolidated financial statements in accordance with U.S. GAAP.

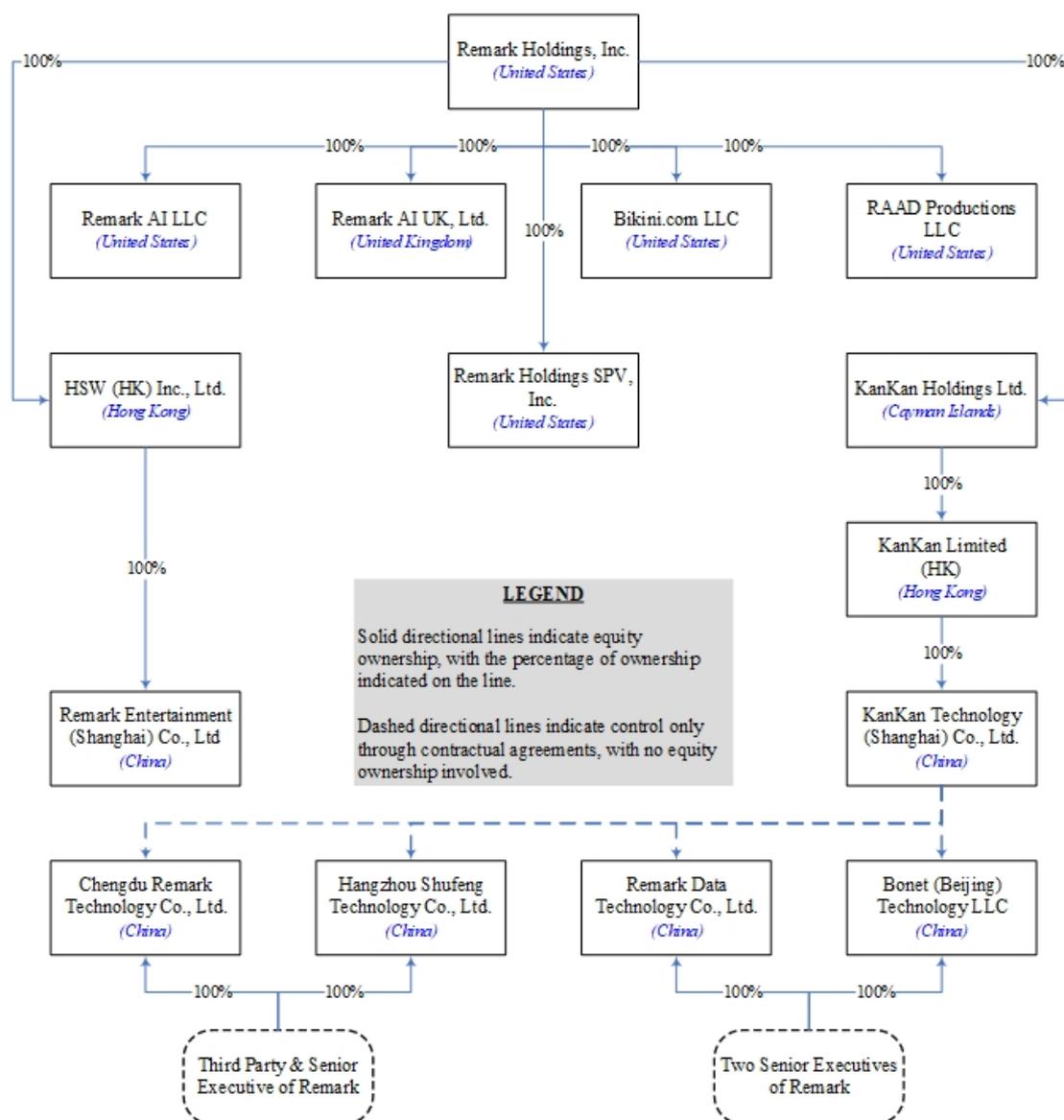
The agreements governing the VIE contractual arrangements have not been tested in a court of law. However, an article published in China Business Law Journal indicated that a China International Economic and Trade Arbitration Commission Shanghai tribunal ruled in 2010 and 2011 in two related cases involving the contractual arrangement of an online game operating company that the contractual arrangement was void on the grounds that such arrangement violated the mandatory administrative regulations prohibiting foreign investors from investing in the online game operation business and constituted “concealing illegal intentions with a lawful form.” According to publicly available information, while the agreements entered into by the parties in the aforementioned CIETAC cases are typical VIE agreements, the PRC domestic company involved in such cases was mainly engaged in online game operation. Although the PRC foreign investment regime restricts or prohibits foreign investment in certain industries, online game operation is one of few industries where there are rules specifically prohibiting foreign investors from controlling and participating in the business indirectly through contractual or technical support arrangements. Though the agreements in the CIETAC cases are similar to our contractual arrangements with the VIEs, we and the VIEs do not operate in the online game operation industry and, to our knowledge, the business conducted by the VIEs is not prohibited from investment from foreign investors in China. We also note that the rulings in the CIETAC cases are not binding on Chinese courts or other arbitration tribunals.

The following diagram illustrates our corporate structure, including our significant subsidiaries, and the relationship between our WFOE and the VIEs as of the date of this Form 10-Q. The diagram omits certain entities which are immaterial to our results of operations and financial condition. Equity interests depicted in this diagram are 100% owned. The relationships between each of Chengdu Remark Technology Co., Ltd., Hangzhou Shufeng Technology Co., Ltd., Remark Data Technology Co., Ltd. and Bonet (Beijing) Technology LLC, which constitute the VIEs, on the one hand, and KanKan Technology

(Shanghai) Co., Ltd., our WFOE, on the other hand, as illustrated in the following diagram are governed by contractual arrangements and do not constitute equity ownership.

REMARK HOLDINGS, INC. AND SUBSIDIARIES

Entity Organizational Chart



Because we do not directly hold equity interests in the VIEs, we are subject to risks and uncertainties of the interpretations and applications of Chinese laws and regulations, including but not limited to, the validity and enforcement of the contractual arrangements among the WFOE, the VIEs and the shareholders of the VIEs. We are also subject to the risks and uncertainties about any future actions of the Chinese government in this regard that could disallow the VIE structure, which would likely

result in a material change in our operations and may cause the value of our common stock to depreciate significantly or become worthless.

The contractual arrangements may not be as effective as direct ownership in providing operational control and we face contractual exposure in such arrangements. For instance, the VIEs and their shareholders could breach their contractual arrangements with us by, among other things, failing to conduct their operations in an acceptable manner or taking other actions that are detrimental to our interests. The shareholders of the VIEs may not act in the best interests of our Company or may not perform their obligations under these contracts. Such risks exist throughout the period in which we intend to operate certain portions of our business through the contractual arrangements with the VIEs. In the event that the VIEs or their shareholders fail to perform their respective obligations under the contractual arrangements, we may have to incur substantial costs and expend additional resources to enforce such arrangements. In addition, even if legal actions are taken to enforce such arrangements, there is uncertainty as to whether Chinese courts would recognize or enforce judgments of U.S. courts against us or such persons predicated upon the civil liability provisions of the securities laws of the United States or any state.

Risks of Doing Business in China

We are subject to certain legal and operational risks associated with having a significant portion of our operations in China. Chinese laws and regulations governing our current business operations, including the enforcement of such laws and regulations, are sometimes vague and uncertain and can change quickly with little advance notice. The Chinese government may intervene or influence our operations and the operations of the VIEs at any time and may exert more control over offerings conducted overseas and/or foreign investment in China-based issuers, which could result in a material change in our operations and/or the value of our securities. In addition, any actions by the Chinese government to exert more oversight and control over offerings that are conducted overseas and/or foreign investment in China-based issuers could significantly limit or completely hinder our ability to offer or continue to offer our securities to investors and cause the value of such securities to significantly decline or become worthless. Recently, the Chinese government adopted a series of regulatory actions and issued statements to regulate business operations in China, including those related to the use of variable interest entities, data security and anti-monopoly concerns. As of the date of this Form 10-Q, neither we nor the VIEs have been involved in any investigations on cybersecurity review initiated by any Chinese regulatory authority, nor has any of them received any inquiry, notice or sanction. As of the date of this Form 10-Q, no relevant laws or regulations in China explicitly require us to seek approval from the CSRC for any securities listing. As of the date of this Form 10-Q, neither we nor the VIEs have received any inquiry, notice, warning or sanctions regarding our planned overseas listing from the CSRC or any other Chinese governmental authorities relating to securities listings. However, since these statements and regulatory actions are newly published, official guidance and related implementation rules have not been issued. It is highly uncertain what potential impact such modified or new laws and regulations will have on our ability to conduct our business, accept investments or list or maintain a listing on a U.S. or foreign exchange.

As of the date of this 10-Q, we and the VIEs are not required to seek permissions from the CSRC, the CAC, or any other entity that is required to approve of the operations of the VIEs. Nevertheless, Chinese regulatory authorities may in the future promulgate laws, regulations or implement rules that require us, our subsidiaries or the VIEs to obtain permissions from such regulatory authorities to approve the operations of the VIEs or any securities listing.

Holding Foreign Companies Accountable Act

The HFCA Act was enacted on December 18, 2020. The HFCA Act states if the SEC determines that a company has filed audit reports issued by a registered public accounting firm that has not been subject to inspection by the PCAOB for three consecutive years beginning in 2021, the SEC shall prohibit such shares from being traded on a national securities exchange or in the over the counter trading market in the United States. On June 22, 2021, the U.S. Senate passed a bill which, if passed by the U.S. House of Representatives and signed into law, would reduce the number of consecutive non-inspection years required for triggering the prohibitions under the HFCA Act from three years to two. On December 2, 2021, the SEC adopted amendments to finalize rules implementing the submission and disclosure requirements in the HFCA Act. The rules apply to registrants that the SEC identifies as having filed an annual report with an audit report issued by a registered public accounting firm that is located in a foreign jurisdiction and that the PCAOB is unable to inspect or investigate completely because of a position taken by an authority in a foreign jurisdiction. On December 16, 2021, the PCAOB issued a report on its determination that it is unable to inspect or investigate completely PCAOB-registered public accounting firms headquartered in China and in Hong Kong because of positions taken by Chinese and Hong Kong authorities in those jurisdictions. The PCAOB has made

such determination as mandated under the HFCA Act. Pursuant to each annual determination by the PCAOB, the SEC will, on an annual basis, identify issuers that have used non-inspected audit firms and thus are at risk of such suspensions in the future.

Our auditor, Weinberg & Company, an independent registered public accounting firm headquartered in the United States, is not subject to the determinations announced by the PCAOB on December 16, 2021. Our auditor is currently subject to PCAOB inspections and has been inspected by the PCAOB on a regular basis. However, if the PCAOB is unable to inspect the work papers of our accounting firm in the future, such lack of inspection could cause trading in our common stock to be prohibited under the HFCA Act, and as a result, an exchange may determine to delist our common stock. The delisting and the cessation of trading of our common stock, or the threat of our common stock being delisted and prohibited from being traded, may materially and adversely affect the value of your investment. See “Risk Factors—Risks Relating to Doing Business in China—Trading in our securities may be prohibited under the Holding Foreign Companies Accountable Act if the PCAOB determines that it cannot inspect or fully investigate our auditors, and as a result, Nasdaq may determine to delist our securities.”

Transfer of Cash or Assets

Dividend Distributions

As of the date of this Form 10-Q, none of our subsidiaries or any of the consolidated VIEs have made any dividends or distributions to us.

We have never declared or paid dividends or distributions on our common equity. We currently intend to retain all available funds and any future consolidated earnings to fund our operations and continue the development and growth of our business; therefore, we do not anticipate paying any cash dividends.

Under Delaware law, a Delaware corporation’s ability to pay cash dividends on its capital stock requires the corporation to have either net profits or positive net assets (total assets less total liabilities) over its capital. If we determine to pay dividends on any of our common stock in the future, as a holding company, we may rely on dividends and other distributions on equity from our WFOE for cash requirements, including the funds necessary to pay dividends and other cash contributions to our stockholders.

Our WFOE’s ability to distribute dividends is based upon its distributable earnings. Current Chinese regulations permit our WFOE to pay dividends to their shareholders only out of its registered capital amount, if any, as determined in accordance with Chinese accounting standards and regulations, and then only after meeting the statutory reserve equal to 50% of registered capital. If our WFOE incurs debt in the future, the instruments governing the debt may restrict its ability to pay dividends or make other payments to us. Any limitation on the ability of our WFOE to distribute dividends or other payments to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses, pay dividends or otherwise fund and conduct our business. In addition, any cash dividends or distributions of assets by our WFOE to its stockholder are subject to a Chinese withholding tax of as much as 10%.

The Chinese government also imposes controls on the conversion of RMB into foreign currencies and the remittance of currencies out of China. Therefore, we may experience difficulties in completing the administrative procedures necessary to obtain and remit foreign currency for the payment of dividends from our profits, if any. If we are unable to receive all of the revenues from our operations through the current VIE contractual arrangements, we may be unable to pay dividends on our common stock.

For us to pay dividends to our stockholders, we will rely on payments made from the VIEs to our WFOE in accordance with the VIE contractual arrangements, and the distribution of payments from the WFOE to the Delaware holding company as dividends. Certain payments from the VIEs to the WFOE pursuant to the VIE contractual arrangements are subject to Chinese taxes, including a 6% VAT and 25% enterprise income tax.

Our Company's Ability to Settle Amounts Owed under the VIE Contractual Arrangements

Under the VIE contractual arrangements, the VIEs are obligated to make payments to our WFOE, in cash or in kind, at the WFOE's request. We will be able to settle amounts owed under the VIE contractual arrangements through dividends paid by our WFOE to our Company. Such ability may be restricted or limited as follows:

First, any payments from the VIEs to our WFOE are subject to Chinese taxes, including a 6% VAT and 25% enterprise income tax.

Second, current Chinese regulations permit our WFOE to pay dividends to their shareholders only out of its registered capital amount, if any, as determined in accordance with Chinese accounting standards and regulations, and then only after meeting the statutory reserve equal to 50% of registered capital. In addition, if our WFOE incurs debt in the future, the instruments governing the debt may restrict its ability to pay dividends or make other payments to the Delaware holding company.

Third, the Chinese government also imposes controls on the conversion of RMB into foreign currencies and the remittance of currencies out of China. Therefore, we may experience difficulties in completing the administrative procedures necessary to obtain and remit foreign currency for the payment of dividends from profits, if any.

AI Business

Through the proprietary data and AI software platform we co-developed with one of the VIEs, our Remark AI business in the U.S. and the KanKan AI business operated by the VIEs in the Asia-Pacific region generate revenue by delivering AI-based computer vision products, computing devices and software-as-a-service solutions for businesses in many industries. In addition to the other work that we and the VIEs have ramped up, we and the VIEs continue partnering with top universities on research projects targeting algorithm, artificial neural network and computing architectures which we believe keeps us among the leaders in technology development. Our research team continues to participate in various computer vision competitions at which it wins or ranks near or at the top.

We continue to market Remark AI's innovative AI-based solutions to customers in the retail, urban life cycle and workplace and food safety markets. We have also begun to expand our AI-based safety solutions to railway customers in the transportation market.

Retail Solutions. Utilizing a client's existing cameras and IoT devices placed throughout the store, Remark AI's retail solutions swiftly analyze real-time customer shopping behavior, such as time of store entry and shelf-browsing habits, and provide managers with a customer heatmap that reflects traffic patterns. Purchase history is also analyzed, leading to relevant offers for future purchase conversions, and customers for their continued loyalty through a special VIP status that brings customized promotions and coupons along with attentive customer service. Remark AI's retail solutions allow retailers and store managers to make better data-driven decisions regarding store layout, item placement, and pricing strategy, all while anonymizing customers' identities to protect their privacy.

Urban Life Cycle Solutions. We offer and have installed several solutions in what we call the urban life cycle category. Our urban life cycle solutions include our AI community system which assists in building "smart" communities by enhancing community security and safety. We also have AI solutions that help to make schools "smart" by (i) providing an accurate and convenient method for student check-in and check-out, (ii) providing an autonomous method of campus monitoring that enhances students' safety by, for example, monitoring students for elevated body temperatures that could indicate viral infections such as influenza or COVID-19, detecting trespassers, detecting dangerous behaviors or physical accidents that could result in injury, and (iii) monitoring the school kitchen for safety violations.

In traffic management, our solutions assist in monitoring traffic for various violations by automatically detecting, capturing, and obtaining evidence regarding violations such as speeding, running red lights, driving against the flow of traffic and even using counterfeit registration plates. Additionally, our solutions provide constant road-condition monitoring, providing control centers with real-time information on traffic conditions such as areas of congestion or other traffic anomalies.

Workplace and Food Safety Solutions. The monitoring and detection capabilities of our solutions ensure that workers are practicing established food safety protocols, wearing the proper personal protective equipment, and complying with local health codes. From commercial kitchens to factories to construction work zones, our safety-compliance algorithms manage regulatory functions, review hygienic and equipment status while checking and alerting management regarding violations.

Railway Safety Solutions. In railway settings, our product known as the Smart Sentry uses the Smart Safety Platform (the “SSP”), a specialized version of the software platform we developed with one of the VIEs, to provide intrusion-detection capabilities that allow customers to monitor railroad tracks, rail yards and other sensitive areas around the clock, in all weather conditions and at varying distances. The Smart Sentry, which customers can deploy as an individual unit or as a system of units, detects when pedestrians or vehicles are crossing a railway or entering the railway tracks as a train is approaching, and then alerts customer personnel to the situation so action can be taken to prevent hazardous incidents from happening. When deployed in multiple-unit systems, each Smart Sentry unit works in concert with the other units to relay warnings that give train operators sufficient time to respond to the track intrusions from miles away. Using the Smart Sentry’s high-end cameras and other hardware, the SSP also gathers and analyzes data on railway traffic and weather conditions along various railways to provide valuable, actionable information to railway personnel. In the near future, we expect to add more safety features to Smart Sentry, such as the ability to detect worn or otherwise damaged track and the ability to identify stationary obstacles like fallen rocks or trees.

Biosafety Solutions. With help from one of the VIEs, we repurposed and improved our existing urban life cycle solution that we were selling to make schools in China “smart” schools to build a product line of high-quality, highly-effective thermal imaging solutions that leverage our innovative software.

We sell our Remark AI Thermal Kits to customers needing the ability to scan crowds and areas of high foot traffic for indications that certain persons with elevated temperatures may require secondary screening. Though the kits are semi-customizable, they generally consist primarily of a thermal imaging camera, a calibrating device, a computer to monitor the video feed, supporting equipment and our AI software. Once set up and calibrated, the kits scan a large number of people each minute, providing both thermally enhanced and standard video feeds that allow our customers to evaluate high volumes of people at large gatherings.

Our Remark AI rPad thermal imaging devices, usually mounted on a wall or a single-post stand, are designed for customers needing the ability to scan individuals on a one-by-one basis in situations where rapid, high-volume scanning is not necessary, such as at a customer’s office entrances where employees can be scanned as they enter for indications of an elevated temperature that may require secondary screening. In addition to thermal scanning, we can customize our AI software embedded in the rPad to perform additional safety and security functions including identifying persons for authorized entry.

Other Businesses

Though our focus remains on our AI and data analytics solutions, which produce substantially all of our revenue, we will continue to operate the Bikini.com e-commerce business until such time as we can sell such business in the near future. We also have continued developing a metaverse that we believe can lead to opportunities in other verticals to which we can apply our AI expertise and develop new revenue streams for our investors.

Overall Business Outlook

The innovative AI and data analytics solutions we and the VIEs already sell will continue to serve as the backbone of our efforts to expand our business not only in the Asia-Pacific region, where we believe there still are fast-growth AI market opportunities for our solutions, but also in the United States and Europe, where we see a tremendous number of requests for AI products and solutions in the workplace and public safety markets. We continue to pursue large business opportunities, but anticipating when, or if, we can close these opportunities is difficult. Quickly deploying our software solutions in the market segments we have identified, in which we may face a number of large, well-known competitors, is also difficult.

The response to the COVID-19 pandemic will likely continue to adversely affect our business and financial results, as could economic and geopolitical conditions in some international regions, and we do not yet know what will be the ultimate effects on our business. The COVID-19 pandemic caused a broad shift towards remote working arrangements for many businesses worldwide and injected uncertainty and delay into decision-making processes for such businesses. Varying degrees of preventative measures are still in place in China and other parts of the world, including city-wide lockdowns, travel restrictions, closures of non-essential businesses and other quarantine measures. In particular, the preventative measures in China as a result of the Chinese government's "Zero-COVID" policy have significantly limited the operational capabilities of the VIEs. Many cities across large swaths of China have recently been fully or partially locked down for weeks or even months, including economically significant regions such as Shanghai. Such lockdowns have had a material adverse impact on our business and we expect them to continue to have a material adverse impact on our business at least through the third quarter of 2022.

The full extent of the impact of the pandemic on our business and financial results will depend largely on future developments, including resurgences and further spread of existing or new COVID-19 variants, the duration of any remaining preventative measures implemented by domestic and foreign governments, the impact on capital and financial markets and the related impact on the financial circumstances of our customers, all of which are highly uncertain and cannot be predicted. The pandemic-related situation continues to change rapidly, and additional impacts of which we are not currently aware may arise. We are closely monitoring worldwide developments and are continually assessing the potential impact on our business.

Inflation and Supply Chain

Other than the impact of inflation on the general economy, we do not believe that inflation has had a material effect on our operations to date. However, there is a risk that our operating costs could be subject to inflationary pressures in the future, which would have the effect of increasing our operating costs and put additional stress on our working capital resources.

We have not experienced any supply chain disruptions that have had a material effect on our operations to date. As our business begins to expand in the U.S. based initially on our SSP software, we could be subjected to the risk of supply chain disruptions with regard to high-technology products such as servers and related equipment that we use to train our AI software algorithms and which we plan to sell to customers to support operation of the SSP.

Business Developments During 2022

The COVID-19 pandemic caused renewed lockdowns in China, which made it difficult for us to interact with our clients and vendors. While we were able to complete several larger projects during the first half of 2022, primarily during the first quarter, including construction projects obtained through our China Business Partner and projects related to school campuses, the lockdowns that continued well into the second quarter prevented us from being able to complete as many projects as we otherwise had planned to complete during the second quarter.

The following table presents our revenue categories as a percentage of total consolidated revenue during the three and six months ended June 30, 2022 and 2021.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
AI-based products and services	97 %	96 %	97 %	93 %
Advertising and other	3 %	4 %	3 %	7 %

CRITICAL ACCOUNTING POLICIES

During the six months ended June 30, 2022, we made no material changes to our critical accounting policies as we disclosed them in Part II, Item 7 of our 2021 Form 10-K.

RESULTS OF OPERATIONS

The following tables summarize our operating results for the three and six months ended June 30, 2022, and the discussion following the table explains material changes in such operating results compared to the three and six months ended June 30, 2021.

(dollars in thousands)

	Three Months Ended June 30, 2022		Change	
	2022	2021	Dollars	Percentage
Revenue, including amounts from China Business Partner	\$ 2,558	\$ 4,016	\$ (1,458)	(36)%
Cost of revenue	1,847	2,252	(405)	(18)%
Sales and marketing	188	398	(210)	(53)%
Technology and development	508	1,305	(797)	(61)%
General and administrative	3,933	2,482	1,451	58 %
Depreciation and amortization	37	49	(12)	(24)%
Interest expense	(1,774)	(380)	(1,394)	367 %
Change in fair value of warrant liability	—	1,322	(1,322)	(100)%
Loss on investment	(6,952)	—	(6,952)	
Other gain (loss), net	152	(24)	176	(733)%
Provision for income taxes	—	(9)	9	(100)%
Net loss	<u>(12,529)</u>	<u>(1,561)</u>	(10,968)	703 %

(dollars in thousands)	Six Months Ended June 30,		Change	
	2022	2021	Dollars	Percentage
Revenue, including amounts from China Business Partner	\$ 7,225	\$ 8,422	\$ (1,197)	(14)%
Cost of revenue	6,117	5,004	1,113	22 %
Sales and marketing	336	1,399	(1,063)	(76)%
Technology and development	963	2,855	(1,892)	(66)%
General and administrative	7,872	5,179	2,693	52 %
Depreciation and amortization	78	115	(37)	(32)%
Interest expense	(3,960)	(615)	(3,345)	544 %
Change in fair value of warrant liability	—	(288)	288	(100)%
Loss on investment	(26,008)	—	(26,008)	
Other gain (loss), net	151	20	131	655 %
Provision for income taxes	—	(9)	9	(100)%
Net loss	<u>(37,958)</u>	<u>(7,022)</u>	(30,936)	441 %

Revenue and Cost of Revenue. During the three and six months ended June 30, 2022, the VIEs completed larger AI-related projects than in the comparable periods of the prior year, including projects associated with the VIEs' collaboration with an unrelated entity (the "China Business Partner"), resulting in \$1.0 million and \$1.8 million more revenue, respectively. Decreases in U.S. revenue during the three and six months ended June 30, 2022 of approximately \$2.3 million from AI data intelligence services related to a daily fantasy sports project that was not repeated in the current year and, during the six months ended June 30, 2022, decreases of \$0.3 million from advertising related to the daily fantasy sports project and approximately \$0.4 million from our biosafety business due to a decline in demand, offset the increased revenue from China.

During the three months ended June 30, 2022, cost of revenue decreased in relation to the decrease in revenue. The increase in cost of revenue during the six months ended June 30, 2022 was related to the VIEs' completion of larger projects as described above, partially offset by the decrease in cost of revenue associated with the U.S. revenue decreases described above.

Sales and marketing. The decrease in sales and marketing expense during the six months ended June 30, 2022 resulted because the prior year to date included \$1.3 million that one of our VIEs advanced to our China Business partner, and such amount was classified as marketing expense. The \$1.3 million was partially offset by approximately \$0.6 million resulting from our completion of orders from a client that resulted from our joint efforts with our China Business Partner. Because we had provided money to our China Business Partner in 2021 for the business development efforts that resulted in the customer orders, we had recorded the \$0.6 million as an offset to the expense.

Technology and development. Consulting fees decreased \$0.7 million and \$1.6 million during the three and six months ended June 30, 2022, respectively, because we no longer needed certain third-party services after our acquisition, in an immaterial business combination, of our United Kingdom subsidiary. Additionally, the six months ended June 30, 2022 reflected a small decrease in our common stock price while the same period during the prior year had almost no change in our common stock price, a situation that caused a \$0.2 million decrease in share-based compensation expense related to our outstanding liability-classified China Cash Bonuses. Stock price is an input to the model we use to estimate the fair value of the China Cash Bonuses, and changes in stock price can cause large fluctuations in our estimates of fair value.

General and administrative. The increase in general and administrative expense during the three and six months ended June 30, 2022 was primarily the result of increases of \$0.5 million and \$0.9 million, respectively, in share-based compensation resulting almost entirely from the recognition of the stock option issuances made in July 2020 for which an accounting grant date did not occur until July 2021. Also contributing to the increases during the three and six months ended June 30, 2022 were

increases of \$0.2 million and \$0.5 million, respectively, in payroll and benefits, and increases of \$0.5 million in each of the three-month and six-month periods of 2022 in certain business development expenses as we work to expand our client base. Further contributing to the increase during the three months ended June 30, 2022 was a \$0.1 million increase in accounting expense.

Interest expense. We executed a \$30.0 million note payable in December 2021 which bears interest at 16.5%; such note payable was the primary cause of the increase in interest expense during the three and six months ended June 30, 2022. The same period of the prior year included significantly less debt principal outstanding, with such principal bearing lower interest rates than on the note payable we executed in December 2021. Included as part of interest expense during the six months ended June 30, 2022 was \$1.9 million of amortization of debt discount and debt issuance cost related to our note payable.

Loss on investment in marketable securities. On July 1, 2021, as the result of a business combination involving Legacy Sharecare and New Sharecare, our equity in Legacy Sharecare converted into cash and shares of publicly traded common stock of New Sharecare. As a result of the common stock of New Sharecare being traded on a national securities exchange, we were able to remeasure our investment at fair value, resulting in the losses of \$7.0 million and \$26.0 million during the three and six months ended June 30, 2022, respectively.

Change in fair value of warrant liability. After reclassifying our warrants to equity on August 31, 2021, we are no longer required to routinely remeasure them at fair value.

Other income (loss). Other income during the three and six months ended June 30, 2022 increased over the other losses we incurred during the same periods of the prior year. During the three months ended June 30, 2022, we received a refundable tax credit of approximately \$0.6 million from the government of the United Kingdom resulting from our research and development activities in its jurisdiction, which amount was partially offset by the additional \$0.4 million of liquidated damages that we accrued during the second quarter of 2022 and that we expect to pay until the SEC declares the Armistice Resale Registration Statement effective or until our registration obligations in the Armistice Registration Rights Agreement terminate.

LIQUIDITY AND CAPITAL RESOURCES

Overview

During the six months ended June 30, 2022, and in each fiscal year since our inception, we have incurred net losses which have resulted in a stockholders' deficit of \$6.3 million as of June 30, 2022. Additionally, our operations have historically used more cash than they have provided. Net cash used in operating activities was \$11.1 million during the six months ended June 30, 2022. As of June 30, 2022, our cash balance was \$1.1 million.

On December 3, 2021, we entered into the Mudrick Loan Agreements pursuant to which we incurred the Mudrick Loans in the aggregate principal amount of \$30.0 million. The Mudrick Loans bear interest at 16.5% per annum, which shall be payable on the last business day of each month commencing on December 31, 2021. All amounts outstanding under the Mudrick Loans, including all accrued and unpaid interest, will be due and payable in full on July 31, 2022. To secure the payment and performance of the obligations under the Mudrick Loan Agreements, we, together with the Guarantors, have granted to TMI Trust Company, as the collateral agent for the benefit of Mudrick, a first priority lien on, and security interest in, all assets of Remark and the Guarantors, subject to certain customary exceptions. The Mudrick Loan Agreements contain representations, warranties, events of default, indemnifications and other provisions customary for financings of this type. The occurrence of any event of default under the Mudrick Loan Agreements may result in the principal amount outstanding and unpaid interest thereon becoming immediately due and payable. In connection with our entry into the Mudrick Loan Agreements, we paid to Mudrick an upfront fee equal to 5.0% of the amount of the Mudrick Loans, which was netted against the drawdown of the Mudrick Loans and recorded as a discount of \$1.5 million, and recorded debt issuance cost totaling \$1.1 million. We are amortizing the discount on the Mudrick Loans and the debt issuance cost over the life of the Mudrick Loans.

On August 3, 2022, we entered into a First Amendment to the Mudrick Loan Agreements (the "First Amendment"), which amends the Senior Secured Loan Agreements, dated as of December 3, 2021 (collectively, as amended by the First Amendment, the "Mudrick Loan Agreements") by and among Remark, certain of our subsidiaries as guarantors and Mudrick. Pursuant to the First Amendment, Mudrick agreed, among other things, to (i) waive certain existing events of default under the Mudrick Loan Agreement, (ii) extend the original July 31, 2022 maturity date to October 31, 2022 (provided, however, that if we prepay the principal amount of the loans in an amount of at least \$5 million, the maturity date will be automatically extended to November 30, 2022), and (iii) defer payment of interest for the month of July 2022 to August 31, 2022. In addition, on and after the effective date of the First Amendment, the outstanding loans under the Mudrick Loan Agreement will bear

interest at 18.5% per annum, payable on the last business day of each month commencing on August 31, 2022. We have also agreed to commence marketing and sale efforts with respect to our Bikini.com business. In consideration for Mudrick's agreement to enter into the First Amendment and extend the maturity date, we agreed to pay Mudrick an amendment and extension payment in the amount of 2.0% of the unpaid principal balance of the loans outstanding as of the date of the First Amendment, which was paid in kind and added to the principal balance of the loans as of the effective date of the First Amendment.

Our history of recurring operating losses, working capital deficiencies and negative cash flows from operating activities give rise to substantial doubt regarding our ability to continue as a going concern.

We intend to fund our future operations and meet our financial obligations through revenue growth from our AI offerings, as well as through sales of our thermal-imaging products. We cannot, however, provide assurance that revenue, income and cash flows generated from our businesses will be sufficient to sustain our operations in the twelve months following the filing of this Form 10-Q. As a result, we are actively evaluating strategic alternatives including debt and equity financings and reactively pursuing the sale of our Bikini.com subsidiary.

Conditions in the debt and equity markets, as well as the volatility of investor sentiment regarding macroeconomic and microeconomic conditions (in particular, as a result of the COVID-19 pandemic, global supply chain disruptions, inflation and other cost increases, and the geopolitical conflict in Ukraine), will play primary roles in determining whether we can successfully obtain additional capital. We cannot be certain that we will be successful at raising additional capital or in selling our Bikini.com subsidiary.

A variety of factors, many of which are outside of our control, affect our cash flow; those factors include the effects of the COVID-19 pandemic, regulatory issues, competition, financial markets and other general business conditions. Based on financial projections, we believe that we will be able to meet our ongoing requirements for at least the next 12 months with existing cash and based on the probable success of one or more of the following plans:

- develop and grow new product line(s)
- monetize Bikini.com
- obtain additional capital through equity issuances.

However, projections are inherently uncertain and the success of our plans is largely outside of our control. As a result, there is substantial doubt regarding our ability to continue as a going concern, and we may fully utilize our cash resources prior to August 15, 2023.

Cash Flows - Operating Activities

During the six months ended June 30, 2022, we used \$4.8 million more cash in operating activities than we did during the same period of the prior year. The increase in cash used in operating activities is primarily the result of the timing of payments related to elements of working capital.

Cash Flows - Investing Activities

Investing activities during the six months ended June 30, 2022 provided \$3.8 million in proceeds from the sale of a portion of our marketable securities.

Cash Flows - Financing Activities

During the six months ended June 30, 2022, we repaid \$6.2 million of the Mudrick Loans and received \$1.5 million of advances from senior management representing various operating expense payments made on our behalf, while the prior year period's financing activity included \$4.8 million of net debt proceeds plus \$0.8 million of proceeds from issuances of our common stock shares.

Off-Balance Sheet Arrangements

We currently have no off-balance sheet arrangements.

Recently Issued Accounting Pronouncements

Please refer to [Note 2](#) in the Notes to Unaudited Condensed Consolidated Financial Statements included in this report for a discussion regarding recently issued accounting pronouncements which may affect us.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain a set of disclosure controls and procedures designed to provide reasonable assurance that the information we must disclose in reports we file or submit under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. We designed our disclosure controls with the objective of ensuring we accumulate and communicate this information to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operations of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under Exchange Act, as of the end of the period covered by this report. Based upon that evaluation, our management, including our principal executive officer and principal financial officer, concluded that, because of the material weaknesses in our internal control over financial reporting related to: (i) insufficient documentary evidence that we had reviewed information underlying manual journal entries at a sufficient level of detail, (ii) insufficient documentation of our consideration of appropriate revenue recognition criteria for certain contracts arising from our AI business in China, (iii) an aggregation of deficiencies in our monitoring and activity-level controls related to processes in our AI business in China including accounts payable, accrued liabilities, payroll and fixed assets, and (iv) failure to retain documentary evidence of all inventory purchases and the insufficient evaluation of the impact of discounted sales transactions on the valuation of our inventory, all of which we described in our 2021 Form 10-K, our disclosure controls and procedures were not effective at a reasonable assurance level as of June 30, 2022.

Changes in Internal Control over Financial Reporting

In our 2021 Form 10-K, we disclosed that management had determined that material weaknesses in our internal control over financial reporting (described above) existed. As of the date of this report, the implementation of the plan developed by management to remediate the underlying causes of the material weaknesses and improve the design and operating effectiveness of internal control over financial reporting and our disclosure controls continues. Such implementation has been slowed by various factors, including the COVID-19 pandemic. As a result, there was no change in our internal control over financial reporting during such period that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

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None.

ITEM 1A. RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risk factors discussed in Part I, Item 1A of our 2021 Form 10-K, which could materially affect our business, financial condition or operating results. The risks described in our 2021 Form 10-K are not the only risks we face. Additional risks and uncertainties that we are unaware of may become important factors that affect us. If any of these risks actually occur, our business, financial condition or operating results may suffer, the trading price of our common stock could decline, and you may lose all or part of your investment.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the period covered by this Form 10-Q, we did not issue any unregistered equity securities.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibit Number	Description	Incorporated Herein By Reference To		Exhibit Number
		Document	Filed On	
10.1	First Amendment to Senior Secured Loan Agreement, dated August 3, 2022, by and among, Remark Holdings Inc., certain of its subsidiaries and lender party thereto.	8-K	08/08/2022	10.1
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.			
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.			
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002.			
101	The following financial statements from our Quarterly Report on Form 10-Q for the quarter ended June 30, 2022, formatted in Inline XBRL: (i) Condensed Consolidated Balance Sheets as of June 30, 2022 and December 31, 2021; (ii) Unaudited Condensed Consolidated Statements of Operations and Comprehensive Loss for the three and six months ended June 30, 2022 and 2021; (iii) Unaudited Condensed Consolidated Statements of Stockholders' Deficit for the three and six months ended June 30, 2022 and 2021; (iv) Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2022 and 2021; and (v) Notes to Unaudited Condensed Consolidated Financial Statements.			
104	The cover page from our Quarterly Report on Form 10-Q for the quarter ended June 30, 2022, formatted in Inline XBRL (included as Exhibit 101).			

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SIGNATURES

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

REMARK HOLDINGS, INC.

Date: August 15, 2022

By: /s/ Kai-Shing Tao
Kai-Shing Tao
Chairman and Chief Executive Officer
(principal executive, financial and
accounting officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Kai-Shing Tao (the registrant's principal executive officer), certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Remark Holdings, 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 control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer 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: August 15, 2022

By: /s/ Kai-Shing Tao

Kai-Shing Tao

Chief Executive Officer and Chairman

**CERTIFICATIONS OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Kai-Shing Tao, the registrant's principal executive, financial and accounting officer, certify that, to my knowledge:

1. the accompanying Quarterly Report on Form 10-Q for the period ended June 30, 2022 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Remark Holdings, Inc. at the dates and for the periods indicated.

Date: August 15, 2022

/s/ Kai-Shing Tao

Kai-Shing Tao
Chief Executive Officer and Chairman