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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2024

or

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

For the transition period from ____________________ to ____________________

Commission File Number: 001-40764

Wag! Group Co.

(Exact name of registrant as specified in its charter)

Delaware	**88-3590180**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
55 Francisco Street, Suite 360 **San Francisco, California**	**94133**
(Address of principal executive offices)	*(Zip Code)*

(707) 324-4219
(Registrant's telephone number, including area code)

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.0001 per share	PET	The Nasdaq Global Market
Warrants, each whole warrant exercisable for one share of Common Stock at an exercise price of $11.50 per share	PETWW	The Nasdaq Global Market

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

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

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

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

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

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

There were 48,807,319 shares of common stock outstanding as of July 31, 2024.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which are statements that involve substantial risks and uncertainties. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as "may," "will," "shall," "should," "expects," "plans," "anticipates," "could," "intends," "targets," "projects," "contemplates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans or intentions. Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements about:

- *our ability to further develop and advance our pet service offerings and achieve scale;*
- *our ability to attract and retain personnel;*
- *market opportunity, anticipated growth, and future financial performance, including management's financial outlook for the future;*
- *market adoption of our pet service offerings and solutions;*
- *our need to obtain additional financing or refinance our existing indebtedness which has caused management to determine that there is substantial doubt regarding our ability to continue as a going concern;*
- *the intended use of the net proceeds from our recent underwritten registered public offering;*
- *our plan to refinance our existing indebtedness;*
- *our ability to protect our intellectual property;*
- *changes in the competitive industries in which we operate;*
- *changes in laws and regulations affecting our business;*
- *our ability to implement our business plans, forecasts, and other expectations, and identify and realize additional partnerships and opportunities; and*
- *the risk of downturns in the market and the technology industry.*

You should not rely upon forward-looking statements as predictions of future events. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties and other factors described in Part I, Item 1A, Risk Factors, *of our Annual Report on Form 10-K for the year ended December 31, 2023 and elsewhere in this Quarterly Report on Form 10-Q, as well as in our other filings with the Securities and Exchange Commission ("SEC"). Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Quarterly Report on Form 10-Q. The results, events and circumstances reflected in the forward-looking statements may not be achieved or occur, and actual results, events or circumstances could differ materially from those described in the forward-looking statements.*

The forward-looking statements made in this Quarterly Report on Form 10-Q relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Quarterly Report on Form 10-Q to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect new information or the occurrence of unanticipated events, except as required by law.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

WAG! GROUP CO.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2024	December 31, 2023
	(in thousands, except par value amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 9,234	$ 18,323
Accounts receivable, net	7,512	10,023
Prepaid expenses and other current assets	2,256	3,428
Total current assets	19,002	31,774
Property and equipment, net	1,144	347
Operating lease right-of-use assets	894	1,045
Intangible assets, net	7,860	8,828
Goodwill	4,646	4,646
Other assets	52	57
Total assets	$ 33,598	$ 46,697
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$ 6,850	$ 9,919
Accrued expenses and other current liabilities	2,044	4,015
Deferred revenue	1,642	1,781
Deferred purchase consideration – current portion	185	547
Operating lease liabilities – current portion	396	386
Notes payable – current portion	2,075	1,751
Total current liabilities	13,192	18,399
Operating lease liabilities – non-current portion	645	816
Notes payable – non-current portion, net of debt discount and warrant allocation of $2,721 and $4,563 as of June 30, 2024 and December 31, 2023, respectively	21,468	25,664
Other non-current liabilities	78	172
Total liabilities	35,383	45,051
Commitments and contingencies (Note 8)		
Stockholders' equity (deficit):		
Common stock, $0.0001 par value; 110,000 shares authorized as of both June 30, 2024 and December 31, 2023; 41,394 and 39,597 issued and outstanding as of June 30, 2024 and December 31, 2023, respectively	4	4
Additional paid-in capital	166,437	163,376
Accumulated deficit	(168,226)	(161,734)
Total stockholders' equity (deficit)	(1,785)	1,646
Total liabilities and stockholders' equity (deficit)	$ 33,598	$ 46,697

See the accompanying notes to unaudited condensed consolidated financial statements.

WAG! GROUP CO.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2024	June 30, 2023	June 30, 2024	June 30, 2023
	(in thousands, except per share amounts)			
Revenues	$ 18,651	$ 19,820	$ 41,870	$ 40,443
Costs and expenses:				
Cost of revenues (exclusive of depreciation and amortization shown separately below)	1,158	1,243	2,728	2,269
Platform operations and support	2,714	3,492	5,674	6,662
Sales and marketing	11,037	10,758	26,692	24,033
Royalty	—	1,791	—	1,791
General and administrative	3,809	4,821	8,048	9,805
Depreciation and amortization	580	375	1,158	756
Total costs and expenses	19,298	22,480	44,300	45,316
Interest expense	1,597	1,897	3,482	3,771
Interest income	(75)	(238)	(227)	(482)
Loss on extinguishment of debt	—	—	726	—
Other expense, net	—	65	—	9
Loss before income taxes	(2,169)	(4,384)	(6,411)	(8,171)
Income taxes	82	38	81	38
Equity in net earnings of equity method investments	—	553	—	553
Net loss	$ (2,251)	$ (3,869)	$ (6,492)	$ (7,656)
Loss per share, basic and diluted	$ (0.06)	$ (0.10)	$ (0.16)	$ (0.20)
Weighted-average common shares outstanding used in computing loss per share, basic and diluted	40,914	38,109	40,496	37,590

See the accompanying notes to unaudited condensed consolidated financial statements.

WAG! GROUP CO.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(Unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount			
			(in thousands)		
Balance as of December 31, 2023	39,597	$ 4	$ 163,376	$ (161,734)	$ 1,646
Issuance of common stock from exercise of stock options and vesting of restricted stock units	943	—	61		61
Stock-based compensation			1,296		1,296
Net loss				(4,241)	(4,241)
Balance as of March 31, 2024	40,540	4	164,733	(165,975)	(1,238)
Issuance of common stock from exercise of stock options and vesting of restricted stock units	808	—	48		48
Stock-based compensation			1,656		1,656
Shares related to acquisition indemnification holdback	46	—	—		—
Net loss				(2,251)	(2,251)
Balance as of June 30, 2024	41,394	$ 4	$ 166,437	$ (168,226)	$ (1,785)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
			(in thousands)		
Balance as of December 31, 2022	36,849	$ 4	$ 158,335	$ (148,417)	$ 9,922
Issuance of common stock from exercise of stock options and vesting of restricted stock units	580	—	54		54
Stock-based compensation			1,342		1,342
Net loss				(3,787)	(3,787)
Balance as of March 31, 2023	37,429	4	159,731	(152,204)	7,531
Issuance of common stock from exercise of stock options	1,298	—	36		36
Stock-based compensation			1,121		1,121
Shares issued for acquisition	49	—	225		225
Net loss				(3,869)	(3,869)
Balance as of June 30, 2023	38,776	$ 4	$ 161,113	$ (156,073)	$ 5,044

See the accompanying notes to unaudited condensed consolidated financial statements.

WAG! GROUP CO.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended	
	June 30, 2024	**June 30, 2023**
	(in thousands)	
Cash flow from operating activities:		
Net loss	$ (6,492)	$ (7,656)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	2,952	2,463
Non-cash interest expense	1,229	1,350
Depreciation and amortization	1,158	756
Reduction in carrying amount of operating lease right-of-use assets	151	168
Equity in net earnings of equity method investments	—	(553)
Loss on extinguishment of debt	726	—
Changes in operating assets and liabilities, net of effect of acquired business:		
Accounts receivable	2,511	(1,850)
Prepaid expenses and other current assets	1,007	1,049
Other assets	5	(5)
Accounts payable	(3,069)	2,241
Accrued expenses and other current liabilities	(1,806)	(700)
Deferred revenue	(139)	368
Operating lease liabilities	(160)	(176)
Other non-current liabilities	(94)	218
Net cash used in operating activities	(2,021)	(2,327)
Cash flows from investing activities:		
Cash paid for acquisitions, net of cash acquired	(128)	(9,503)
Cash paid for equity method investment	—	(1,470)
Purchase of property and equipment	(860)	(31)
Net cash used in investing activities	(988)	(11,004)
Cash flows from financing activities:		
Repayment of debt	(5,714)	(551)
Debt prepayment penalty	(100)	—
Proceeds from exercises of stock options	109	90
Other	(375)	(382)
Net cash used in financing activities	(6,080)	(843)
Net change in cash and cash equivalents	(9,089)	(14,174)
Cash and cash equivalents, beginning of period	18,323	38,966
Cash and cash equivalents, end of period	$ 9,234	$ 24,792

See the accompanying notes to unaudited condensed consolidated financial statements.

WAG! GROUP CO.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Organization and Description of Business

Wag! Group Co. ("Wag!," "Wag," the "Company," "we," or "our"), formerly known as CHW Acquisition Corporation ("CHW"), is incorporated in Delaware with headquarters in San Francisco, California. The Company develops and supports proprietary technologies available via website and mobile app ("platform" or "marketplace") that enable end users, such as Pet Parents, to connect with independent service and product providers to obtain services and products. The Company operates in the United States.

2. Significant Accounting Policies

Basis of Presentation

The unaudited condensed consolidated interim financial information of the Company has been prepared in accordance with Article 10 of the Securities and Exchange Commission's ("SEC") Regulation S-X. Accordingly, as permitted by Article 10 of Regulation S-X, it does not include all of the information required by generally accepted accounting principles in the U.S. ("U.S. GAAP") for complete financial statements. The condensed consolidated balance sheet as of December 31, 2023 was derived from the audited financial statements at that date and does not include all the disclosures required by U.S. GAAP, as permitted by Article 10 of Regulation S-X. The Company's unaudited condensed consolidated financial statements as of June 30, 2024 and for the three and six months ended June 30, 2024 and 2023 include Wag! Group Co. and all of its subsidiaries. In the opinion of management, the accompanying financial information contains all adjustments, consisting of normal recurring adjustments, necessary to state fairly the Company's unaudited condensed consolidated financial statements as of June 30, 2024 and for the three and six months ended June 30, 2024 and 2023. These unaudited condensed consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2023 (the "2023 10-K"). Operating results for the three and six months ended June 30, 2024 and 2023 are not necessarily indicative of the results that may be expected for the year ending December 31, 2024.

Liquidity and Going Concern

Pursuant to the requirements of FASB ASC Topic 205-40, *Presentation of Financial Statements—Going Concern*, management must evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year from the date these financial statements are issued. This evaluation does not take into consideration the potential mitigating effect of management's plans that have not been fully implemented or are not within control of the Company as of the date the financial statements are issued. When substantial doubt exists under this methodology, management evaluates whether the mitigating effect of its plans sufficiently alleviates substantial doubt about the Company's ability to continue as a going concern. The mitigating effect of management's plans, however, is only considered if both (1) it is probable that the plans will be effectively implemented within one year after the date that the financial statements are issued, and (2) it is probable that the plans, when implemented, will mitigate the relevant conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued.

As of June 30, 2024, the Company had cash and cash equivalents of approximately $9.2 million and accounts receivable of $7.5 million, and the amount outstanding under its debt obligations was $26.3 million, of which $25.7 million and $0.5 million related to the Financing Agreement and PPP Loan, respectively. Additionally, for the six months ended June 30, 2024, net loss was $6.5 million and net cash used in operating activities was $2.0 million. The Company's ability to continue as a going concern is dependent on its ability to generate significant cash flows, obtain sufficient proceeds from any future offerings of securities, renegotiate the existing terms of the Financing Agreement, and/or obtain alternative financing prior to the maturity of the Financing Agreement in August 2025. The Company expects operating losses to continue in the foreseeable future as it continues to invest in growing its business. To alleviate these conditions, the Company completed a registered public offering in July 2024 for net proceeds of approximately $8.6 million (See Note 15, *Subsequent Events*, for more information) and management is actively engaged in discussions to refinance the Financing Agreement. However, there can be no assurance that the Company will be able to complete the refinancing as it is ultimately outside of the control of the Company.

Due to the Company's projected cash needs (which includes amounts due under the Financing Agreement) combined with its current liquidity level and history of net losses and cash used to fund operating activities, there is substantial doubt regarding the Company's ability to continue as a going concern for a period of at least one year from the date of issuance of these unaudited condensed consolidated financial statements.

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared assuming the Company will continue as a going concern. The going concern basis of presentation assumes that the Company will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. This also means that the accompanying unaudited condensed consolidated financial statements do not include any adjustments that might result from the outcome of the uncertainties described above, which could be material.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The Company bases its estimates and assumptions on current facts, historical experience, and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the recording of revenues and expenses. Actual results could differ from those estimates.

Significant items subject to estimates and assumptions include, but are not limited to, fair values of financial instruments, valuation of intangible assets acquired, valuation of stock-based compensation and warrants, and the valuation allowance for deferred income taxes. Actual results may differ from these estimates.

Recently Adopted Accounting Pronouncements

In August 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity* ("ASU 2020-06"). This ASU simplifies the accounting for convertible instruments by eliminating certain accounting models, resulting in fewer embedded conversion features being separately recognized from the host contract, and also amends the guidance for derivatives scope exception for contracts in an entity's own equity to reduce form-over-substance-based accounting conclusions. Additionally, the amendments in this ASU affect the diluted earnings per share ("EPS") calculation for convertible instruments. It requires that the effect of potential share settlement be included in the diluted EPS calculation when a convertible instrument may be settled in cash or shares; the if-converted method as opposed to the treasury stock method is required to calculate diluted EPS for these types of convertible instruments. The amendments in this update are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years, with early adoption permitted. The adoption of this guidance during the first quarter of 2024 did not have a material impact on the Company's condensed consolidated financial statements.

New Accounting Pronouncements

In November 2023, the FASB issued ASU No. 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures* ("ASU 2023-07"). This ASU improves reportable segment disclosures, primarily through enhanced disclosures about significant segment expenses. The amendments in this update are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted. The Company is evaluating the potential impact of this adoption on its condensed consolidated financial statements.

In December 2023, the FASB issued ASU No. 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures* ("ASU 2023-09"). This ASU improves the transparency of income tax disclosures by requiring: (1) consistent categories and greater disaggregation of information in the rate reconciliation, and (2) income taxes paid disaggregated by jurisdiction. Additionally, the amendments in this ASU improve the effectiveness and comparability of disclosures by: (1) adding disclosures of pretax income (or loss) and income tax expense (or benefit) to be consistent with U.S. Securities and Exchange Commission ("SEC") Regulation S-X, and (2) removing disclosures that no longer are considered cost beneficial or relevant. The amendments in this update are effective for fiscal years beginning after December 15, 2024, with early adoption permitted. The Company is evaluating the potential impact of this adoption on its condensed consolidated financial statements.

Equity Method Investment

During the fourth quarter of 2022, the Company's subsidiary, Compare Pet Insurance Services, Inc., entered into an agreement to invest $1.5 million for 49% ownership in a new limited liability company, which was funded in the first quarter of 2023. The investment was accounted for as an equity method investment, with the Company's proportionate share of the investee's net income recognized in equity in net earnings of equity method investment within the Company's consolidated statement of operations, as the Company had less than 50% ownership and did not control the entity. During the six months ended June 30, 2024, the Company did not recognize any activity within its condensed consolidated statements of operations related to the equity method investee.

During the third quarter of 2023, the Company acquired the remaining 51% ownership of the limited liability company for an aggregate purchase price of approximately $2.2 million. The Company accounted for the transaction as an asset acquisition using the cost accumulation model to determine the cost to be allocated to the assets acquired, which resulted in the derecognition of royalties payable to the equity method investee of approximately $1.8 million and the recognition of intangible assets acquired of approximately $0.2 million and cash acquired of $2.5 million. As a result of the transaction, the limited liability company became a wholly-owned subsidiary of the Company and the Company began consolidating the entity as part of its condensed consolidated financial statements.

Revenue Recognition

The Company recognizes revenue in accordance with FASB Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*. Through its Services offerings, the Company principally generates Services revenue from service fees charged to Pet Caregivers to successfully complete a pet care service for a Pet Parent via the platform. The Company also generates revenue from subscription fees paid by Pet Parents for Wag! Premium and fees paid by Pet Caregivers to join the platform. Additionally, through its Wellness and Pet Food & Treat offerings, the Company generates revenue through commission fees paid by third-party service partners in the form of "revenue-per-action" or conversion activity defined in our agreements with the respective third-party service partner. For some of the Company's arrangements with third-party service partners, the transaction price is considered variable, and an estimate of the transaction price is recorded when the action occurs. The estimated transaction price used in the variable consideration is based on historical data with the respective third-party service partner and the consideration is measured and settled monthly.

The Company enters into terms of service with Pet Caregivers and Pet Parents to use the platform ("Terms of Service Agreements"), as well as an Independent Contractor Agreement ("ICA") with Pet Caregivers (the ICA, together with the Terms of Service Agreements, the "Agreements"). The Agreements govern the fees the Company charges the Pet Caregivers and Pet Parents, where applicable, for each transaction. Upon acceptance of a transaction, Pet Caregivers agree to perform the services that are requested by a Pet Parent. The acceptance of a transaction request combined with the Agreements establishes enforceable rights and obligations for each transaction. A contract exists between the Company and its customers after both the Pet Caregivers and Pet Parent accept a transaction request and the Pet Caregivers ability to cancel the transaction lapses. For Wag! Wellness and Pet Food & Treat revenues, the Company enters into agreements with third-party service partners which define the action by a Pet Parent that results in the Company earning and receiving a commission fee from the third-party service partner.

Wag!'s service obligations are performed, and revenue is recognized, for fees earned related to the facilitation and completion of a pet service transaction between the Pet Parent and the Pet Caregiver through the use of our platform. Revenue generated from the Company's Wag! Premium subscription is recognized on a ratable basis over the contractual period, which is generally one month to one year depending on the type of subscription purchased by the Pet Parent. Prepaid subscription amounts are included in deferred revenue within the Company's condensed consolidated balance sheets. Revenue related to the fees paid by the Pet Caregiver to join the platform are recognized upon processing of the applications. Wag! Wellness and Pet Food & Treat revenue performance obligations are completed, and revenue is recognized, when an end-user completes an action or conversion activity.

Principal vs. Agent Considerations

Judgment is required in determining whether the Company is the principal or agent in transactions with Pet Caregivers and Pet Parents. The Company evaluates the presentation of revenues on a gross or net basis based on whether the Company controls the service provided to the Pet Parent and is the principal (i.e., "gross"), or whether the Company arranges for other parties to provide the service to the Pet Parent and is an agent (i.e. "net").

The Company's role in a transaction on the platform is to facilitate Pet Caregivers finding, applying, and completing a successful pet care service for a Pet Parent. The Company has concluded it is the agent in transactions with Pet Caregivers and Pet Parents because, among other factors, the Company's role is to facilitate pet service opportunities; it is not responsible for and does not control the delivery of pet services provided by the Pet Caregivers to the Pet Parents.

Gift Cards

The Company sells gift cards that can be redeemed by Pet Parents through the platform. Proceeds from the sale of gift cards are deferred and recorded as contract liabilities in Deferred revenue within the Company's condensed consolidated balance sheets until Pet Parents use the card to place orders on our platform. When gift cards are redeemed, revenue is recognized on a net basis as the difference between the amounts collected from the purchaser less amounts remitted to Pet Caregivers. Unused gift cards are included in Deferred revenue within the Company's condensed consolidated balance sheets.

The Company recognizes breakage revenue based on historical redemption patterns.

Incentives

The Company offers discounts and promotions to encourage use of the Company's platform. These promotions are generally pricing actions in the form of discounts that reduce the price Pet Parents pay Pet Caregivers for services. These promotions result in a lower fee earned by the Company from the Pet Caregiver. Accordingly, the Company records the cost of these promotions as a reduction of revenues. Discounts on services offered through our subscription program are also recorded as a reduction of revenues.

Loss Per Share

The Company follows the two-class method when computing loss per share when shares issued meet the definition of participating securities. The two-class method determines loss per share for each class of common stock and participating securities according to dividends declared or accumulated and participation rights in undistributed earnings. The two-class method requires income available to stockholders for the period to be allocated between common stock and participating securities based upon their respective rights to receive dividends as if all income for the period had been distributed.

For periods in which the Company reports net losses, diluted loss per share is the same as basic loss per share because potentially dilutive common shares are not assumed to have been issued if their effect is anti-dilutive.

3. Business Combination with CHW

On August 9, 2022 (the "Merger Date"), Wag! Labs, Inc. ("Legacy Wag!"), CHW, and CHW Merger Sub, Inc. ("Merger Sub") pursuant to the terms of the Business Combination Agreement and Plan of Merger (the "CHW Business Combination Agreement") dated February 2, 2022, completed the business combination of Legacy Wag! and CHW which was effected by the merger of Merger Sub with and into Legacy Wag!, with Legacy Wag! surviving the Merger as a wholly-owned subsidiary of CHW (the "Merger," and, together with the other transactions contemplated by the CHW Business Combination Agreement, the "CHW Business Combination"). Upon completion of the Merger on August 9, 2022, following the approval at the extraordinary general meeting of the stockholders of CHW held on July 28, 2022 (the "Special Meeting"), the Company changed its name to Wag! Group Co. ("Post-Combination Company") and effectively assumed all of CHW's material operations.

For more information regarding the CHW Business Combination, refer to Note 3, *Business Combination with CHW*, to the Consolidated Financial Statements included in the 2023 10-K.

Earnout Compensation

In connection with the CHW Business Combination, Legacy Wag! stockholders and certain members of management and employees of Legacy Wag! that held either a share of common stock, a Legacy Wag! Option or a Legacy Wag! RSU Award at the date of the Merger have the contingent right to Earnout Shares. The aggregate number of Earnout Shares and Management Earnout Shares is 10,000,000 and 5,000,000 shares of Wag! common stock, respectively. The Earnout Shares will be issued only if certain Wag! share price conditions are met over a three-year period from the Merger Date. The Earnout Shares are subject to the occurrence of certain triggering events based on a three-year period from the Merger Date as defined in the CHW Business Combination Agreement as:

1. 5,000,000 shares are earned if the stock price of the Company is or exceeds $12.50 for 20 out of any 30 consecutive trading days (“Triggering Event I”)
2. 5,000,000 shares are earned if the stock price of the Company is or exceeds $15.00 for 20 out of any 30 consecutive trading days (“Triggering Event II”); and
3. 5,000,000 shares are earned if the stock price of the Company is or exceeds $18.00 for 20 out of any 30 consecutive trading days (“Triggering Event III”) (collectively, the “Triggering Events”).

Additionally, if there is a change of control transaction, the agreed upon selling price of the Company on a per share basis, would be the fair value of the shares inclusive of the resulting triggered Earnout Shares upon consummation of the proposed transaction. The per share price in a change in control would be used to determine whether the Triggering Events have been met, and depending on the per share price, a certain number of shares will be issued.

The Earnout Shares and Management Earnout Shares are classified as equity transactions at initial issuance and at settlement when and if the triggering conditions are met. The Earnout Shares are equity-classified since they do not meet the liability classification criteria outlined in FASB ASC Topic 480, *Distinguishing Liabilities from Equity*, and are both (i) indexed to the Company’s own shares and (ii) meet the criteria for equity classification. Until the shares are issued upon a Triggering Event, the Earnout Shares are not included in shares outstanding. As of the date of the CHW Business Combination, the Earnout Share awards had a total fair value of $23.9 million determined using a Monte Carlo fair value methodology in each of the $12.50, $15.00, and $18.00 Earnout tranches multiplied by the number of Earnout Shares allocated to each individual pursuant to the calculation defined in the CHW Business Combination Agreement.

4. Fair Value Measurements

The following tables provide information about the Company’s financial instruments that are measured at fair value on a recurring basis and indicate the fair value hierarchy of the valuation techniques utilized to determine such values as of June 30, 2024 and December 31, 2023:

	June 30, 2024			
	Level 1	**Level 2**	**Level 3**	**Total**
	(in thousands)			
Assets:				
Cash equivalents:				
Money market funds	$ 4,161	$ —	$ —	$ 4,161
Total cash equivalents	4,161	—	—	4,161
Total assets at fair value	$ 4,161	$ —	$ —	$ 4,161

	December 31, 2023			
	Level 1	**Level 2**	**Level 3**	**Total**
	(in thousands)			
Assets:				
Cash equivalents:				
Money market funds	$ 11,388	$ —	$ —	$ 11,388
Total cash equivalents	11,388	—	—	11,388
Total assets at fair value	$ 11,388	$ —	$ —	$ 11,388

The Company’s money market funds were valued using Level 1 inputs because they were valued using quoted prices in active markets. As of June 30, 2024 and December 31, 2023, the Company’s cash equivalents approximated their estimated fair value. As such, there are no unrealized gains or losses related to the Company’s cash equivalents.

5. Goodwill and Other Intangible Assets

Goodwill recorded in connection with the Company's acquisitions is primarily attributable to the assembled workforce and anticipated operational synergies. Goodwill is reviewed for impairment at least annually, absent any interim indicators of impairment. Goodwill was $4.6 million as of both June 30, 2024 and December 31, 2023, respectively. There were no additions to or impairments of goodwill during the six months ended June 30, 2024.

The gross carrying amounts and accumulated amortization of the Company's intangible assets with determinable lives as of June 30, 2024 and December 31, 2023 were as follows:

	June 30, 2024		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(in thousands)	
Finite-lived intangible assets:			
Customer relationships and licenses	$ 7,686	$ (2,116)	$ 5,570
Media brand	1,250	(364)	$ 886
Developed technology	1,073	(606)	467
Trademarks	1,052	(292)	760
Pharmacy board licenses	5	(5)	—
Total finite-lived intangible assets	11,066	(3,383)	7,683
Indefinite-lived intangible assets	177	—	177
Total intangible assets	$ 11,243	$ (3,383)	$ 7,860

	December 31, 2023		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(in thousands)	
Finite-lived intangible assets:			
Customer relationships and licenses	$ 7,686	$ (1,550)	$ 6,136
Media brand	1,250	(52)	1,198
Developed technology	1,073	(479)	594
Trademarks	1,052	(201)	851
Pharmacy board licenses	5	(5)	—
Total finite-lived intangible assets	11,066	(2,287)	8,779
Indefinite-lived intangible assets	49	—	49
Total intangible assets	$ 11,115	$ (2,287)	$ 8,828

Amortization expense related to customer relationships and licenses, media brand, developed technology, trademarks, and pharmacy board licenses is recorded in depreciation and amortization within the Company's condensed consolidated statements of operations. Amortization expense of intangible assets with determinable lives was $0.5 million and $0.4 million for the three months ended June 30, 2024 and 2023, respectively, and $1.1 million and $0.7 million for the six months ended June 30, 2024 and 2023, respectively.

6. Contract Liabilities

The timing of Services revenue recognition may differ from the timing of invoicing to or collections from customers. The Company's contract liabilities balance, which is included in Deferred revenue within the Company's condensed consolidated balance sheets, is primarily comprised of unredeemed gift cards, prepayments received from consumers for Wag! Premium subscriptions, and certain consumer credits for which the revenue is recognized over time as they are used for services on its platform. The contract liabilities balance was $1.6 million and $1.8 million as of June 30, 2024 and December 31, 2023, respectively. Revenues recognized related to the Company's contract liabilities as of the beginning of the year was $0.3 million and $0.6 million for the three months ended June 30, 2024 and 2023, respectively, and $0.7 million and $0.9 million for the six months ended June 30, 2024 and 2023, respectively.

7. Long-Term Debt

Paycheck Protection Program Loan

On August 5, 2020, the Company received loan proceeds of approximately $5.1 million from a financial institution pursuant to the Paycheck Protection Program (the “PPP Loan”) established by the Coronavirus Aid, Relief, and Economic Security Act, of which $3.5 million was subsequently forgiven. The PPP Loan matures on August 5, 2025 and bears interest at a fixed rate of 1.00%. Principal and interest payments are payable monthly.

During the six months ended June 30, 2024 and 2023, the Company repaid a total amount of $0.2 million and $0.2 million, respectively, on amounts outstanding under the PPP Loan. As of June 30, 2024 and December 31, 2023, the amount outstanding under the PPP Loan was $0.5 million and $0.8 million, respectively.

During the three and six months ended June 30, 2024 and 2023, the Company recognized immaterial amounts of interest expense relating to the PPP Loan.

Blue Torch Financing and Warrant Agreement

On August 9, 2022, the Company entered into a financing agreement and warrant agreement with Blue Torch Finance, LLC (together with its affiliated funds and any other parties providing a commitment thereunder, including any additional lenders, agents, arrangers or other parties joined thereto after the date thereof, collectively, “Blue Torch”), pursuant to which, among other things, Blue Torch agreed to extend an approximately $32.2 million senior secured term loan (the “Financing Agreement”). The Financing Agreement is secured by a first priority security interest in substantially all assets of the Company and its subsidiaries.

The Financing Agreement bears interest at a floating rate of interest equal to, at the Company’s option, Secured Overnight Financing Rate (“SOFR”) plus 10.00% per annum or the reference rate plus 9.00% per annum, with the reference rate defined as the greatest of:

- 2.00% per annum;
- the federal funds effective rate plus 0.50% per annum;
- one-month SOFR plus 1.00% per annum; and
- the prime rate announced by the Wall Street Journal from time to time.

SOFR will be subject to a floor of 1.00% per annum, and the reference rate will be subject to a floor of 2.00% per annum. Interest will be payable in arrears at the end of each SOFR interest period (but at least every three months) for SOFR borrowings and quarterly in arrears for reference rate borrowings.

The Financing Agreement matures in three years after the Merger Date and is subject to quarterly amortization payments of principal, in an aggregate amount equal to 2.00% of the outstanding principal amount in the first year after closing, 3.00% of the outstanding principal amount in the second year after closing, and 5.00% of the outstanding principal amount in the third year after closing. The remaining outstanding principal balance of the Financing Agreement is due and payable in full on the maturity date. In addition to scheduled amortization payments, the Financing Agreement contains customary mandatory prepayment provisions that require principal prepayments of the loan upon certain triggering events, including receipt of asset sale proceeds outside of the ordinary course of business, receipt of certain insurance proceeds, and receipt of proceeds of non-permitted debt. The loan may also be voluntarily prepaid at any time, subject to the payment of a prepayment premium and a make-whole payment. The prepayment premium is payable for voluntary payments and certain mandatory prepayments, and is equal to: (i) an interest make-whole payment plus 3.00% of the principal amount of such prepayment in the first year after closing; (ii) 2.00% of the principal amount of such prepayment in the second year after closing; and (iii) 0% thereafter.

The Financing Agreement contains customary representations and warranties, affirmative covenants, financial reporting requirements, negative covenants and events of default. The negative covenants impose restrictions on the ability of the Company and its subsidiaries to incur indebtedness, grant liens, make investments, make acquisitions, declare and pay restricted payments, prepay junior or subordinated debt, sell assets, and enter into transactions with affiliates, in each case, subject to certain customary exceptions.

The Company’s obligations under the Financing Agreement are guaranteed by certain of its subsidiaries meeting materiality thresholds. Such obligations, including the guarantees, are secured by substantially all of the personal property of the Company and its subsidiary guarantors, including pursuant to a Security Agreement simultaneously entered into on August 9, 2022. The Financing Agreement establishes the following financial covenants: (i) the Company's trailing annual aggregate revenue shall exceed certain thresholds as of the end of each monthly computation period as defined therein; and (ii) liquidity shall not be less than $5 million at any time. The Company was in compliance with these covenants as of June 30, 2024.

As of June 30, 2024 and December 31, 2023, the interest rate for borrowings under the Financing Agreement was 15.60% and 15.61%, respectively.

During the six months ended June 30, 2024, the Company repaid a total amount of $5.5 million on amounts outstanding under the Financing Agreement, which included a $5.0 million prepayment that was treated as an extinguishment of debt for accounting purposes and resulted in a $0.7 million loss on extinguishment of debt. During the six months ended June 30, 2023, the Company repaid a total amount of $0.3 million on amounts outstanding under the Financing Agreement. As of June 30, 2024 and December 31, 2023, the amount outstanding under the Financing Agreement was $25.7 million and $31.2 million, respectively.

During the three months ended June 30, 2024 and 2023, the Company recognized $1.0 million and $1.2 million, respectively, of interest expense relating to the Financing Agreement. During the six months ended June 30, 2024 and 2023, the Company recognized $2.2 million and $2.4 million, respectively, of interest expense relating to the Financing Agreement.

On the closing of the Financing Agreement, the Company also entered into the Lender Warrant Agreement with Vstock Transfer, LLC as warrant agent, pursuant to which affiliates of Blue Torch received 1,896,177 warrants to acquire common stock of the Company, par value $0.0001 per share (“Common Stock”), for $11.50 per whole share (such warrants, the “Lender Warrants”). The Lender Warrants were issued pursuant to the SPAC Warrant Agreement (as defined in the CHW Business Combination Agreement) and are subject to the terms and conditions thereof, as modified (whether reflected in the terms of the Lender Warrants issued on the Merger Date, or in an amendment to or exchange for the Lender Warrants consummated after the Merger Date) to provide that (i) the exercise period of the Lender Warrants will terminate on the earliest to occur of (x) the date that is ten years after completion of the CHW Business Combination, (y) liquidation of the Company, and (z) redemption of the Lender Warrants as provided in the SPAC Warrant Agreement (the “Lender Warrant Expiration Date”), (ii) Blue Torch has the ability to net exercise the Lender Warrants (based on the fair value of the stock at the time of net exercise, fair value being equal to the public trading price at the time of exercise) on a cashless basis, (iii) Blue Torch received the benefit of certain customary representations and warranties from the Company, and (iv) the Lender Warrants are not required to be registered under the Securities Act.

At the date of issuance, the Company classified the Lender Warrants as equity and recognized them in additional paid-in capital within its condensed consolidated balance sheet. As the Lender Warrants were classified as equity, the proceeds were allocated based on the relative fair values of the financial instruments issued as a whole.

Total Debt

As of June 30, 2024, annual scheduled principal payments of debt were as follows:

	Amount *(in thousands)*
2024	$ 1,037
2025	25,227
Total principal payments	$ 26,264

8. Commitments and Contingencies

Legal and Other Contingencies

From time to time, the Company may be a party to litigation and subject to claims, including non-income tax audits, in the ordinary course of business. The Company accrues a liability when management believes information available to it prior to the issuance of the consolidated financial statements indicates it is probable a loss has been incurred as of the date of the consolidated financial statements and the amount of loss can be reasonably estimated. The Company adjusts its accruals to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case. Legal costs are expensed as incurred. Although the results of litigation and claims cannot be predicted with certainty, management concluded that there was not a reasonable probability that it had incurred a material loss during the periods presented related to such loss contingencies. Therefore, the Company has not recorded a reserve for any such contingencies.

Given the inherent uncertainties and unpredictability of litigation, the ultimate outcome of ongoing matters cannot be predicted with certainty but the Company believes it has valid defenses with respect to the legal matters pending against it. Nevertheless, the consolidated financial statements could be materially adversely affected in a particular period by the resolution of one or more of these contingencies. Regardless of the outcome, litigation can have an adverse impact on the Company because of judgment, defense, and settlement costs, diversion of management resources, and other factors. Liabilities established to provide for contingencies are adjusted as further information develops, circumstances changes, or contingencies are resolved; such changes are recorded in the accompanying statements of operations during the period of the change and reflected in accrued expenses and other current liabilities on the accompanying consolidated balance sheets.

The Company has been and continues to be involved in numerous legal proceedings related to Pet Caregiver classification. In California, Assembly Bill No. 5 (AB-5) implemented a presumption that workers are employees. However, AB-2257 exempts agencies providing referrals for certain animal services, including dog walking, from AB-5. The Company believes that it falls within this exemption. Nevertheless, the interpretation or enforcement of the exemption could change. The United States Department of Labor issued a new rule regarding the classification of workers as independent contractors or employees that went into effect in March 2024. The Company is evaluating any impact the new rule may have on its operations.

The Company is subject to audits by taxing authorities and other forms of investigation, audit, or inquiry conducted by federal, state, or local governmental agencies. Due to the inherent uncertainties in the final outcome of such matters, the Company can give no assurance that it will prevail in such matters, which could have an adverse effect on the Company’s business. In addition, the Company may be subject to greater risk of legal claims or regulatory actions as it increases and continues its operations in jurisdictions where the laws and regulations governing online marketplaces or the employment classification of service providers who use online marketplaces are uncertain or unfavorable.

In November 2019, California issued an assessment alleging various violations and penalties related to alleged misclassification of pet caregivers who use the Company’s platform as independent contractors. The Company has challenged both the legal basis and the amount of the assessment, of $1.7 million in unemployment insurance contributions for its independent contractors. In April 2022, the California Employment Development Department ("CA EDD") initiated a routine employment tax audit of the Company and alleges the Company owes approximately $1.3 million in additional unemployment insurance contributions for its independent contractors. The Company is engaged in ongoing discussions with the CA EDD and intends to defend itself vigorously in this pending matter. The Company believes given the inherent uncertainties of litigation, the outcome of this matter is not considered probable nor estimable and, therefore, the Company has not recorded a reserve.

In August 2018, the New York State Department of Labor (“NY DOL”) issued an Investigation Report assessing the Company with approximately $0.2 million in unemployment insurance contributions for its independent contractors. In August 2023, the Company completed payments of $0.4 million to the NY DOL, which represented the amount of the assessment plus interest and was recognized in general and administrative expenses within the Company’s condensed consolidated statement of operations during the third quarter of 2023.

In December 2019, Wag Hotels, Inc. filed a lawsuit against the Company alleging various claims related to breach of contract and trademark infringement. On June 29, 2023, the parties agreed to a settlement amount of $0.5 million to resolve all claims, with an initial payment up front and the remaining payments over 25 months. The settlement was executed on August 30, 2023. The $0.5 million was recognized in general and administrative expenses within the Company's condensed consolidated statement of operations during the second quarter of 2023 and the Company has recorded a corresponding liability in Accrued expenses and other current liabilities and Other non-current liabilities within its condensed consolidated balance sheet as of June 30, 2024.

In December 2023, the NY DOL issued an investigation report assessing the Company with approximately $1.8 million in unemployment insurance contributions, including interest and penalties, for its independent contractors. On January 19, 2024, the Company submitted a request for hearing contesting assessment. The Company believes given the inherent uncertainties of litigation, the outcome of this matter is not considered probable nor estimable and, therefore, the Company has not recorded a reserve.

As of June 30, 2024, management did not believe that the outcome of pending matters would have a material effect on the Company's financial position, results of operations, or cash flows.

9. Stockholders' Equity (Deficit)

Common Stock Warrants

Prior to the Merger, CHW issued 12,500,000 of Public Warrants and 4,238,636 of Private Warrants (together, the "Warrants") in connection with its initial public offering to CHW Acquisition Sponsor, LLC, the sponsor of CHW. After consummation of the Merger on August 9, 2022, the 4,238,636 Private Warrants held by the Sponsor were exchanged for 3,895,564 warrants to purchase shares of common stock of the Company issuable upon the exercise of Private Placement Warrants originally issued to CHW and the 12,500,000 shares of common stock that are issuable upon the exercise of Public Warrants remained outstanding. Each whole warrant entitles the registered holder to purchase one share of common stock at a price of $11.50 per share, subject to adjustment, at any time commencing on September 8, 2022, which was the later of 30 days after the completion of the CHW Business Combination or 12 months from CHW's IPO closing date. The Warrants will expire on the fifth anniversary of the CHW Business Combination, or earlier upon redemption or liquidation.

The Company may call the Warrants for redemption:

- in whole or in part;
- at a price of $0.01 per warrant;
- upon a minimum of 20 days' prior written notice of redemption; and
- if, and only if, the reported last sale price of the Public Shares equals or exceeds $16.50 per share (as adjusted for share subdivisions, share consolidations, share capitalizations, rights issuances, reorganizations, recapitalizations and the like) for any 20 trading days within a 30-trading day period ending on the third trading day prior to the date the Company sends the notice of redemption to the warrant holders.

If the Company calls the Warrants for redemption, management will have the option to require all holders that wish to exercise the public warrants to do so on a "cashless basis," as described in the warrant agreement.

The exercise price and number of shares of common stock issuable upon exercise of the Warrants may be adjusted in certain circumstances including in the event of a share dividend, recapitalization, reorganization, merger or consolidation. However, the Warrants will not be adjusted for issuance of common stock at a price below its exercise price. Additionally, in no event will the Company be required to net cash settle the Warrants.

Management has concluded that the Warrants issued pursuant to the CHW IPO qualify for equity classification.

Accumulated Other Comprehensive Income

There were no changes in accumulated other comprehensive income for the three and six months ended June 30, 2024 and 2023.

10. Revenues

The following table presents the Company's revenues disaggregated by offering:

	Three Months Ended		Six Months Ended	
	June 30, 2024	June 30, 2023	June 30, 2024	June 30, 2023
	(in thousands)			
Services revenue	$ 5,583	$ 6,211	$ 10,910	$ 11,608
Wellness revenue	11,546	12,025	27,315	25,880
Pet Food & Treats revenue	1,522	1,584	3,645	2,955
Total revenues	$ 18,651	$ 19,820	$ 41,870	$ 40,443

11. Stock-Based Compensation

The Company has stock-based compensation plans, which are more fully described in Note 12, *Stock-Based Compensation*, to the Consolidated Financial Statements included in the 2023 10-K. During the six months ended June 30, 2024, the Company granted restricted stock units ("RSUs") subject to service conditions.

Stock Options

The following table summarizes the activities for all stock options under the Company's stock-based compensation plans for the six months ended June 30, 2024:

	Number of Options Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value(1)
	(in thousands)			*(in thousands)*
Outstanding as of December 31, 2023	6,163	$ 0.44	6.06 years	$ 8,934
Granted	—	$ —		
Exercised	(1,074)	$ 0.10		
Forfeited or expired	(54)	$ 0.94		
Outstanding as of June 30, 2024	5,035	$ 0.51	5.64 years	$ 6,452
Exercisable as of June 30, 2024	4,987	$ 0.51	5.63 years	$ 6,386
Vested and expected to vest as of June 30, 2024	5,035	$ 0.51	5.64 years	$ 6,452

(1) The intrinsic value is the amount by which the current market value of the underlying stock exceeds the exercise price of the stock awards.

There were no stock options granted during the three and six months ended June 30, 2024 and 2023. The total intrinsic value of stock options exercised during the three months ended June 30, 2024 and 2023 was $0.7 million and $0.9 million, respectively. The total intrinsic value of stock options exercised during the six months ended June 30, 2024 and 2023 was $1.9 million and $2.1 million, respectively.

As of June 30, 2024, the total unrecognized compensation cost related to all nonvested stock options was $9 thousand and the related weighted-average period over which it is expected to be recognized was approximately 1.10 years.

Restricted Stock Units

The following table summarizes the activities for all RSUs under the Company's stock-based compensation plans for the six months ended June 30, 2024:

	Number of Shares	Weighted-Average Grant Date Fair Value Per Share
	(in thousands)	
Outstanding and nonvested as of December 31, 2023	4,322	$ 2.39
Granted	3,099	$ 2.31
Vested	(674)	$ 2.42
Forfeited	(46)	$ 2.50
Outstanding and nonvested as of June 30, 2024	6,701	$ 2.35

The total vesting date fair value of RSUs which vested during the three months ended June 30, 2024 and 2023 was $0.7 million and $2.3 million, respectively. The total vesting date fair value of RSUs which vested during the six months ended June 30, 2024 and 2023 was $1.4 million and $2.3 million, respectively.

As of June 30, 2024, the total unrecognized compensation cost related to all nonvested RSUs was $13.4 million and the related weighted-average period over which it is expected to be recognized was approximately 2.04 years.

Stock-Based Compensation Expense

The following table provides information about stock-based compensation expense by financial statement line item:

	Three Months Ended		Six Months Ended	
	June 30, 2024	June 30, 2023	June 30, 2024	June 30, 2023
	(in thousands)			
Platform operations and support	$ 239	$ 269	$ 449	$ 606
Sales and marketing	267	163	490	359
General and administrative	1,150	689	2,013	1,498
Total stock-based compensation expense	$ 1,656	$ 1,121	$ 2,952	$ 2,463

12. Income Taxes

The quarterly income tax provision reflects an estimate of the corresponding quarter's state taxes in the United States. The provision for income tax expense for the three and six months ended June 30, 2024 and 2023 was determined based upon estimates of the Company's annual effective tax rate for the years ending December 31, 2024 and 2023, respectively. Since the Company is in a full valuation allowance position due to losses incurred since inception, the provision for taxes consists solely of certain state income taxes.

13. Acquisitions

Acquisition of Dog Food Advisor

On January 5, 2023, the Company entered into an Asset Purchase Agreement with Clicks and Traffic LLC to purchase its Dog Food Advisor assets for cash consideration of $9.0 million. Of the $9.0 million of cash consideration, $8.1 million was paid on the acquisition date and the remaining $0.9 million was deposited into an escrow account as an indemnification holdback for a period of 12 months. No working capital was acquired as part of the transaction. The Company incurred less than $0.1 million in transaction-related costs during the first quarter of 2023 in connection with the acquisition, which are included in general and administrative expenses within the Company's condensed consolidated statement of operations. The acquisition marked the Company's entrance into the Pet Food & Treats market, in line with its strategy to be an all-inclusive, trusted partner for the premium Pet Parent.

The assets acquired were recognized at fair value as of the date of the acquisition. During 2023, the Company finalized the analysis of the purchase price and no adjustments were made to the assessed fair values. The following table summarizes the final fair values assigned to the assets acquired:

	January 5, 2023
	(in thousands)
Intangible assets	$ 5,950
Goodwill	3,050
Total purchase consideration	$ 9,000

The table below summarizes the fair value and the estimated useful lives of the acquired intangible assets:

	January 5, 2023	Estimated Weighted-Average Useful Life
	(in thousands)	
Developed technology and website content	$ 1,950	5 years
Strategic customer relationships and subscriber lists	3,600	8 years
Trademarks	400	10 years
Total intangible assets	$ 5,950	7 years

Goodwill recognized as a result of this acquisition is deductible for tax purposes.

Pro forma disclosures required under ASC 805-10-50 are not presented because the pro forma impacts on the current period and prior year comparable period are not material.

Acquisition of maxbone

On April 6, 2023, the Company acquired 100% of the outstanding equity interests of MaxBone, Inc. ("maxbone"), a top-tier digital platform for modern pet essentials, for cash consideration of $0.5 million and 0.1 million common shares with a fair value of $0.2 million as of the closing date. Of the $0.2 million of common stock consideration, $0.1 million was issued on the acquisition date and the remaining $0.1 million was issued after the indemnification holdback period expired 12 months after the acquisition close. The acquisition expanded the Company's reach into the Pet Supplies market, while remaining committed to the needs and standards of the premium Pet Parent.

Acquisition of WoofWoofTV

On December 15, 2023, the Company acquired 100% of the outstanding equity interests of Rowlo Woof Limited ("WoofWoofTV"), a digital media publishing company focusing on content for dog lovers, for cash consideration of $1.3 million. Of the $1.3 million of cash consideration, $1.1 million was paid on the acquisition date and the remaining $0.2 million was deposited into an escrow account as an indemnification holdback for a period of 12 months. The Company accounted for the transaction as an asset acquisition, as substantially all of the fair value of the gross assets acquired was concentrated in a single identifiable asset.

The table below summarizes the fair value and the estimated useful life of the acquired intangible asset:

	December 15, 2023	Estimated Weighted-Average Useful Life
	(in thousands)	
Media brand	$ 1,250	2 years
Total intangible assets	$ 1,250	2 years

14. Loss Per Share

The following securities have been excluded from the computation of diluted loss per share for the periods presented because including them would have been anti-dilutive:

	Six Months Ended	
	June 30, 2024	June 30, 2023
	(in thousands)	
Earnout Shares	15,000	15,000
Options and RSUs issued and outstanding	11,736	9,498
Warrants issued and outstanding	18,292	18,292
Shares related to acquisition indemnification holdback	—	51
Total	45,028	42,841

All unvested Earnout Shares are excluded from basic and diluted loss per share as such shares are contingently issuable only when the share price of the Company's common stock exceeds specified thresholds, which had not been achieved as of June 30, 2024.

15. Subsequent Events

On July 18, 2024, the Company issued and sold an aggregate of 7.4 million shares of common stock at a price of $1.35 per share in a registered public offering. The aggregate net proceeds were approximately $8.6 million, after deducting offering costs of $0.8 million and underwriting discounts and commissions of $0.6 million. The Company intends to use the net proceeds to repay approximately $8.6 million of indebtedness, with any remainder to be used for working capital and general corporate purposes.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We strive to be the go-to platform for the modern U.S. pet household, offering solutions for service, product, and wellness needs. We provide a range of products and services, including the Wag! app, which offers access to 5-star dog walking, sitting, and one-on-one training; Petted, one of the nation's largest pet insurance comparison marketplaces; Dog Food Advisor, one of the most visited and trusted pet food review platforms; WoofWoofTV, a multi-media company bringing pet content to over 18 million followers across social media; maxbone, a digital platform for modern pet essentials; and Furmacy, software to simplify pet prescriptions.

Wag! has been a leader in on-demand dog walking since 2015 and we've grown our community to include more than 500,000 local Pet Caregivers nationwide. From those roots, we expanded to the wellness space by acquiring Petted.com, which makes it easy to shop for and compare pet insurance options. In 2023, we expanded to the Pet Food & Treats market by acquiring Dog Food Advisor, which is one of the most visited and trusted dog food marketplaces. We also expanded our reach into the Pet Supplies market with our acquisition of maxbone, a premium pet product brand.

Components of Our Results of Operations

The following is a summary of the principal line items comprising our operating results.

Revenues

We provide an online marketplace that enables Pet Parents to connect with Pet Caregivers for various pet services. We recognize revenue in accordance with ASC 606, *Revenue from Contracts with Customers*, from the following distinct streams: (1) service fees charged to Pet Caregivers, (2) subscription fees for Wag! Premium and other fees paid by Pet Parents, (3) joining fees paid by Pet Caregivers to join and be listed on our platform, (4) wellness revenue through affiliate fees, and (5) Pet Food & Treat revenue also through affiliate fees.

Cost of Revenues, Excluding Depreciation and Amortization

Cost of revenues consists of costs directly related to revenue-generating transactions, which primarily includes fees paid to payment processors, hosting and platform-related infrastructure costs, product costs, third-party costs for background checks for Pet Caregivers, and other costs arising as a result of revenue transactions that take place on our platform, excluding depreciation and amortization.

Platform Operations and Support

Platform operations and support expenses include personnel-related compensation costs of technology and operations teams, and third-party operations support costs.

Sales and Marketing

Sales and marketing expenses include personnel-related compensation costs of the marketing team and advertising expenses. Sales and marketing expenses are expensed as incurred.

Royalty

Royalty expenses represent fees paid by us to be the exclusive marketer of certain pet insurance products.

General and Administrative

General and administrative expense includes personnel-related compensation costs for employees on corporate functions, such as management, accounting, and legal as well as insurance and other expenses used to run the business, together with outside party service costs of related items such as auditors and lawyers.

Depreciation and Amortization

Depreciation and amortization expenses primarily consist of depreciation and amortization expenses associated with our property and equipment. Amortization includes expenses associated with our capitalized software and website development.

Interest Expense, Net

Interest expense, net consists primarily of interest incurred on debt and interest earned on our cash, cash equivalents, and short-term investments.

Key Operating and Financial Metrics and Non-GAAP Financial Measures

We regularly review several metrics, including the following key financial metrics and non-GAAP financial measures, to evaluate our business, measure our performance, identify trends affecting our business, formulate financial projections, and make strategic decisions. These key financial metrics and non-GAAP financial measures are set forth below for the periods presented:

	Three Months Ended		Change		Six Months Ended		Change	
	June 30, 2024	June 30, 2023	$	%	June 30, 2024	June 30, 2023	$	%
	(in thousands, except percentages)							
Platform Participants (as of period end)	467	549	(82)	(14.9)%	467	549	(82)	(14.9)%
Revenues	$ 18,651	$ 19,820	(1,169)	(5.9)%	$ 41,870	$ 40,443	1,427	3.5 %
Net loss	$ (2,251)	$ (3,869)	1,618	(41.8)%	$ (6,492)	$ (7,656)	1,164	(15.2)%
Net loss margin	(12.1)%	(19.5)%			(15.5)%	(18.9)%		
Net cash provided by (used in) operating activities	$ (2,189)	$ 1,253	(3,442)	*	$ (2,021)	$ (2,327)	306	(13.1)%
Adjusted EBITDA (loss) (1)	$ 1,639	$ 107	1,532	1431.8 %	$ 1,807	$ (290)	2,097	*
Adjusted EBITDA (loss) margin(1)	8.8 %	0.5 %			4.3 %	(0.7)%		

* Comparisons between positive and negative numbers are not meaningful.

(1) Adjusted EBITDA (loss) and Adjusted EBITDA (loss) margin are non-GAAP measures which may not be comparable to similarly-titled measures used by other companies. See below for a reconciliation of Adjusted EBITDA (loss) to net loss.

Platform Participants

A Platform Participant is defined as a Pet Parent or Pet Caregiver who transacted on the Wag! platform for a service in the quarter. Services include dog walking, sitting, boarding, drop-ins, training, premium telehealth services, wellness plans, and pet insurance plan comparison.

Non-GAAP Financial Measures

<u>Adjusted EBITDA (Loss) and Adjusted EBITDA (Loss) Margin</u>

Adjusted EBITDA (loss) means net loss adjusted to exclude, where applicable in a given period, interest expense, net; income taxes; depreciation and amortization; stock-based compensation; integration and transaction costs associated with acquired businesses; severance costs; loss on extinguishment of debt; and legal settlements. Adjusted EBITDA (loss) margin represents Adjusted EBITDA (loss) divided by revenues. We use Adjusted EBITDA (loss) and Adjusted EBITDA (loss) margin, which are both non-GAAP metrics, to evaluate and assess our operating performance and the operating leverage in our business, and for internal planning and forecasting purposes. We believe that Adjusted EBITDA (loss) and Adjusted EBITDA (loss) margin, when taken collectively with our U.S. GAAP results, may be helpful to investors because they provide consistency and comparability with past financial performance and assist in comparisons with other companies, some of which use similar non-GAAP financial information to supplement their U.S. GAAP results.

Non-GAAP financial measures are presented for supplemental informational purposes only. Non-GAAP financial measures have limitations as analytical tools and should not be considered in isolation or as substitutes for financial information presented in accordance with U.S. GAAP. There are a number of limitations related to the use of non-GAAP financial measures versus comparable financial measures determined under U.S. GAAP. For example, other companies in our industry may calculate these non-GAAP financial measures differently or may use other measures to evaluate their performance. All of these limitations could reduce the usefulness of these non-GAAP financial measures as analytical tools. Investors are encouraged to review the related non-GAAP financial measures and the reconciliations of these non-GAAP financial measures to their most directly comparable U.S. GAAP financial measures and to not rely on any single financial measure to evaluate our business.

The following table provides a reconciliation of net loss to Adjusted EBITDA (loss):

	Three Months Ended		Six Months Ended	
	June 30, 2024	June 30, 2023	June 30, 2024	June 30, 2023
	(in thousands, except percentages)			
Net loss	$ (2,251)	$ (3,869)	$ (6,492)	$ (7,656)
Interest expense, net	1,522	1,659	3,255	3,289
Income taxes	82	38	81	38
Depreciation and amortization	580	375	1,158	756
Stock-based compensation	1,656	1,121	2,952	2,463
Integration and transaction costs associated with acquired business	—	152	—	189
Severance costs	50	131	127	131
Loss on extinguishment of debt	—	—	726	—
Legal settlement	—	500	—	500
Adjusted EBITDA (loss)	$ 1,639	$ 107	$ 1,807	$ (290)
Revenues	$ 18,651	$ 19,820	$ 41,870	$ 40,443
Adjusted EBITDA (loss) margin	8.8 %	0.5 %	4.3 %	(0.7)%

Comparison of the Three and Six Months Ended June 30, 2024 and 2023

The following table sets forth our results of operations for the three and six months ended June 30, 2024 and 2023. These results of operations are not necessarily indicative of the future results of operations that may be expected for any future period.

	Three Months Ended		Change		Six Months Ended		Change	
	June 30, 2024	June 30, 2023	$	%	June 30, 2024	June 30, 2023	$	%
	(in thousands, except percentages)							
Revenues	$ 18,651	$ 19,820	(1,169)	(5.9)%	$ 41,870	$ 40,443	1,427	3.5 %
Costs and expenses:								
Cost of revenues (exclusive of depreciation and amortization shown separately below)	1,158	1,243	(85)	(6.8)%	2,728	2,269	459	20.2 %
Platform operations and support	2,714	3,492	(778)	(22.3)%	5,674	6,662	(988)	(14.8)%
Sales and marketing	11,037	10,758	279	2.6 %	26,692	24,033	2,659	11.1 %
Royalty	—	1,791	(1,791)	(100.0)%	—	1,791	(1,791)	(100.0)%
General and administrative	3,809	4,821	(1,012)	(21.0)%	8,048	9,805	(1,757)	(17.9)%
Depreciation and amortization	580	375	205	54.7 %	1,158	756	402	53.2 %
Total costs and expenses	19,298	22,480	(3,182)	(14.2)%	44,300	45,316	(1,016)	(2.2)%
Interest expense	1,597	1,897	(300)	(15.8)%	3,482	3,771	(289)	(7.7)%
Interest income	(75)	(238)	163	(68.5)%	(227)	(482)	255	(52.9)%
Loss on extinguishment of debt	—	—	—	100.0 %	726	—	726	100.0 %
Other expense, net	—	65	(65)	(100.0)%	—	9	(9)	(100.0)%
Loss before income taxes	(2,169)	(4,384)	2,215	(50.5)%	(6,411)	(8,171)	1,760	(21.5)%
Income taxes	82	38	44	115.8 %	81	38	43	113.2 %
Equity in net earnings of equity method investments	—	553	(553)	(100.0)%	—	553	(553)	(100.0)%
Net loss	$ (2,251)	$ (3,869)	1,618	(41.8)%	$ (6,492)	$ (7,656)	1,164	(15.2)%

Revenues

Revenues decreased by $1.2 million, or approximately 5.9%, from $19.8 million for the three months ended June 30, 2023 to $18.7 million for the three months ended June 30, 2024. The decrease was attributable to a $0.6 million decrease in Services revenue as a result of a 15% decrease in Platform Participants year-over-year as well as a $0.5 million decrease in Wellness revenue and a $0.1 million decrease in Pet Food & Treats revenue as a result of decreased revenue-per-action conversion activity.

Revenues increased by $1.4 million, or approximately 3.5%, from $40.4 million for the six months ended June 30, 2023 to $41.9 million for the six months ended June 30, 2024. The increase was primarily attributable to a $1.4 million increase in Wellness revenue and a $0.7 million increase in Pet Food & Treats revenue as a result of increased revenue-per-action conversion activity and year-over-year growth of Wellness volume, partially offset by a $0.7 million decrease in Services revenue as a result of a 15% decrease in Platform Participants year-over-year.

Cost of Revenues, Exclusive of Depreciation and Amortization

Cost of revenues, exclusive of depreciation and amortization, remained flat at $1.2 million for both the three months ended June 30, 2024 and 2023.

Cost of revenues, exclusive of depreciation and amortization, increased by $0.5 million, or approximately 20.2%, from $2.3 million for the six months ended June 30, 2023 to $2.7 million for the six months ended June 30, 2024. The increase was primarily attributable to an increase in product costs in connection with the sale of merchandise.

Platform Operations and Support

Platform operations and support expenses decreased by $0.8 million, or approximately 22.3%, from $3.5 million for the three months ended June 30, 2023 to $2.7 million for the three months ended June 30, 2024. The decrease was primarily attributable to a $0.8 million decrease in personnel costs and a $0.1 million decrease in technology, facilities, and other allocated costs, partially offset by a $0.1 million increase in professional services.

Platform operations and support expenses decreased by $1.0 million, or approximately 14.8%, from $6.7 million for the six months ended June 30, 2023 to $5.7 million for the six months ended June 30, 2024. The decrease was primarily attributable to a $1.1 million decrease in personnel costs and a $0.1 million decrease in technology, facilities, and other allocated costs, partially offset by a $0.2 million increase in professional services.

Sales and Marketing

Sales and marketing expenses increased by $0.3 million, or approximately 2.6%, from $10.8 million for the three months ended June 30, 2023 to $11.0 million for the three months ended June 30, 2024. The increase was primarily attributable to a $0.8 million increase in investing in new and expanding existing partnerships related to our Wellness offerings and a $0.1 million increase in professional services, partially offset by a $0.7 million decrease in personnel costs.

Sales and marketing expenses increased by $2.7 million, or approximately 11.1%, from $24.0 million for the six months ended June 30, 2023 to $26.7 million for the six months ended June 30, 2024. The increase was primarily attributable to a $4.0 million increase in investing in new and expanding existing partnerships related to our Wellness offerings and a $0.2 million increase in professional services, partially offset by a $1.5 million decrease in personnel costs.

Royalty

Royalty expenses were $1.8 million for the three and six months ended June 30, 2023. These expenses represent fees paid by us to be the exclusive marketer of certain pet insurance products.

General and Administrative

General and administrative expenses decreased by $1.0 million, or approximately 21.0%, from $4.8 million for the three months ended June 30, 2023 to $3.8 million for the three months ended June 30, 2024. The decrease was primarily attributable to a $0.5 million decrease in legal settlements, a $0.3 million decrease in personnel costs, a $0.2 million decrease in professional services, and a $0.1 million decrease in business licenses, fees, and permits.

General and administrative expenses decreased by $1.8 million, or approximately 17.9%, from $9.8 million for the six months ended June 30, 2023 to $8.0 million for the six months ended June 30, 2024. The decrease was primarily attributable to a $0.7 million decrease in personnel costs, a $0.5 million decrease in legal settlements, a $0.3 million decrease in business licenses, fees, and permits, and a $0.3 million decrease in professional services.

Depreciation and Amortization

Depreciation and amortization expenses increased by $0.2 million, or approximately 54.7%, from $0.4 million for the three months ended June 30, 2023 to $0.6 million for the three months ended June 30, 2024. The increase was primarily attributable to the acquisition of WoofWoofTV in 2023 and the related amortization of acquired intangible assets.

Depreciation and amortization expenses increased by $0.4 million, or approximately 53.2%, from $0.8 million for the six months ended June 30, 2023 to $1.2 million for the six months ended June 30, 2024. The increase was primarily attributable to the acquisition of WoofWoofTV in 2023 and the related amortization of acquired intangible assets.

Interest Expense, Net

Interest expense, net was as follows:

	Three Months Ended		Change		Six Months Ended		Change	
	June 30, 2024	June 30, 2023	$	%	June 30, 2024	June 30, 2023	$	%
	(in thousands, except percentages)							
Interest expense	$ 1,597	$ 1,897	(300)	(15.8)%	$ 3,482	$ 3,771	(289)	(7.7)%
Interest income	(75)	(238)	163	(68.5)%	(227)	(482)	255	(52.9)%
Interest expense, net	$ 1,522	$ 1,659	(137)	(8.3)%	$ 3,255	$ 3,289	(34)	(1.0)%

Interest expense, net decreased by $0.1 million, or approximately 8.3%, from $1.7 million for the three months ended June 30, 2023 to $1.5 million for the three months ended June 30, 2024. The decrease was primarily attributable to a decrease in interest expense as a result of a decrease in the amount outstanding under the Financing Agreement.

Interest expense, net remained flat at $3.3 million for both the six months ended June 30, 2024 and 2023.

Loss on Extinguishment of Debt

During the six months ended June 30, 2024, we recognized a $0.7 million loss on extinguishment of debt related to the $5.0 million prepayment of the Blue Torch Financing Agreement during the first quarter of 2024 (See Note 7, *Long-Term Debt*, to the Condensed Consolidated Financial Statements included in Part I, Item 1, *Financial Statements*, of this Quarterly Report on Form 10-Q).

Liquidity and Capital Resources

We have historically generated negative cash flows from operations and have primarily financed our operations through private and public sales of equity securities and debt. As of June 30, 2024, we had cash and cash equivalents of $9.2 million. In July 2024, we issued and sold an aggregate of 7.4 million shares of common stock at a price of $1.35 per share in a registered public offering. The aggregate net proceeds were approximately $8.6 million, after deducting offering costs of $0.8 million and underwriting discounts and commissions of $0.6 million.

We expect operating losses to continue in the foreseeable future as we continue to invest in growing our business. Our primary uses of cash include operating costs such as product and technology expenses, marketing expenses, personnel expenses and other expenditures necessary to support our operations and our growth.

Pursuant to the requirements of FASB ASC Topic 205-40, *Presentation of Financial Statements—Going Concern*, management must evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about our ability to continue as a going concern for one year from the date these financial statements are issued. This evaluation does not take into consideration the potential mitigating effect of management's plans that have not been fully implemented or are not within our control as of the date the financial statements are issued. When substantial doubt exists under this methodology, management evaluates whether the mitigating effect of its plans sufficiently alleviates substantial doubt about our ability to continue as a going concern. The mitigating effect of management's plans, however, is only considered if both (1) it is probable that the plans will be effectively implemented within one year after the date that the financial statements are issued, and (2) it is probable that the plans, when implemented, will mitigate the relevant conditions or events that raise substantial doubt about our ability to continue as a going concern within one year after the date that the financial statements are issued.

As of June 30, 2024, we had cash and cash equivalents of approximately $9.2 million and accounts receivable of $7.5 million, and the amount outstanding under our debt obligations was $26.3 million, of which $25.7 million and $0.5 million related to the Financing Agreement and PPP Loan, respectively. Additionally, for the six months ended June 30, 2024, net loss was $6.5 million and net cash used in operating activities was $2.0 million. Our ability to continue as a going concern is dependent on our ability to generate significant cash flows, obtain sufficient proceeds from any future offerings of securities, renegotiate the existing terms of the Financing Agreement, and/or obtain alternative financing prior to the maturity of the Financing Agreement in August 2025. We expect operating losses to continue in the foreseeable future as we continue to invest in growing our business. To alleviate these conditions, we completed a registered public offering in July 2024 for net proceeds of approximately $8.6 million (See Note 15, *Subsequent Events*, to the Condensed Consolidated Financial Statements included in Part I, Item 1, *Financial Statements*, of this Quarterly Report on Form 10-Q for more information) and management is actively engaged in discussions to refinance the Financing Agreement. However, there can be no assurance that we will be able to complete the refinancing as it is ultimately outside of our control.

Due to our projected cash needs (which includes amounts due under the Financing Agreement) combined with our current liquidity level and history of net losses and cash used to fund operating activities, there is substantial doubt regarding our ability to continue as a going concern for a period of at least one year from the date of issuance of these unaudited condensed consolidated financial statements.

Our future capital requirements and the adequacy of available funds will depend on many factors, including, but not limited to, our ability to grow our revenue and the impact of the factors described in Part II, Item 1A, *Risk Factors*, of this Quarterly Report on Form 10-Q and Part I, Item 1A, *Risk Factors*, of our 2023 10-K. We may seek additional equity or debt financing. See the section titled "*Risk Factors—Risks Related to Our Operations—We may require additional capital to support business growth and this capital might not be available on acceptable terms, or at all*" within the 2023 10-K.

Cash Flows

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

	Six Months Ended	
	June 30, 2024	June 30, 2023
	(in thousands)	
Net cash used in:		
Operating activities	$ (2,021)	$ (2,327)
Investing activities	(988)	(11,004)
Financing activities	(6,080)	(843)
Net change in cash and cash equivalents	$ (9,089)	$ (14,174)

Changes in Cash Flows From Operating Activities

Net cash used in operating activities for the six months ended June 30, 2024 was $2.0 million, a decrease of $0.3 million from $2.3 million for the six months ended June 30, 2023. The decrease was primarily due to a $3.2 million decrease in net loss excluding non-cash and reconciling items disclosed within our condensed consolidated statement of cash flows, partially offset by $2.9 million of unfavorable changes in operating assets and liabilities. The $3.2 million decrease in net loss excluding non-cash and reconciling items was primarily driven by higher revenues, lower costs and expenses, and favorable changes in non-cash and reconciling items including stock-based compensation, depreciation and amortization, and loss on extinguishment of debt. The $2.9 million of unfavorable changes in operating assets and liabilities was primarily driven by unfavorable changes in accounts payable, accrued expenses and other current liabilities, deferred revenue, and other non-current liabilities, partially offset by favorable changes in accounts receivable.

Changes in Cash Flows from Investing Activities

Net cash used in investing activities for the six months ended June 30, 2024 was $1.0 million, a decrease of $10.0 million from $11.0 million for the six months ended June 30, 2023. The decrease was primarily due to a $9.4 million decrease in cash paid for acquisitions, net of cash acquired and a $1.5 million decrease in cash paid for equity method investments, partially offset by a $0.8 million increase in purchases of property and equipment.

Changes in Cash Flows from Financing Activities

Net cash used in financing activities for the six months ended June 30, 2024 was $6.1 million, an increase of $5.2 million from $0.8 million for the six months ended June 30, 2023. The increase was primarily due to a $5.2 million increase in repayment of debt related to a $5.0 million prepayment of the Financing Agreement during the first quarter of 2024 (See Note 7, *Long-Term Debt*, to the Condensed Consolidated Financial Statements included in Part I, Item 1, Financial Statements, of this Quarterly Report on Form 10-Q).

Paycheck Protection Program Loan

On August 5, 2020, the Company received loan proceeds of approximately $5.1 million from a financial institution pursuant to the Paycheck Protection Program established by the Coronavirus Aid, Relief, and Economic Security Act, of which $3.5 million was subsequently forgiven. The PPP Loan matures on August 5, 2025 and bears interest at a fixed rate of 1.00%. Principal and interest payments are payable monthly, and as of June 30, 2024, the amount outstanding under the PPP Loan was $0.5 million.

For additional information regarding the PPP Loan, refer to Note 7, *Long-Term Debt*, to the Condensed Consolidated Financial Statements included in Part I, Item 1, *Financial Statements*, of this Quarterly Report on Form 10-Q.

Blue Torch Financing and Warrant Agreement

On August 9, 2022, we entered into a financing agreement and warrant agreement with Blue Torch, pursuant to which, among other things, Blue Torch agreed to extend an approximately $32.2 million senior secured term loan (the “Financing Agreement”). The Financing Agreement is secured by a first priority security interest in substantially all assets of us and our subsidiaries.

For additional information regarding the Financing Agreement, refer to Note 7, *Long-Term Debt*, to the Condensed Consolidated Financial Statements included in Part I, Item 1, *Financial Statements*, of this Quarterly Report on Form 10-Q.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, as defined by applicable rules and regulations of the SEC, that are reasonably likely to have a current or future material effect on our financial condition, results of operations, liquidity, capital expenditures, or capital resources.

Critical Accounting Policies and Estimates

U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the year. We base our estimates and assumptions on current facts, historical experience and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the recording of revenues and expenses. Actual results could differ from those estimates.

There have been no material changes to our critical accounting policies since the 2023 10-K. For a description of critical accounting policies that affect our significant judgments and estimates used in the preparation of our condensed consolidated financial statements, see Part II, Item 7, *Management’s Discussion and Analysis of Financial Condition and Results of Operations*, of the 2023 10-K.

JOBS Act Accounting Election

We are an “emerging growth company,” as defined in the JOBS Act. Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have elected to use this extended transition period until we are no longer an emerging growth company or until we affirmatively and irrevocably opt out of the extended transition period. Accordingly, our consolidated financial statements may not be comparable to companies that comply with new or revised accounting pronouncements as of public company effective dates.

New Accounting Pronouncements

See discussion under Note 2, *Significant Accounting Policies*, to the Condensed Consolidated Financial Statements included in Part I, Item 1, *Financial Statements*, of this Quarterly Report on Form 10-Q for information on new accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As a smaller reporting company, we are not required to provide the information required by this Item.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, refers to controls and other procedures that are designed to provide reasonable assurance that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Because there are inherent limitations in all control systems, a control system, no matter how well conceived and operated, can provide only reasonable, as opposed to absolute, assurance that the objectives of the control system are met. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2024. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, due to the material weaknesses in internal control over financial reporting described below, our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were not effective at a reasonable assurance level.

Previously Reported Material Weaknesses in Internal Control over Financial Reporting

As previously disclosed in our 2023 10-K, in connection with the audit of our financial statements for the fiscal year ended December 31, 2023, we identified the following material weaknesses, which still exist as of June 30, 2024. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our financial statements will not be prevented or detected on a timely basis. We identified a material weakness in our internal control over financial reporting related to insufficient resources needed to fully implement our internal control risk assessment process, evaluate the technical accounting aspects of certain material transactions and effectively design and implement certain process level controls. We also identified a material weakness regarding the risk assessment process related to information technology general controls and activities of service organizations, the design and implementation of logical access, segregation of duties and program change controls and certain process level controls related to information used in the execution of those controls that impact our financial reporting processes.

These material weaknesses resulted in the immaterial misstatement of our consolidated financial statements for the year ended December 31, 2023 and for quarterly periods in 2023. Additionally, these material weaknesses could result in a misstatement of the account balances or disclosures that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

Remediation Plan

To address our material weaknesses, we have added accounting and finance personnel and implemented new financial accounting processes, controls, and systems. We are continuing to take steps to remediate the material weaknesses described above through implementing enhancements and controls within our accounting and proprietary systems, utilizing additional qualified accounting and finance resources and further evolving our accounting close processes. We will not be able to fully remediate these material weaknesses until these steps have been completed and the controls have been operating effectively for a sufficient period of time.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our quarter ended June 30, 2024 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See discussion under Note 8, *Commitments and Contingencies*, to the Condensed Consolidated Financial Statements included in Part I, Item 1, *Financial Statements*, of this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

Item 1A. Risk Factors

We are supplementing the risk factors previously disclosed in Part I, Item 1A, *Risk Factors*, of our 2023 10-K to include the following risk factor, which should be read in conjunction with the other risk factors presented in our 2023 10-K.

Substantial doubt exists about the Company's ability to continue as a going concern and management's plans to mitigate these conditions may be unsuccessful. Our current debt obligations could materially and adversely affect our business, financial condition, results of operations, and prospects, and we cannot assure you that we will be able to generate sufficient cash flows, raise sufficient proceeds from any future offerings of securities, renegotiate the existing terms of our debt facility, and/or obtain alternative financing on terms acceptable to us or at all to meet our payment obligations under our debt facility.

We have incurred net losses in each year since our inception and have funded operations primarily through sales of our common stock and issuance of debt. Our current outstanding debt principal amount as of June 30, 2024 was $26.3 million, comprised of our Blue Torch debt facility, which had an outstanding principal amount of $25.7 million as of June 30, 2024, and our PPP Loan, which had an outstanding principal amount of $0.5 million. Our ability to meet our payment obligations under our existing Blue Torch debt facility, which has estimated maturity and balloon payments of $24.1 million due in August 2025, depends on our ability to generate significant cash flows, obtain sufficient proceeds from any future offerings of securities, renegotiate the existing terms of the debt facility, and/or obtain alternative financing prior to the maturity of the debt. This ability, to some extent, is subject to market, economic, financial, competitive, and regulatory factors as well as other factors that are beyond our control. While we completed an underwritten registered public offering in July 2024 for net proceeds of approximately $8.6 million (See Note 15, *Subsequent Events*, to the Condensed Consolidated Financial Statements included in Part I, Item 1, *Financial Statements*, of this Quarterly Report on Form 10-Q for more information) and management is actively engaged in discussions to refinance the Financing Agreement, there can be no assurance that we will be able to refinance the debt on acceptable terms or at all. Further, there can be no assurance that our business will generate cash flow from operations, or that we will raise sufficient proceeds from any future offerings of securities, or that additional capital will be available to us, in amounts sufficient to enable us to meet our debt payment obligations and to fund other liquidity needs. If we are unable to generate sufficient cash flows or raise capital to service our debt payment obligations or fund our other liquidity needs, or are unable to finance the existing debt facility, we may need to sell assets, reduce or delay capital investments. In addition, if refinancing or borrowing guidelines become more stringent and such changes result in increased costs to comply, or if we are unable to implement one or more of these alternatives, we may be unable to meet our debt payment obligations as they become due, which could materially and adversely affect our business, financial condition, results of operations, and prospects.

At this time, the uncertainty of our ability to meet our debt payment obligations raises substantial doubt about our ability to continue as a going concern. This may adversely impact our ability to renegotiate the existing terms of our debt facility, conduct offerings of our securities, and/or obtain alternative financing on terms acceptable to us or at all.

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

(a) None.

(b) None.

(c) None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

(a) None.

(b) None.

(c) On June 18, 2024, Garrett Smallwood, our Chief Executive Officer, canceled his 10b5-1 trading arrangement (as such term is defined in Item 408 of Regulation S-K) intended to satisfy the affirmative defense of Rule 10b5-1(c). The plan was originally adopted on June 14, 2023 and modified on February 16, 2024, for the sale of up to 998,412 shares of the Company's common stock and shares of common stock from the sale of vested RSUs, the exact number of shares were to be determined as the net amount after required shares were sold to cover tax withholding, until December 31, 2024. There were 823,136 shares that remained unsold at the date his 10b5-1 arrangement was canceled.

On June 18, 2024, Adam Storm, our President and Chief Product Officer, canceled his 10b5-1 trading arrangement (as such term is defined in Item 408 of Regulation S-K) intended to satisfy the affirmative defense of Rule 10b5-1(c). The plan was originally adopted on June 14, 2023 and modified on February 16, 2024, for the sale of up to 465,612 shares of the Company's common stock and shares of common stock from the sale of vested RSUs, the exact number of shares were to be determined as the net amount after required shares were sold to cover tax withholding, until December 31, 2024. There were 289,873 shares that remained unsold at the date his 10b5-1 arrangement was canceled.

Item 6. Exhibits

(a) Exhibit Index:

		Incorporated by Reference		
Exhibit Number	Description	Form	Exhibit	Filing Date
3.1	Corrected Certificate of Incorporation of Wag! Group Co.	8-K	3.1	3/8/2024
3.2	Bylaws of Wag! Group Co.	8-K	3.2	8/15/2022
4.1	Warrant Agreement, dated as of August 30, 2021, by and between CHW and VStock Transfer LLC, as warrant agent	S-4	4.1	9/2/2021
4.2	Specimen Common Stock Certificate	S-1	4.2	9/14/2022
4.3	Specimen Warrant Certificate	S-1	4.3	9/14/2022
4.4	CHW Founders Stock Letter, dated as of February 2, 2022, by and among the Sponsor, Jonah Raskas, Mark Grundman and CHW	8-K	10.6	2/3/2022
4.5	Amended and Restated Registration Rights Agreement dated August 9, 2022, by and among Wag! Group Co. and the other signatories thereto	8-K	10.2	8/15/2022
4.6	PIPE and Backstop Subscription Agreement, dated as of February 2, 2022, by and between CHW and the other signatories thereto	8-K	10.3, 10.4, 10.5	2/3/2022
10.1#	2014 Equity Plan of Wag Labs, Inc.	S-1	10.16	9/14/2022
10.2#	Form of 2014 Equity Plan Stock Option Grant Notice and Agreement (Installment Exercise) of Wag Labs, Inc.	S-1	10.17	9/14/2022
10.3#	Form of 2014 Equity Plan Stock Option Grant Notice and Agreement (Early Exercise) of Wag Labs, Inc.	S-1	10.18	9/14/2022
10.4#	Form of 2014 Equity Plan Restricted Stock Unit Grant Notice and Agreement of Wag Labs, Inc.	S-1	10.19	9/14/2022
10.5#	2020 Management Carve-out Bonus Plan of Wag Labs, Inc.	S-1	10.15	9/14/2022
10.6#	Wag! Group Co. 2022 Omnibus Incentive Plan	10-K	10.6	3/20/2024
10.7#	Wag! Group Co. 2022 Employee Stock Purchase Plan	10-K	10.7	3/20/2024
10.8#	Form of Restricted Stock Unit Grant Notice and Grant Agreement under the Wag! Group Co. 2022 Omnibus Incentive Plan	S-8	99.2	12/1/2022
10.9#	Form of Wag Labs, Inc. Executive Offer Letter	S-1	10.14	9/14/2022
10.10#	Form of Wag Labs, Inc. Earnout Letter	S-1	10.13	9/14/2022
10.11#	Form of Wag! Group Co. Director Offer Letter	S-1	10.12	9/14/2022

10.12†	Financing Agreement, dated August 9, 2022, between Blue Torch Finance, LLC and Wag! Group Co. and the other parties signatories thereto	8-K	10.6	8/15/2022
10.13†	Security Agreement, dated August 9, 2022, between Blue Torch Finance, LLC and Wag! Group Co. and the other parties signatories thereto	8-K	10.8	8/15/2022
10.14†	Warrant Agreement, dated August 9, 2022, between Blue Torch Capital LLC and Wag! Group Co.	8-K	10.7	8/15/2022
10.15	Underwriting Agreement dated July 17, 2024	8-K	1.1	7/17/2024
31.1*	Rule 13a–14(a)/15d–14(a) Certification of Principal Executive Officer			
31.2*	Rule 13a–14(a)/15d–14(a) Certification of Principal Financial Officer			
32.1**	Section 1350 Certification of Principal Executive Officer and Principal Financial Officer			
101.INS*	XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document			
101.SCH*	Inline XBRL Taxonomy Extension Schema Document			
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document			
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document			
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document			
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document			
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)			

* Filed herewith.

** Furnished herewith.

† Certain schedules have been omitted pursuant to Item 601(a)(5) of Regulation S-K under the Securities Act. The Company agrees to furnish supplementally any omitted schedules to the Securities and Exchange Commission upon request.

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.

WAG! GROUP CO.

By: /s/ GARRETT SMALLWOOD
Garrett Smallwood
Chief Executive Officer and Chairman
(Principal Executive Officer)

Date: August 7, 2024

By: /s/ ALEC DAVIDIAN
Alec Davidian
Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: August 7, 2024

Exhibit 31.1

RULE 13a-14(a)/15d-14(a) CERTIFICATION

I, Garrett Smallwood, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Wag! Group Co.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ GARRETT SMALLWOOD
Garrett Smallwood
Chief Executive Officer and Chairman
(Principal Executive Officer)

Date: August 7, 2024

Exhibit 31.2

RULE 13a-14(a)/15d-14(a) CERTIFICATION

I, Alec Davidian, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Wag! Group Co.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ ALEC DAVIDIAN

Alec Davidian
Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: August 7, 2024

Exhibit 32.1

SECTION 1350 CERTIFICATION

In connection with the Quarterly Report of Wag! Group Co. (the “Company”) on Form 10-Q for the quarterly period ended June 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), we, Garrett Smallwood, Chief Executive Officer and Chairman of the Company, and Alec Davidian, Chief Financial Officer of the Company, each certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ GARRETT SMALLWOOD
Garrett Smallwood
Chief Executive Officer and Chairman
(Principal Executive Officer)

Date: August 7, 2024

By: /s/ ALEC DAVIDIAN
Alec Davidian
Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: August 7, 2024