

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

FORM 10-Q

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

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

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: **001-38320**

KALEYRA, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

82-3027430

(I.R.S. Employer
Identification Number)

85 Broad Street, New York, NY

(Address of principal executive offices)

10004

(Zip Code)

Registrant's telephone number, including area code: **+1 917 508 9185**

(Former name or former address, if changed since last report): **N/A**

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

Title of each class	Trading Symbols	Name of each exchange on which registered
Common Stock, par value \$0.0001 per share	KLR	New York Stock Exchange
Warrants, at an exercise price of \$40.25 per share of Common Stock	KLR WS	NYSE American LLC

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

Indicate by checkmark 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, or a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer", "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.:

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

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

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

As of May 5, 2023, there were 13,198,795 shares of the Company's common stock issued and outstanding.

KALEYRA, INC.
Quarterly Report on Form 10-Q

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Item 1 – Financial Statements

KALEYRA, INC.
Condensed Consolidated Balance Sheets
(Unaudited, in thousands, except share and per share data)

	March 31, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 74,362	\$ 77,500
Restricted cash	488	480
Short-term investments	637	587
Trade receivables, net	82,948	86,783
Deferred cost	334	319
Prepaid expenses	3,764	3,989
Other current assets	3,944	3,387
Total current assets	166,477	173,045
Property and equipment, net	23,840	23,826
Operating right-of-use assets	2,781	2,931
Intangible assets, net	55,229	57,400
Goodwill	111,801	111,526
Deferred tax assets	—	—
Other long-term assets	1,995	1,445
Total Assets	<u>\$ 362,123</u>	<u>\$ 370,173</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 80,331	\$ 82,258
Lines of credit	2,991	3,955
Current portion of notes payable	405	405
Current portion of bank and other borrowings	10,234	11,419
Deferred revenue	3,290	3,528
Payroll and payroll related accrued liabilities	7,371	5,993
Other current liabilities	14,502	9,431
Total current liabilities	119,124	116,989
Long-term portion of bank and other borrowings	11,675	13,459
Long-term portion of notes payable	192,293	191,777
Long-term portion of employee benefit obligation	2,359	2,373
Deferred tax liabilities	—	—
Other long-term liabilities	3,052	3,362
Total Liabilities	328,503	327,960
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Preferred stock, par value of \$0.0001 per share; 1,000,000 shares authorized; no shares issued or outstanding	—	—
Common stock, par value of \$0.0001 per share; 100,000,000 shares authorized as of March 31, 2023 and December 31, 2022; 13,998,241 shares issued and 13,198,795 shares outstanding as of March 31, 2023 and 13,858,440 shares issued and 13,058,994 shares outstanding as of December 31, 2022	1	1
Additional paid-in capital	280,486	278,473
Treasury stock, at cost; 799,446 shares as of March 31, 2023 and December 31, 2022	(30,431)	(30,431)
Accumulated other comprehensive loss	(4,584)	(5,212)
Accumulated deficit	(211,852)	(200,618)
Total stockholders' equity	33,620	42,213
Total liabilities and stockholders' equity	<u>\$ 362,123</u>	<u>\$ 370,173</u>

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

KALEYRA, INC.
Condensed Consolidated Statements of Operations
(Unaudited, in thousands, except share and per share data)

	Three Months Ended March 31,	
	2023	2022
Revenue	\$ 83,618	\$ 80,481
Cost of revenue	62,518	62,743
Gross profit	21,100	17,738
Operating expenses:		
Research and development	5,402	4,890
Sales and marketing	6,014	7,100
General and administrative	14,036	15,380
Total operating expenses	25,452	27,370
Loss from operations	(4,352)	(9,632)
Other income, net	15	46
Financial expense, net	(3,634)	(3,152)
Foreign currency income (loss)	(969)	257
Loss before income tax expense	(8,940)	(12,481)
Income tax expense	1,024	691
Net loss	\$ (9,964)	\$ (13,172)
Net loss per common share, basic and diluted	\$ (0.76)	\$ (1.09)
Weighted-average shares used in computing net loss per common share, basic and diluted	13,044,570	12,070,720

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

KALEYRA, INC.
Condensed Consolidated Statements of Comprehensive Loss
(Unaudited, in thousands)

	Three Months Ended March 31,	
	2023	2022
Net loss	\$ (9,964)	\$ (13,172)
Other comprehensive income (loss):		
Foreign currency translation adjustments	620	(634)
Net change in unrealized gain on marketable securities, net of tax	8	5
Total other comprehensive income (loss)	628	(629)
Total comprehensive loss	<u>\$ (9,336)</u>	<u>\$ (13,801)</u>

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

KALEYRA, INC.
Condensed Consolidated Statements of Stockholders' Equity (Deficit)
(Unaudited, in thousands, except share data)

	Three Months Ended March 31, 2023							
	Common Stock		Additional Paid-in Capital	Treasury Stock		Accumulated Other Comprehensiv e Income (Loss)	Accumulated Deficit	Total Stockholder s' Equity
	Shares	Amount		Shares	Amount			
Balance as of December 31, 2022 (1)	13,858,440	\$ 1	\$ 278,473	799,446	\$ (30,431)	\$ (5,212)	\$ (200,618)	\$ 42,213
Adoption of ASC 326	—	—	—	—	—	—	(1,270)	(1,270)
Stock-based compensation (RSUs)	139,801	—	2,013	—	—	—	—	2,013
Net loss	—	—	—	—	—	—	(9,964)	(9,964)
Other comprehensive income	—	—	—	—	—	628	—	628
Balance as of March 31, 2023	<u>13,998,241</u>	<u>\$ 1</u>	<u>\$ 280,486</u>	<u>799,446</u>	<u>\$ (30,431)</u>	<u>\$ (4,584)</u>	<u>\$ (211,852)</u>	<u>\$ 33,620</u>

	Three Months Ended March 31, 2022							
	Common Stock		Additional Paid-in Capital	Treasury Stock		Accumulated Other Comprehensiv e Income (Loss)	Accumulated Deficit	Total Stockholder s' Equity
	Shares	Amount		Shares	Amount			
Balance as of December 31, 2021 (1)	12,908,327	\$ 1	\$ 251,662	799,446	\$ (30,431)	\$ (2,010)	\$ (101,800)	\$ 117,422
Stock-based compensation (RSUs)	93,770	—	6,759	—	—	—	—	6,759
Net loss	—	—	—	—	—	—	(13,172)	(13,172)
Other comprehensive loss	—	—	—	—	—	(629)	—	(629)
Balance as of March 31, 2022 (1)	<u>13,002,097</u>	<u>\$ 1</u>	<u>\$ 258,421</u>	<u>799,446</u>	<u>\$ (30,431)</u>	<u>\$ (2,639)</u>	<u>\$ (114,972)</u>	<u>\$ 110,380</u>

(1) Amounts as of December 31, 2022 and before that date differ from those published in the Company's prior consolidated financial statements as they were retrospectively adjusted as a result of the Reverse Stock Split (as described below in Note 1 - Description of Organization and Business Operations). Specifically, the number of shares of common stock outstanding during periods before the Reverse Stock Split were divided by the split ratio of 3.5:1, such that each 3.5 shares of common stock were combined and reconstituted into one share of common stock effective March 9, 2023.

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

KALEYRA, INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited, in thousands)

	Three Months Ended March 31,	
	2023	2022
Cash Flows from Operating Activities:		
Net loss	\$ (9,964)	\$ (13,172)
<i>Adjustments to reconcile net loss to net cash provided by operating activities:</i>		
Depreciation and amortization	4,435	5,902
Stock-based compensation	2,013	6,759
Non-cash reduction to the right-of-use asset	10	—
Provision for doubtful accounts	2,503	176
Realized gains on marketable securities	8	5
Employee benefit obligation	144	514
Change in fair value of warrant liability	12	(534)
Non-cash interest expense	528	490
Deferred taxes	—	820
<i>Change in operating assets and liabilities:</i>		
Trade receivables	481	3,010
Other current assets	(275)	1,504
Deferred cost	(15)	22
Operating lease liability	3	—
Other long-term assets	(542)	(1,074)
Accounts payable	(2,614)	(816)
Other current liabilities	6,399	2,334
Deferred revenue	(276)	(2,708)
Long-term liabilities	(397)	(40)
Net cash provided by operating activities	2,453	3,192
Cash Flows from Investing Activities:		
Purchase of short-term investments	(46)	(1,165)
Purchase of property and equipment	(231)	(544)
Capitalized software development costs	(1,806)	(2,332)
Acquisition of Bandyer, net of cash acquired	—	58
Net cash used in investing activities	(2,083)	(3,983)
Cash Flows from Financing Activities:		
Proceeds from (repayments on) line of credit, net	(1,014)	(525)
Repayments on term loans	(3,340)	(2,134)
Repayments on capital lease	(48)	(29)
Net cash used in financing activities	(4,402)	(2,688)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	902	(334)
Net decrease in cash, cash equivalents and restricted cash	(3,130)	(3,813)
Cash, cash equivalents and restricted cash, beginning of period (1)	77,980	91,702
Cash, cash equivalents and restricted cash, end of period (1)	<u>\$ 74,850</u>	<u>\$ 87,889</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 351	\$ 173
Non-cash investing and financing activities		
Consideration payable	\$ 488	\$ 480
Adoption of ASC 326	\$ (1,270)	\$ —

(1)As of March 31, 2023, includes \$74.4 million of cash and cash equivalents and \$488,000 of restricted cash; as of December 31, 2022, includes \$77.5 million of cash and cash equivalents and \$480,000 of restricted cash.

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

KALEYRA, INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. DESCRIPTION OF ORGANIZATION AND BUSINESS OPERATIONS

Kaleyra, Inc., formerly GigCapital, Inc., (hereinafter “Kaleyra” or the “Company”), was incorporated in Delaware on October 9, 2017. The Company was formed for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or similar business combination with one or more businesses.

On February 22, 2019, the Company entered into a stock purchase agreement (the “Stock Purchase Agreement”) by and among the Company, Kaleyra S.p.A., Shareholder Representative Services LLC (the “Seller Representative”), as representative for the holders of the ordinary shares of Kaleyra S.p.A. immediately prior to the closing of the business combination with Kaleyra (the “Business Combination”), and all of the stockholders of all of the Kaleyra S.p.A. stock (collectively, such Kaleyra S.p.A. stockholders, the “Sellers”), for the purpose of the Company acquiring all of the shares of Kaleyra S.p.A.

As a result of the Business Combination, which closed on November 25, 2019, the Company (headquartered in Milan, Italy) became a multi-channel integrated communications services provider on a global scale. At the time of the closing of the Business Combination, Kaleyra operated in the Communications Platform as a Service (“CPaaS”) market with operations primarily in Italy, India, Dubai and the United States. In connection with the closing, the Company changed its name from GigCapital, Inc. to Kaleyra, Inc.

Kaleyra provides mobile communications services to financial institutions, e-commerce players, OTTs, software companies, logistic enablers, healthcare providers, retailers, and other large organizations worldwide. Through its proprietary cloud communications platforms (collectively, the “Platforms”), Kaleyra manages multi-channel integrated communications services on a global scale, consisting of inbound/outbound messaging solutions, programmable voice and Interactive Voice Response (IVR) configurations, hosted telephone numbers, conversational marketing solutions, RCS, and other types of IP communications services such as e-mail, push notifications, video/audio/chat, and WhatsApp®.

On October 22, 2019, Kaleyra’s U.S. subsidiary, The Campaign Registry Inc. (“TCR”), was incorporated under the laws of Delaware to promote a systems initiative to reduce spam by collecting robotically driven campaign information and processing and sharing that information with mobile operators and the messaging ecosystem. TCR started to account for its first revenue in the second half of fiscal year 2020 and revenue has constantly increased since then. On March 26, 2021, a wholly owned subsidiary of TCR was incorporated under the laws of Canada, with the registered office in Vancouver, British Columbia. This new subsidiary was established with the goal to further expand the registry legacy business in North America.

On July 29, 2020, Kaleyra registered a German branch of Kaleyra S.p.A. with the German Chamber Tax Authority of Commerce. Kaleyra established its branch in Germany to expand Kaleyra’s footprint in Central Europe and the Nordic countries and allow it to leverage Kaleyra’s trusted business solutions for customers in additional jurisdictions.

On February 18, 2021, Kaleyra entered into an agreement and plan of merger (the “Merger Agreement”) with Vivial, Inc. (“Vivial”) for the acquisition of the business known as mGage (“mGage”), a leading global mobile messaging provider in the United States (the transaction contemplated by the Merger Agreement, the “Merger”).

On June 1, 2021, Kaleyra completed its acquisition of mGage for a total purchase price of \$218.0 million. The Merger consideration consisted of both cash consideration and common stock consideration. On August 30, 2021, the Company prepared and delivered to the Stockholder Representative a written statement (the “Post-Closing Statement”) setting forth the calculation of closing cash and closing net working capital which ultimately resulted in the final Merger consideration to be equal to \$217.0 million pursuant to the terms of the Merger Agreement. The cash consideration amounted to \$199.2 million of which \$198.6 million was paid on June 1, 2021 and the remaining amount was settled during the period ended September 30, 2021, including a working capital adjustment of \$997,000. The common stock consideration was paid with the issuance to Vivial’s former equity holders of a total of 457,143 shares of Kaleyra common stock at the \$41.20 per share closing price of Kaleyra common stock on the date of issuance, equal to \$18.8 million (on a post-reverse split basis). In support of the consummation of the Merger, on February 18, 2021, Kaleyra entered into subscription agreements (the “PIPE Subscription Agreements”), with certain institutional investors (the “PIPE Investors”), pursuant to which, among other things, Kaleyra agreed to issue and sell, in private placements to close immediately prior to the closing of the Merger, an aggregate of 2,400,000 shares of Kaleyra common stock to the PIPE Investors at \$43.75 per share (on a post-reverse split basis). Kaleyra also entered into convertible note subscription agreements (the “Convertible Note Subscription Agreements”) with certain institutional investors (the “Convertible Note Investors”), pursuant to which Kaleyra agreed to issue and sell, in private placements to close immediately prior to the closing of the Merger, \$200 million aggregate principal amount of unsecured convertible notes (the “Merger Convertible Notes”).

On July 1, 2021, Kaleyra completed a company reorganization of the acquired business of mGage through the initial dissolution of the Delaware single member LLCs of Vivial Holdings, LLC, Vivial Networks, LLC, and the following merger of mGage, LLC into

the surviving holding company, Vivial Inc., which subsequently changed its name into Kaleyra US Inc., as a result of the reorganization. As a result of the merger, Kaleyra US Inc. became the holding company and one hundred percent (100%) owner of Kaleyra UK Limited – previously known as mGage Europe Ltd. (UK) and mGage SA de SV (Mexico).

On July 8, 2021, Kaleyra completed the acquisition of Bandyer Srl (“Bandyer”) for cash consideration of \$15.4 million. Bandyer offers cloud-based audio/video communications services via Web Real Time Communication (“WebRTC”) technology to financial institutions, retail companies, utilities, industries, insurance companies, human resources, and digital healthcare organizations. Bandyer provides customers with programmable audio/video APIs and Software Development Kits (“SDKs”) based on WebRTC technology for a variety of use cases, including Augmented Reality (“AR”) applications for smart glasses.

Effective August 31, 2021, the common stock of the Company ceased trading on the NYSE American and commenced trading on the NYSE under the ticker symbol “KLR”. Kaleyra’s warrants continue to trade on the NYSE American under the symbol “KLR WS”.

On October 11, 2021, Kaleyra Africa Ltd, a wholly owned subsidiary of Kaleyra Inc., was incorporated under the laws of South Africa with the registered office in Waterfall City, Gauteng. This newly established subsidiary is part of Kaleyra's broader strategic plan of expanding into emerging markets whereby South Africa will serve as Kaleyra's hub to enter the entire African market.

On November 15, 2021, pursuant to the provisions of the Merger Agreement, Kaleyra Dominicana, S.R.L., the ninety-nine percent (99%) direct owner of Kaleyra US Inc. and one percent (1%) direct owner of Kaleyra Inc., was incorporated under the laws of the Dominican Republic with the registered office in Santo Domingo. This newly established subsidiary is aimed to provide the Kaleyra group with back-office technology support and engage in product development and innovation.

On January 13, 2022, Kaleyra completed a company reorganization of the acquired business of Bandyer by means of the merger of the Italian legal entity of Bandyer into the holding company, Kaleyra S.p.A.. As a result of the merger, Bandyer ceased to exist as a separate legal entity and all its assets and liabilities have been incorporated under Kaleyra S.p.A. effective January 13, 2022.

Reverse Stock Split

On November 7, 2022, Kaleyra received a written notice (the “Price Notice”) from the New York Stock Exchange (the “NYSE”) that it was not in compliance with the continued listing criteria set forth in Section 802.01C of the NYSE’s Listed Company Manual, as the average closing share price of the Company’s common stock was less than \$1.00 per share over a consecutive 30 trading-day period. Within ten business days of receipt of the Price Notice, the Company responded to the NYSE with respect to its intent to cure the deficiency and provided available alternatives, including, but not limited to, a reverse stock split, subject to shareholder approval, to regain compliance.

On February 14, 2023, Kaleyra held a special meeting of stockholders (the “Special Meeting”) to approve an amendment to the Company’s Certificate of Incorporation to effect, at the discretion of the Board of Directors, a reverse stock split (the “Reverse Stock Split”).

On March 6, 2023, the Company announced that, following shareholder approval at the Special Meeting of the stockholders held on February 14, 2023, the Company’s Board of Directors approved a 1-for-3.5 Reverse Stock Split of the Company’s issued and outstanding shares of common stock, par value \$0.0001 per share, effective as of 12:01 a.m. Eastern Time on March 9, 2023. Beginning with the opening of trading on March 9, 2023, Kaleyra’s common stock began trading on the New York Stock Exchange on a split-adjusted basis under new CUSIP number 483379202 and continued to trade under the symbol “KLR”.

On April 3, 2023, Kaleyra received written confirmation from the NYSE that the Company has regained compliance with the minimum share price continued listing criteria set forth in Section 802.01C of the NYSE’s Listed Company Manual, as the Company's common stock had a closing share price of at least \$1.00 and an average closing share price of at least \$1.00 over the consecutive 30 trading-day period ended March 31, 2023. Refer to Note 21 - Subsequent Events for more information.

All share, restricted stock unit, and per share information throughout the Company's condensed consolidated financial statements has been retrospectively adjusted to reflect this Reverse Stock Split in accordance with SEC Staff Accounting Bulletins Topic 4.C, Equity Accounts, Change in Capital Structure (ASC 505-10-S99-4).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying condensed consolidated financial statements of the Company are unaudited, and have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, this interim quarterly financial

report does not include all disclosures required by US GAAP. In the opinion of the Company's management, the unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, considered necessary to present fairly the financial position, results of operations and cash flows of the Company and its consolidated subsidiaries for all periods presented. The results of operations for the three months ended March 31, 2023 are not necessarily indicative of the results to be expected in the future or for the full fiscal year. It is recommended that these condensed consolidated financial statements be read in conjunction with the Company's consolidated financial statements and the notes thereto included in its 2022 Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on March 16, 2023. In January 2023, Kaleyra ceased to be an emerging growth company upon the end of fiscal year 2022, following the fifth anniversary of the IPO.

Substantial Doubt in Going Concern

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

On November 7, 2022, Kaleyra received a written notice (the "Price Notice") from the New York Stock Exchange (the "NYSE") that it was not in compliance with the continued listing criteria set forth in Section 802.01C of the NYSE's Listed Company Manual, as the average closing share price of the Company's common stock was less than \$1.00 per share over a consecutive 30 trading-day period. Within ten business days of receipt of the Price Notice, the Company responded to the NYSE with respect to its intent to cure the deficiency and provided available alternatives, including, but not limited to, a reverse stock split, subject to shareholder approval, to regain compliance.

On February 14, 2023, Kaleyra held the Special Meeting to approve an amendment to the Company's Certificate of Incorporation to effect, at the discretion of the Board of Directors, the Reverse Stock Split.

On March 6, 2023, the Company announced that, following shareholder approval at the Special Meeting of the stockholders held on February 14, 2023, the Company's Board of Directors approved a 1-for-3.5 Reverse Stock Split of the Company's issued and outstanding shares of common stock, par value \$0.0001 per share, effective as of 12:01 a.m. Eastern Time on March 9, 2023. Beginning with the opening of trading on March 9, 2023, Kaleyra's common stock began trading on the New York Stock Exchange on a split-adjusted basis under new CUSIP number 483379202 and continued to trade under the symbol "KLR".

Subsequent to March 31, 2023, on April 3, 2023, the Company received a written notice (the "Market Cap Notice") from the NYSE that the Company was not in compliance with the continued listing criteria set forth in Section 802.01B of the NYSE's Listed Company Manual with respect to the minimum market capitalization and shareholders' equity requirement. Within forty-five days of receipt of the Market Cap Notice, the Company will respond to the NYSE with a business plan to cure the deficiency and to regain compliance, subject to review, acceptance and monitoring by the NYSE, within the eighteen-month cure period following the receipt of the Market Cap Notice. In addition, with the Market Cap Notice, Kaleyra also received written confirmation from the NYSE that the Company has regained compliance with the minimum share price continued listing criteria set forth in Section 802.01C of the NYSE's Listed Company Manual, as the Company's common stock had a closing share price of at least \$1.00 and an average closing share price of at least \$1.00 over the consecutive 30 trading-day period ended March 31, 2023. Refer to Note 21 - Subsequent Events for more information.

As of March 31, 2023, and through the date the financial statements are issued, the Company believes it has sufficient liquidity to be able to operate its business for at least 12 months following the date that the financial statements are issued. However, the Company was not in compliance with NYSE continued listing criteria, as described above. If Kaleyra fails to regain and maintain compliance with the NYSE continued listing requirements, including but not limited to the above, the NYSE may take steps to delist the Company's securities. Delisting from the NYSE (and the inability of Kaleyra to list its common stock on the Nasdaq Global Select Market or the Nasdaq Global Market, or any other eligible market) would trigger a fundamental change under the terms of the Indenture, which would entitle each holder of the Merger Convertible Notes, at such holder's option, to require Kaleyra to repurchase for cash all or any portion of such holder's notes at a repurchase price equal to 100% of the principal amount thereof, plus accrued and unpaid interest thereon – refer to Note 10 – Notes Payable in the Company's condensed consolidated financial statements for additional information relating the Merger Convertible Notes. In such event, Kaleyra may not have enough available cash or be able to obtain financing to meet the repurchase obligations that may arise if the Company is not able to regain compliance with the NYSE continued listing criteria for at least the 12 months following the date that the financial statements are issued, and Kaleyra's failure to repurchase such notes would constitute a default under the Indenture. The Company continues to seek other sources of capital and other alternatives to maintain its listing on the NYSE. In addition, the Company is focusing on improving operations with actions aimed at expanding its customer base, increasing revenue and margins from existing customers, reducing costs, as well as expanding into geographic areas where Kaleyra currently has low concentration.

On February 15, 2023, to drive improved financial and operating performance, and ensure continued sustainable and scalable growth, the Company announced an initial restructuring and cost reduction program for 2023 (the "Program"). The Program is designed to position Kaleyra to serve the demand from global businesses using existing and emerging communication channels, while driving labor and cost efficiencies. The Program is anticipated to start delivering results beginning as early as the first quarter of 2023

and will run through the remainder of 2023 when the effects will become measurable. This includes fixed costs being heavily scrutinized. As a result of the Company's recently launched initiatives, significant improvements in the Company's results are expected in 2023 compared to 2022, with additional growth anticipated in 2024 when compared to 2023. This is further supported by the organizational streamlining aimed at reducing monthly cash payroll costs by more than 15%. Further savings are anticipated to be achieved by leveraging the Company's global footprint to relocate costs from high-cost geographies to low-cost geographies.

Despite the measures the Company is undertaking and plans to undertake, the Company might fail to regain and maintain compliance with the NYSE continued listing requirements, including acceptance and ongoing monitoring activities of the business plan by the NYSE, as certain matters included in the business plan are outside the Company's control. These factors raise substantial doubt about the ability of the Company to continue as a going concern within one year after the date that these financial statements are issued.

Liquidity

As of March 31, 2023, the Company had \$74.4 million of cash and cash equivalents, \$488,000 of restricted cash and \$637,000 of short-term investments with maturity terms between 4 and 12 months held in India. Of the \$75.5 million in cash, restricted cash and short-term investments, \$29.0 million was held in U.S. banks, \$27.6 million was held in Italy, \$17.8 million was held in India with the remainder held in other banks. Management currently plans to retain the cash in the jurisdictions where these funds are currently held.

The condensed consolidated balance sheet as of March 31, 2023 includes total current assets of \$166.5 million and total current liabilities of \$119.1 million, resulting in net current assets of \$47.4 million and a short-term net financial position of \$61.9 million.

Kaleyra finances its operations through a combination of cash generated from operations and from borrowings under Kaleyra bank facilities primarily with banks located in Italy, as well as proceeds from equity offerings and convertible note arrangements. Kaleyra's long-term cash needs primarily include meeting debt service requirements, working capital requirements and capital expenditures.

Business seasonality

Historically, Kaleyra has experienced clear seasonality in its revenue generation, with slower traction in the first calendar quarter, and increasing revenues as the year progresses. Kaleyra typically experiences higher revenues in messaging and notification services during the fourth calendar quarter. This patterned revenue generation behavior takes place due to Kaleyra's customers sending more messages to their end-users who are engaged in consumer transactions at the end of the calendar year, resulting in an increase in notifications of electronic payments, credit card transactions and e-commerce.

Principles of Consolidation

The condensed consolidated financial statements include the Company and its wholly owned subsidiaries, including Kaleyra S.p.A., Solutions Infini, Kaleyra US Inc., Kaleyra UK Limited, Buc Mobile and TCR, which represent its major operations. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are used for, but not limited to, revenue recognition; allowance for doubtful accounts; valuation of the Company's stock-based awards; recoverability of goodwill, long-lived and intangible assets; capitalization and useful life of the Company's capitalized internal-use software development costs; fair value of acquired intangible assets and goodwill; accruals, including tax related provisions and valuation allowances on deferred taxes and legal contingent liabilities; incremental borrowing rate used in present valuing lease liabilities. Estimates are based on historical experience and on various assumptions that the Company believes are reasonable under current circumstances. However, future events are subject to change and best estimates and judgments may require further adjustments; therefore, actual results could differ materially from those estimates. Management periodically evaluates such estimates and they are adjusted prospectively based upon such periodic evaluation. Actual results and outcomes may differ from management's estimates and assumptions due to risks and uncertainties, including uncertainty in the current economic environment due to the disruptive effects of global inflation and the armed conflict between Russia and Ukraine.

Impact of macroeconomic factors

Inflation

A combination of circumstances, including governmental fiscal and monetary policies, regional armed conflicts, supply chain constraints, and labor and/or energy shortages, including as a result of the lagging economic impacts of COVID-19, has resulted in

significant inflationary trends mainly in the cost of goods sold, labor and other expenses. These inflationary pressures could affect wages, Kaleyra's cost and ability to negotiate the cost of the mobile network operators, the price of its products and services, its ability to meet customer demand, and ultimately the Company's gross margins and operating profit. Notwithstanding the existence of inflationary pressures, Kaleyra concluded that its business, operating results, cash flows and financial condition would not be materially adversely affected.

Interest rate

Interest rates are highly sensitive to many factors including the current international economic and political scenario, as well as other factors beyond Kaleyra's control. Interest rate risk is the exposure to loss resulting from changes in the level of interest rates and the spread between different interest rates. Kaleyra's interest rates on the bank borrowing held by Italian commercial banks are at market in Italy and well below market in other geographical locations. The Merger Convertible Notes bear interest at a fixed coupon rate of 6.125% per annum, and for this reason Kaleyra has no financial or economic interest exposure associated with changes in interest rates. Therefore, Kaleyra does not believe there is material exposure to market risk from changes in interest rates on debt.

Foreign currency

Kaleyra's condensed consolidated financial statements are presented in U.S. dollars while the functional currencies of foreign subsidiaries are other than U.S. dollar. The main functional currencies of foreign subsidiaries include: Euro for Kaleyra S.p.A., Indian Rupee for Solutions Infini Technologies Private Limited, Great Britain Pound for Kaleyra UK Limited, United Arab Emirates Dirham for Solutions Infini FZE.

More than 45% of Kaleyra's total revenue was generated outside the United States for the three-month period ended March 31, 2023. The majority of Kaleyra's revenues and operating expenses are denominated in currency other than U.S. dollars, and therefore are currently subject to significant foreign currency risk. To the extent the U.S. dollar weakens against foreign currencies, the translation of these foreign currencies result in increased revenue and operating expenses for Kaleyra's non-U.S. operations. Similarly, Kaleyra's revenue and operating expenses for Kaleyra's non-U.S. operations decrease if the U.S. dollar strengthens against foreign currencies.

Concentration of Credit Risk

Financial instruments that potentially expose the Company to a concentration of credit risk consist primarily of cash and cash equivalents, restricted cash, short-term investments and trade receivables. The Company maintains its cash and cash equivalents, restricted cash and short-term investments with financial institutions that management believes are financially sound.

The Company sells its services to a wide variety of customers. If the financial condition or results of operations of any significant customers deteriorate substantially, the Company's operating results could be adversely affected. To reduce credit risk, management performs ongoing credit evaluations of the financial condition of significant customers. The Company maintains reserves for estimated credit losses on customer accounts when considered necessary. Actual credit losses may differ from the Company's estimates. In both the three months ended March 31, 2023 and 2022, there were no customers that individually accounted for more than 10% of the Company's consolidated total revenue. As of March 31, 2023 and December 31, 2022, Kaleyra had one and zero individual customer that accounted for more than 10% of the Company's consolidated total trade receivables, respectively. Trade receivables accounted for by that one customer amounted to \$9.8 million as of March 31, 2023.

Warrant Liability

The Company accounts for warrants for shares of the Company's common stock that are not indexed to its own stock as liabilities at fair value on the condensed consolidated balance sheets. The warrants are subject to remeasurement at each balance sheet date and any change in fair value is recognized in "Financial expense, net" on the condensed consolidated statements of operations. The liability is included in the condensed consolidated balance sheet line item "Other long-term liabilities". The Company will continue to adjust the liability for changes in fair value until the earlier of the exercise or expiration of the common stock warrants. At that time, the portion of the warrant liability related to the common stock warrants will be reclassified as additional paid-in capital.

Recent Accounting Pronouncements

In May 2021, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2021-04 "Earnings Per Share (Topic 260), Debt—Modifications and Extinguishments (Subtopic 470-50), Compensation—Stock Compensation (Topic 718), and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40) Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options" which clarifies and reduces diversity in an issuer's accounting for modifications or exchanges of freestanding equity-classified written call options (for example, warrants) that remain equity classified after modification or exchange. An entity should measure the effect of a modification or an exchange of a freestanding equity-classified written call option that remains equity classified after modification or exchange as follows: i) for a modification or an exchange that is a part of or directly related to a modification or an exchange of an existing debt instrument or line-of-credit or revolving-debt arrangements (hereinafter, referred to as a "debt" or "debt instrument"), as the difference between the fair

value of the modified or exchanged written call option and the fair value of that written call option immediately before it is modified or exchanged; ii) for all other modifications or exchanges, as the excess, if any, of the fair value of the modified or exchanged written call option over the fair value of that written call option immediately before it is modified or exchanged. The amendments in this update are effective for all entities for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. An entity should apply the amendments prospectively to modifications or exchanges occurring on or after the effective date of the amendments. The Company adopted the amendments in this update as of the beginning of its annual fiscal year 2022, and the adoption did not have a material impact on its condensed consolidated financial statements.

In August 2020, the FASB issued ASU 2020-06 “Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging — Contracts in Entity’s Own Equity (Subtopic 815-40) Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity” which is aimed to address issues identified as a result of the complexity associated with applying generally accepted accounting principles for certain financial instruments with characteristics of liabilities and equity. In addressing the complexity, the FASB focused on amending the guidance on convertible instruments and the guidance on the derivatives scope exception for contracts in an entity’s own equity. For convertible instruments, the Board decided to reduce the number of accounting models for convertible debt instruments and convertible preferred stock. Limiting the accounting models results in fewer embedded conversion features being separately recognized from the host contract as compared with current GAAP. Convertible instruments that continue to be subject to separation models are (1) those with embedded conversion features that are not clearly and closely related to the host contract, that meet the definition of a derivative, and that do not qualify for a scope exception from derivative accounting and (2) convertible debt instruments issued with substantial premiums for which the premiums are recorded as paid-in capital. The Company adopted the amendments in this update as of the beginning of its annual fiscal year 2021, which resulted in the embedded conversion features of the Merger Convertible Note not being separately recognized from the host contract pursuant to their scope exception from derivative accounting under ASC 815-10-15-74(a). The interest make-whole payment feature provided by the Merger Convertible Note met the definition of a derivative but did not fall within the above scope exception, nonetheless its value was de minimis and as such no amount was recorded in the financial statements at the time of the issuance of the Merger Convertible Notes nor at any subsequent reporting date.

In June 2020, the FASB issued ASU 2020-05 “Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective dates for certain entities” (“ASU 2020-05”), which provides a limited one year deferral of the effective dates of the following updates (including amendments issued after the issuance of the original update) to provide immediate, near-term relief for certain entities for whom these updates are either currently effective or imminently effective: i) ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) (“Revenue”); and ii) ASU No. 2016-02, Leases (Topic 842) (“Leases”). The updates in ASU 2020-05 followed the updates to effective dates set forth within ASU 2019-10 “Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates” (“ASU 2019-10”). The amendments in this ASU amended certain effective dates for the above ASU 2016-02, Leases (including amendments issued after the issuance of the original ASU). The effective dates for Leases after applying ASU 2019-10 were as follows: public business entities, excluding emerging growth companies and smaller reporting companies, for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. All other entities for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. In ASU 2019-10, the FASB noted that challenges associated with transition to a major update were often magnified for private companies and smaller public companies. Those challenges became significantly amplified by the business and capital market disruptions caused by the COVID-19 pandemic. For this reason, the FASB issued the amendments in ASU 2020-05 deferring the effective date for one additional year for entities in the “all other” category that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of Leases. Therefore, under the amendments of ASU 2020-05, Leases (Topic 842) is effective for entities within the “all other” category for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. The Company adopted the amendments in this update in its fiscal year ending December 31, 2022, by using the modified retrospective adoption method as of January 1, 2022, and applied it to all leases that existed on that date through the accounting transition date.

In February 2020, the FASB issued ASU 2020-02 “Financial Instruments—Credit Losses (Topic 326) and Leases (Topic 842), Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases (Topic 842)”. This ASU guidance is applicable upon a registrant’s adoption of Accounting Standards Codification (“ASC”) Topic 326. This ASU also adds a note to an SEC paragraph pursuant to the issuance of ASU 2019-10 and certain effective dates amended therein, as noted below.

On November 15, 2019, the FASB issued ASU 2019-10 “Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates”. The amendments in ASU 2019-10 amend certain effective dates for the following major ASUs (including amendments issued after the issuance of the original ASU):

a) ASU 2016-13, “Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments”. The amendments in this ASU amend the mandatory effective dates for Credit Losses for all entities as follows: Public business entities that meet the definition of a SEC filer, excluding entities eligible to be smaller reporting companies, as defined by the SEC, at the time the ASU was issued, for fiscal years beginning after December 15, 2019, including interim periods within those fiscal

years. All other entities for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company adopted the amendments in this update on January 1, 2023, by utilizing the Current Expected Credit Losses (CECL) financial model to measure impairment on financial assets, mainly referring to trade receivables, which required, under the modified retrospective transition method, a cumulative-effect adjustment of \$1.3 million to be recognized on the opening balance sheet of retained earnings on the date of adoption without restating prior periods.

b) ASU 2016-02, Leases (Topic 842). The effective dates for Leases after applying ASU 2019-10 are as follows: public business entities, excluding emerging growth companies and smaller reporting companies, for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. All other entities for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. As noted above, the effective date of this ASU was delayed for one additional year following the issuance of ASU 2020-02 and ASU 2020-05.

In August 2018, the FASB issued ASU 2018-14, “Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20)”, which modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The amendments are effective for fiscal years ending after December 15, 2020 for public business entities and for fiscal years ending after December 15, 2021 for all other entities. The Company adopted the amendments in this update as of the beginning of its annual fiscal year 2022, and the adoption did not have a material impact on its condensed consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments—Credit Losses: Measurement of Credit Losses on Financial Instruments”, which changes the impairment model for most financial assets. The new model uses a forward-looking expected loss method, which will generally result in earlier recognition of allowances for losses. This ASU is effective for public entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, and for other entities for fiscal years beginning after December 15, 2020 and interim periods within fiscal years beginning after December 15, 2021. As noted above, the effective date of this ASU was delayed for two years following the issuance of ASU 2019-10.

In February 2016, the FASB issued ASU 2016-02, “Leases”, which was further clarified by ASU 2018-10, “Codification Improvements to Topic 842, Leases”, and ASU 2018-11, “Leases—Targeted Improvements”, both issued in July 2018. ASU 2016-02 affects all entities that lease assets and will require lessees to recognize a lease liability and a right-of-use asset for all leases (except for short-term leases that have a duration of less than one year) as of the date on which the lessor makes the underlying asset available to the lessee. ASU 2018-10 clarifies or corrects unintended application of guidance related to ASU 2016-02. The amendment affects narrow aspects of ASU 2016-02 related to the implicit rate in the lease, impairment of the net investment in the lease, lessee reassessment of lease classification, lessor reassessment of lease term and purchase options, variable payments that depend on an index or rate and certain transition adjustments. ASU 2018-11 adds a transition option for all entities and a practical expedient only for lessors. The transition option allows entities to not apply the new lease standard in the comparative periods they present in their financial statements in the year of adoption. Under the transition option, entities can opt to continue to apply the legacy guidance in ASC 840, “Leases”, including its disclosure requirements, in the comparative prior periods presented in the year they adopt the new lease standard. Entities that elect this transition option will still be required to adopt the new leases standard using the modified retrospective transition method required by the standard, but they will recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption rather than in the earliest period presented. The new standards are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years for a public business entity. For all other entities, the amendments in this ASU are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. As noted above, the effective date of this ASU was delayed for two years following the issuance of ASU 2019-10 as amended by ASU 2020-02 and ASU 2020-05.

3. FAIR VALUE MEASUREMENTS

The following tables provide the assets and liabilities measured at fair value on a recurring basis as of March 31, 2023 and December 31, 2022 (in thousands):

	Fair Value Hierarchy as of March 31, 2023			Aggregate
	Level 1	Level 2	Level 3	Fair Value
<i>Assets:</i>				
Mutual funds (1)	\$ 582	\$ —	\$ —	\$ 582
Interest rate swap (2)	—	46	—	46
Certificates of deposit (3)	—	55	—	55
Total Assets	<u>\$ 582</u>	<u>\$ 101</u>	<u>\$ —</u>	<u>\$ 683</u>
<i>Liabilities:</i>				
Warrant liability (4)	\$ —	\$ 38	\$ —	\$ 38
Total Liabilities	<u>\$ —</u>	<u>\$ 38</u>	<u>\$ —</u>	<u>\$ 38</u>

- (1)Included in the condensed consolidated balance sheet line item “Short-term investments”.
- (2)Included in the condensed consolidated balance sheet line item “Other long-term assets”.
- (3)Included in the condensed consolidated balance sheet line item “Short-term investments”, with maturity terms between 4 and 12 months held in India.
- (4)Included in the condensed consolidated balance sheet line item “Other long-term liabilities”.

	Fair Value Hierarchy as of December 31, 2022			Aggregate
	Level 1	Level 2	Level 3	Fair Value
<i>Assets:</i>				
Mutual funds (1)	\$ 567	\$ —	\$ —	\$ 567
Interest rate swap (2)	—	66	—	66
Certificates of deposit (3)	—	20	—	20
Total Assets	<u>\$ 567</u>	<u>\$ 86</u>	<u>\$ —</u>	<u>\$ 653</u>
<i>Liabilities</i>				
Warrant liability (4)	\$ —	\$ 26	\$ —	\$ 26
Total Liabilities	<u>\$ —</u>	<u>\$ 26</u>	<u>\$ —</u>	<u>\$ 26</u>

- (1)Included in the condensed consolidated balance sheet line item “Short-term investments”.
- (2)Included in the condensed consolidated balance sheet line item “Other long-term assets”.
- (3)Included in the condensed consolidated balance sheet line item “Short-term investments”, with maturity terms between 4 and 12 months held in India.
- (4)Included in the condensed consolidated balance sheet line item “Other long-term liabilities”.

The values of short-term investments as of March 31, 2023 and as of December 31, 2022 were as follows (in thousands):

	As of March 31, 2023				As of December 31, 2022			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Mutual funds	\$ 516	\$ 66	\$ —	\$ 582	\$ 509	\$ 58	\$ —	\$ 567
Certificates of deposit	55	—	—	55	20	—	—	20

There were no transfers into or out of Level 2 or Level 3 for the three months ended March 31, 2023 and the year ended December 31, 2022.

4. DERIVATIVE FINANCIAL INSTRUMENTS

The gross notional amount of interest rate swap derivative contracts not designated as hedging instruments, outstanding as of March 31, 2023 and December 31, 2022, was €2.3 million (\$2.5 million) and €4.8 million (\$5.2 million), respectively.

The amount and location of the gains (losses) in the condensed consolidated statements of operations related to derivative contracts is as follows (in thousands):

Derivatives Not Designed As Hedging Instruments	Line Items	Three Months Ended March 31,	
		2023	2022
Interest rate swap	Financial income (expense), net	\$ (21)	\$ 22

The following table presents the fair value and the location of derivative contracts reported in the condensed consolidated balance sheets (in thousands):

Derivatives Not Designed As Hedging Instruments	Line Items	As of March 31,	As of December 31,
		2023	2022
Interest rate swap	Other long-term assets	46	66

5. GOODWILL AND INTANGIBLE ASSETS, NET

Goodwill

Goodwill as of March 31, 2023 and December 31, 2022 was as follows (in thousands):

Balance as of December 31, 2022	\$ 111,526
Effect of exchange rate	275
Balance as of March 31, 2023	<u>\$ 111,801</u>

Intangible assets, net

Intangible assets consisted of the following (in thousands):

	As of March 31, 2023			As of December 31, 2022		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Amortizable Intangible Assets:						
Developed technology	\$ 23,970	\$ 11,869	\$ 12,101	\$ 23,895	\$ 11,162	\$ 12,733
Customer relationships	56,418	19,217	37,201	56,336	17,826	38,510
Trade names	8,672	2,809	5,863	8,658	2,568	6,090
Patent	145	81	64	143	76	67
Total amortizable intangible assets	<u>\$ 89,205</u>	<u>\$ 33,976</u>	<u>\$ 55,229</u>	<u>\$ 89,032</u>	<u>\$ 31,632</u>	<u>\$ 57,400</u>

Amortization expense was \$2.3 million and \$4.4 million for the three months ended March 31, 2023 and 2022, respectively.

Total estimated future amortization expense as of March 31, 2023 is as follows (in thousands):

	As of March 31, 2023
2023 (remaining nine months)	\$ 6,756
2024	8,930
2025	8,860
2026	8,791
2027	7,235
2028 and thereafter	14,657
Total	<u>\$ 55,229</u>

As of March 31, 2023, the Company has evaluated the existence of impairment indicators that would indicate that the carrying amount of the amortizable intangible assets may not be recoverable concluding there are no impairment write-offs in the period.

6. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Company presents the operating leases in long-term assets and current and long-term liabilities. Operating lease assets are included in the consolidated balance sheet line item "Operating right-of-use assets". Finance lease assets are included in the consolidated balance sheet line item "Property and equipment, net", and finance lease liabilities are presented in "Other current liabilities" and "Other long-term liabilities" in the accompanying consolidated balance sheets as of March 31, 2023 and December 31, 2022.

Right-of-use ("ROU") assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As the Company's leases do not generally provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The Company's lease agreements may have lease and non-lease components, which the Company accounts for as a single lease component. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term and variable payments are recognized in the period they are incurred. The Company's lease agreements do not contain any residual value guarantees, and leases with an initial term of 12 months or less are not recorded on the balance sheet.

The Company determines if an arrangement is a lease at inception. Based upon such determination the Company concluded that it entered into various lease agreements in the form of technology equipment, office space rental agreements, server storage agreements, and company vehicles. The contracts expire over the next seven years.

The components of the lease expense recorded in the condensed consolidated statement of operations were as follows:

	Three Months Ended March 31, 2023	
Operating lease cost	\$	272
Finance lease cost		
Amortization of assets		48
Interest on lease liabilities		4
Short-term lease cost		43
Variable lease cost		33
Total net lease cost	<u>\$</u>	<u>400</u>

Supplemental balance sheet information related to leases was as follows:

Line Items		As of March 31, 2023	As of December 31, 2022
Assets:			
Operating lease assets	Operating right-of-use assets	\$ 2,781	\$ 2,931
Finance lease assets	Property and equipment, net	338	389
Total leased assets		<u>\$ 3,119</u>	<u>\$ 3,320</u>
Liabilities:			
Current			
Operating	Other current liabilities	\$ 718	\$ 758
Finance	Other current liabilities	172	182
Long term			
Operating	Other long-term liabilities	2,312	2,409
Finance	Other long-term liabilities	174	216
Total leased liabilities		<u>\$ 3,376</u>	<u>\$ 3,565</u>

Supplemental cash flow and other information related to leases was as follows:

	Three Months Ended March 31, 2023	
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$	262
Operating cash flows from finance leases (interest)		4
Financing cash flows from finance leases		48
Weighted average remaining lease term (in years):		
Operating leases		3.4
Finance leases		0.1
Weighted average discount rate:		
Operating leases		4.27 %
Finance leases		4.27 %

Maturities of lease liabilities were as follows:

	As of March 31, 2023		
	Operating leases	Finance leases	Total
2023 (remaining nine months)	\$ 640	\$ 145	\$ 785
2024	750	140	890
2025	719	43	762
2026	490	25	515
2027	275	11	286
2028 and thereafter	470	—	470
Total undiscounted lease payments	3,344	364	3,708
Present value discount	314	18	332
Present value	\$ 3,030	\$ 346	\$ 3,376
Lease liability, current	\$ 718	\$ 172	\$ 890
Lease liability, long term	\$ 2,312	\$ 174	\$ 2,486

As of March 31, 2023, the Company had no material additional operating and finance lease obligations related to leases that will commence in the second and third quarter of 2023.

7. OTHER ASSETS

Other current assets consisted of the following (in thousands):

	As of March 31, 2023	As of December 31, 2022
VAT receivables	\$ 2,004	\$ 1,237
Receivables from suppliers	834	547
Credit for tax other than income tax	490	882
Income tax receivables	117	262
Other receivables	499	459
Total other current assets	\$ 3,944	\$ 3,387

Other long-term assets consisted of the following (in thousands):

	As of March 31, 2023	As of December 31, 2022
Non-current income tax credit (advances and tax reduced at sources)	\$ 1,550	\$ 807
Interest rate swaps	46	66
Miscellaneous	399	572
Total other long-term assets	\$ 1,995	\$ 1,445

8. TRADE RECEIVABLES

Allowance for Credit Losses

The Company adopted ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" as of January 1, 2023. The allowance for credit losses is based on historical loss data over a defined period, current conditions and forecasts of future economic circumstances. The Company assesses trade receivables for credit loss in pools based upon the geographic region of the subsidiary holding the trade receivable. Large individual receivables for which there is indication of increased credit risk are individually assessed for loss allowances.

The financial results for the three-month period ended March 31, 2023, are presented under the new standard, while the comparative periods presented are not adjusted and continue to be reported in accordance with the Company's historical accounting policy.

	Three Months Ended March 31,	
	2023	2022
Balance, beginning of the period	\$ 3,174	\$ 2,057
Accruals	1,240	176
ASC326 1st implementation	1,270	—
Releases of provision	(4)	—
Utilization of provision	(9)	(67)
Effect of foreign exchange rate	27	(15)
Balance, end of the period	<u>\$ 5,698</u>	<u>\$ 2,151</u>

9. BANK AND OTHER BORROWINGS

As of March 31, 2023 and December 31, 2022, the current portion of bank and other borrowings amounts to \$13.2 million and \$15.4 million, respectively. As of March 31, 2023, this item was comprised of \$10.2 million of the current portion of bank and other borrowings and \$3.0 million of credit line facilities. As of December 31, 2022, this item was comprised of \$11.4 million of the current portion of bank and other borrowings and \$4.0 million of credit line facilities.

Credit line facilities

As of March 31, 2023, the Company had credit line facilities denominated in Euro for a total amount of \$5.4 million, of which \$3.0 million had been used. As of December 31, 2022, the Company had credit line facilities denominated in Euro for \$5.4 million, of which \$4.0 million had been used.

The credit lines denominated in Euro may be drawn upon at variable interest rates in the following range: 1.00% - 4.60%. The weighted average interest rate on those credit line facilities outstanding as of March 31, 2023 was 1.29%.

Long-term bank and other borrowings

Long-term bank and other borrowings consist of the following (in thousands):

	As of March 31, 2023	As of December 31, 2022	Maturity	Interest Contractual Rate as of March 31, 2023	Interest Nominal Rate	
					As of March 31, 2023	As of December 31, 2022
UniCredit S.p.A. (Line A Tranche 1)	\$ 639	\$ 943	July 2023	Euribor 3 months + 3.10%	2.80 %	2.80 %
UniCredit S.p.A. (Line A Tranche 2)	41	53	November 2023	Euribor 3 months + 3.10%	2.80 %	2.80 %
UniCredit S.p.A. (Line B)	1,121	1,324	May 2024	Euribor 3 months + 2.90%	2.60 %	2.60 %
UniCredit S.p.A. (Line C)	514	755	August 2023	Euribor 3 months + 3.90%	6.94 %	6.03 %
Intesa Sanpaolo S.p.A. (Line 2)	1,407	1,654	April 2024	Euribor 3 months + 3.10%	6.14 %	5.23 %
Intesa Sanpaolo S.p.A. (Line 3)	6,982	7,927	June 2026	Euribor 3 months + 2.15%	5.19 %	4.28 %
Intesa Sanpaolo S.p.A. (Line 4)	4,248	4,466	July 2026	Euribor 3 months + 2.20%	5.24 %	4.33 %
Monte dei Paschi di Siena S.p.A. (Line 2)	362	356	June 2023	1.50 %	1.50 %	1.50 %
Banco BPM S.p.A. (Line 1)	97	189	June 2023	Euribor 3 months + 2.00%	5.04 %	4.13 %
Banco BPM S.p.A. (Line 3)	2,683	3,059	September 2024	Euribor 3 months + 3.00%	6.04 %	5.13 %
Banco BPM S.p.A. (Line 4)	2,301	2,491	July 2025	Euribor 3 months + 1.95%	4.99 %	4.08 %
Simest 1	91	134	December 2023	0.50 %	0.50 %	0.50 %
Simest 2	90	133	December 2023	0.50 %	0.50 %	0.50 %
Simest 3	165	244	December 2023	0.50 %	0.50 %	0.50 %
Simest 4	1,168	1,150	April 2027	0.50 %	0.50 %	0.50 %
Total bank and other borrowings	21,909	24,878				
Less: current portion	10,234	11,419				
Total long-term portion	<u>\$ 11,675</u>	<u>\$ 13,459</u>				

All bank and other borrowings are unsecured borrowings of the Company.

On April 15, 2021, the Company entered into a general unsecured loan agreement with Simest S.p.A for a total of \$3.6 million (€3.0 million at the April 15, 2021 exchange rate) relating to the Fund 394/81 (the “Simest Financing”) and Fund for Integrated Promotion (the “Co-financing”) for implementation of a program to break into foreign markets. The principal amount of \$3.1 million (€2.6 million at the April 15, 2021 exchange rate) applies to the Simest Financing. The Simest Financing bears a subsidized interest rate of 0.055% and a reference interest rate of 0.55%. The loan has a duration of six (6) years starting from the date of disbursement and is to be repaid in half-yearly installments starting after a two-year pre-amortization period. The principal amount of \$505,000 (€422,000 at the April 15, 2021 exchange rate) of the financing applies to the Co-financing and was granted in accordance with Section 3.1 of the Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak of the European Commission, and as such is non-refundable as long as the funds are used for the purposes stated within the Framework.

On September 15, 2021, the principal amount of \$1.3 million (€1.1 million at the September 15, 2021 exchange rate) and \$208,000 (€176,000 at the September 15, 2021 exchange rate) relating to the first installment of the Simest Financing (“Simest 4”) and Co-financing, respectively, was disbursed to the Company pursuant to the terms of the loan agreement with Simest S.p.A.. The non-refundable Co-financing principal amount will be assessed under Section 3.1 of the Temporary Framework within the 25-month period of the agreement execution date.

On July 28, 2022, the Company entered into a new unsecured loan agreement with Banco Popolare di Milano S.p.A. for a total principal amount of \$2.5 million (€2.5 million at the July 28, 2022 exchange rate) with a duration of 36 months and bearing interest rate equal to Euribor 3 months + 1.95%.

As of March 31, 2023, all of the available long-term facilities were drawn in full except for the Simest Financing as described above.

The above facilities include a series of statements and disclosure obligations, in line with the standard practice for these types of financings, whose breach could result in termination, early repayment or enforcement of acceleration rights. In addition, some of the above facilities require compliance with certain financial covenants, based on Kaleyra S.p.A.’s EBITDA, net financial position and equity, calculated upon the approved audited statutory financial statements of Kaleyra S.p.A.. Failure to comply with those financial covenants may result in the repayment of the outstanding debt under the relevant facility or the increase in the interest rate bearing on the existing financing agreements. As of December 31, 2022, the Company was in compliance with all the financial covenants.

Interest expense on bank and other borrowings was \$249,000 and \$156,000 for the three months ended March 31, 2023 and 2022, respectively.

As of March 31, 2023, the Company is obliged to make payments as follows (in thousands):

	As of March 31, 2023
2023 (remaining nine months)	\$ 8,165
2024	7,025
2025	4,272
2026	2,305
2027	142
2028 and thereafter	—
Total	\$ 21,909

10. NOTES PAYABLE

Notes payable – Other

On April 16, 2020, the Company entered into a Settlement Agreement and Release (the “Settlement Agreement”) with its Business Combination financial advisory service firms, Cowen and Company, LLC (“Cowen”) and Chardan Capital Markets, LLC, (“Chardan” and, collectively, the “Service Firms”), pursuant to which it agreed to pay an affiliate of Cowen, Cowen Investments II LLC (“Cowen Investments”), and Chardan, in full satisfaction of all amounts owed to the Service Firms as of December 31, 2019, \$5.4 million in the aggregate, as follows: (i) \$2.7 million in the aggregate in common stock of the Company (the “Settlement Shares”) to be issued the business day prior to the filing of a resale registration statement for such Settlement Shares (the “Bank Resale Registration Statement”), (ii) convertible notes totaling \$2.7 million in the aggregate with a maturity date three years after issuance and bearing interest at five percent (5%) per annum (but with lower interest rates if the notes are repaid earlier than one year or two years after issuance) and with interest paid in arrears to the payee on March 15, June 15, September 15 and December 15 of each year, with such convertible notes to also be issued the business day prior to the filing of the Resale Registration Statement and (iii) in the event that the Beneficial Ownership Limitation (as defined below) would otherwise be exceeded upon delivery of the Settlement Shares above, a warrant agreement also to be entered into with and issued to the Services Firms the business day prior to the filing of

the Resale Registration Statement, whereby the amount of common stock of the Company by which the Beneficial Ownership Limitation would otherwise have been exceeded upon delivery of the Settlement Shares will be substituted for by warrants with an exercise price of \$0.01 per share issued pursuant to a Warrant Agreement (the “Warrant Agreement”) and the common stock underlying the Warrant Agreement (the “Warrant Shares”). The Beneficial Ownership Limitation shall initially be 4.99% of the number of shares of the common stock outstanding of the Company immediately after giving effect to the issuance of these shares of common stock. The number of Settlement Shares was calculated using as the price per Settlement Share an amount equal to a fifteen percent (15%) discount to the ten-day (10-day) trailing dollar volume-weighted average price for the common stock of the Company on the NYSE American LLC stock exchange (the “VWAP”) on the business day immediately prior to the date on which the Company filed the Resale Registration Statement. In addition, the price per share for determining the number of shares of common stock of the Company to be issued upon the conversion of the convertible notes is a five percent (5%) premium to the ten-day (10-day) trailing VWAP as of the date immediately prior to the issuance date of the convertible notes, rounded down to the nearest whole number.

On May 1, 2020, in connection with the Settlement Agreement, Kaleyra issued: (i) an aggregate of 125,885 Settlement Shares to Cowen Investments and Chardan, consisting of 107,002 Settlement Shares issued to Cowen Investments, and 18,883 Settlement Shares issued to Chardan (on a post-reverse split basis); and (ii) convertible promissory notes in the aggregate principal amount of \$2.7 million to Cowen Investments and Chardan, consisting of a convertible promissory note in the principal amount of \$2.3 million issued to Cowen Investments (the “Cowen Note”) and a convertible promissory note in the principal amount of \$405,000 issued to Chardan (the “Chardan Note”). The unpaid principal of the Cowen Note was convertible at the option of Cowen Investments into 86,620 shares of common stock of Kaleyra, if there was no principal reduction, and the unpaid principal of the Chardan Note is convertible at the option of Chardan into 15,285 shares of common stock of Kaleyra, if there has been no principal reduction (on a post-reverse split basis). As the Beneficial Ownership Limitation was not triggered by the issuance of the Settlement Shares, no Warrant Agreement was necessary and no warrants were issued.

On February 4, 2021, Cowen Investments elected to convert the outstanding amount of the Cowen Note into 86,620 shares of common stock pursuant to the terms of the Cowen Note, and as a result the Company has no further obligations with respect to the Cowen Note (on a post-reverse split basis).

As of March 31, 2023, the outstanding amount of the Chardan Note was \$405,000 and accrued interest was \$59,000. This note payable is included in “Current portion of notes payable” and the accrued interest payable is included in “Other current liabilities” in the accompanying condensed consolidated balance sheets. Refer to Note 21 - Subsequent Events for more information relating the reimbursement of the outstanding amount of the Chardan Note.

Merger Convertible Notes

On February 18, 2021, in support of the consummation of the Merger, Kaleyra entered into Convertible Note Subscription Agreements, each dated February 18, 2021, with the Convertible Note Investors. On June 1, 2021, the Company issued the Merger Convertible Notes with an aggregate principal amount of \$200 million. The Company incurred \$11.4 million of issuance costs as a result of the issuance of the Merger Convertible Notes.

In connection with the issuance of the Merger Convertible Notes pursuant to the terms of the Convertible Note Subscription Agreements, the Company entered into an indenture (the “Indenture”) with Wilmington Trust, National Association, a national banking association, in its capacity as trustee thereunder, in respect of the \$200 million of Merger Convertible Notes that were issued to the Convertible Note Investors.

The Merger Convertible Notes bear interest at a rate of 6.125% per annum, payable semi-annually, in arrears on each June 1 and December 1 of each year, commencing on December 1, 2021, to holders of record at the close of business on the preceding May 15 and November 15, respectively. After giving effect to the Reverse Stock Split of Kaleyra's shares of common stock as of March 9, 2023, as described in Note 1 - Description of Organization and Business Operations, the Merger Convertible Notes are convertible into 3,386,243 shares of Parent Common Stock at a conversion price of \$59.063 per share of Parent Common Stock in accordance with the terms of the Indenture, and mature five years after their issuance. The Company may, at its election, force conversion of the Merger Convertible Notes after the second anniversary of the issuance of the Merger Convertible Notes, subject to a holder's prior right to convert, if the last reported sale price of the Parent Common Stock exceeds 130% of the conversion price for at least 20 trading days during the period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter. Following certain corporate events that occur prior to the maturity date or if the Company forces a mandatory conversion, the Company will, in certain circumstances, increase the conversion rate for a holder who elects to convert its Merger Convertible Notes in connection with such a corporate event or has its Merger Convertible Notes mandatorily converted, as the case may be. In addition, in the event that a holder of the Merger Convertible Notes elects to convert its Merger Convertible Notes prior to the third anniversary of the issuance of the Merger Convertible Notes, the Company will be obligated to pay an amount equal to twelve months of interest, or if on or after such third anniversary of the issuance of the Merger Convertible Notes, any remaining amounts that would be owed to, but excluding, the fourth anniversary of the issuance of the Merger Convertible Notes (the “Interest Make-Whole Payment”). The Interest Make-Whole Payment will be payable in cash or shares of Parent Common Stock as set forth in the Indenture.

The terms of the Merger Convertible Notes require Kaleyra to repurchase the Merger Convertible Notes for cash at the option of the holder in the event of a fundamental change. The Merger Convertible Notes provide that the delisting of Kaleyra's common stock from the NYSE would constitute a "fundamental change" under Section 15.02 of the Indenture, which would entitle each holder, at such holder's option, to require the Company to repurchase for cash all or any portion of such holder's notes at a repurchase price equal to 100% of the principal amount thereof, plus accrued and unpaid interest thereon. On April 3, 2023, Kaleyra received a written notice (the "Market Cap Notice") from the NYSE that it was not in compliance with the continued listing criteria set forth in Section 802.01B of the NYSE's Listed Company Manual with respect to the minimum market capitalization and shareholders' equity requirement. Kaleyra is committed to regaining compliance with the market capitalization and shareholders' equity continued listing standard within the eighteen-month cure period following the receipt of the Market Cap Notice, as provided by the NYSE's Listed Company Manual. However, if Kaleyra fails to regain and maintain compliance with the NYSE continued listing requirements, including but not limited to the above, it is at risk of having the Company's common stock delisted, triggering a fundamental change under the Indenture for the Merger Convertible Notes, as discussed below in Part 2, Item 1A. Risk Factors. Refer to Note 2 - Summary of Significant Accounting Policies and Note 21 - Subsequent Events for more information relating Kaleyra's considerations on going concern basis of accounting and the Market Cap Notice, respectively.

Upon the issuance of the Merger Convertible Notes, management made the assessment whether the convertible instrument contained embedded conversion features for bifurcation and concluded that such embedded conversion features met the definition of a derivative but qualified for the scope exception under ASC 815-10-15-74(a) as they are indexed to the Company's stock and qualify for classification within stockholders' equity. Management determined that the Interest Make-Whole Payment met the definition of a derivative, but the value was de minimis and as such no amount was recorded at the time of the issuance of the Merger Convertible Notes. Management will continue to monitor the valuation of the Interest Make-Whole Payment provision and assess the need to record a liability in future periods. There was no such liability recorded as of March 31, 2023 and December 31, 2022, respectively.

As of March 31, 2023, the outstanding amount of the Merger Convertible Notes was \$192.3 million, net of issuance costs. During the three months ended March 31, 2023, contractual interest expense amounted to \$3.0 million and amortization of the debt issuance costs amounted to \$515,000. The liability is included in the condensed consolidated balance sheet line item "Long-term portion of notes payable" and the interest expense is included in "Financial expense, net" on the condensed consolidated statements of operations.

11. ACCUMULATED OTHER COMPREHENSIVE LOSS

The accumulated balances related to each component of accumulated other comprehensive loss are as follows (in thousands):

	Cumulative Foreign Currency Translation Adjustment	Cumulative Net Unrealized Gain (Loss) on Marketable Securities, Net of Tax	Accumulated Other Comprehensive Income (Loss)
As of December 31, 2022	\$ (5,270)	\$ 58	\$ (5,212)
Other comprehensive income (loss)	620	8	628
As of March 31, 2023	<u>\$ (4,650)</u>	<u>\$ 66</u>	<u>\$ (4,584)</u>

	Cumulative Foreign Currency Translation Adjustment	Cumulative Net Unrealized Gain (Loss) on Marketable Securities, Net of Tax	Accumulated Other Comprehensive Income (Loss)
As of December 31, 2021	\$ (2,046)	\$ 36	\$ (2,010)
Other comprehensive income (loss)	(634)	5	(629)
As of March 31, 2022	<u>\$ (2,680)</u>	<u>\$ 41</u>	<u>\$ (2,639)</u>

12. OTHER CURRENT AND LONG-TERM LIABILITIES

Other current liabilities consisted of the following (in thousands):

	As of March 31, 2023	As of December 31, 2022
Liabilities for tax other than income tax	\$ 1,205	\$ 1,119
VAT payables	749	184
Social security liabilities	384	553
Current tax liabilities	2,151	647
Accrued financial interest	148	182
Operating lease liabilities	718	758
Accrued contractual interests on Merger Convertible Notes	4,044	1,023
Finance lease liabilities	172	182
Other miscellaneous	4,931	4,783
Total other current liabilities	<u>\$ 14,502</u>	<u>\$ 9,431</u>

Other long-term liabilities consisted of the following (in thousands):

	As of March 31, 2023	As of December 31, 2022
Warrant liability	\$ 38	\$ 26
Finance lease liabilities	174	216
Operating lease liabilities	2,312	2,409
Other miscellaneous	528	711
Total other long-term liabilities	<u>\$ 3,052</u>	<u>\$ 3,362</u>

13. GEOGRAPHIC INFORMATION

Revenue by geographic area is determined on the basis of the location of the customer, unless the delivery location is triggered by concentration criteria. The Company generates its revenue primarily in the United States, India and Italy. The following table sets forth revenue by geographic area for the three months ended March 31, 2023 and 2022 (in thousands):

	Three Months Ended March 31,	
	2023	2022
United States	\$ 44,851	\$ 24,635
Italy	15,274	16,509
India	11,056	21,176
Europe (excluding Italy)	7,312	7,001
South America	6	5,964
Rest of the world	5,119	5,196
Total	<u>\$ 83,618</u>	<u>\$ 80,481</u>

	Three Months Ended March 31,	
	2023	2022
United States	53.7 %	30.6 %
Italy	18.3 %	20.5 %
India	13.2 %	26.3 %
Europe (excluding Italy)	8.7 %	8.7 %
South America	0.0 %	7.4 %
Rest of the world	6.1 %	6.5 %

As of March 31, 2023, the majority of the Company's long-lived assets are located in United States. The following table sets forth long-lived assets by geographic area as of March 31, 2023 and December 31, 2022 (in thousands):

	As of March 31, 2023	As of December 31, 2022
United States	\$ 11,389	\$ 11,168
India	6,361	6,108
Italy	5,780	5,649
Rest of the world	310	901
Total	<u>\$ 23,840</u>	<u>\$ 23,826</u>

	As of March 31, 2023	As of December 31, 2022
United States	47.8 %	46.9 %
India	26.7 %	25.6 %
Italy	24.2 %	23.7 %
Rest of the world	1.3 %	3.8 %

14. COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Company entered into various non-cancellable operating lease agreements for its facilities. Refer to Note 6 - Right-of-use Assets and Lease Liabilities for additional detail on the Company's operating lease commitments.

Contingencies

As of March 31, 2023, there are no material recognized and unrecognized contingent liabilities that would be required to be disclosed for the condensed consolidated financial statements not to be misleading in accordance with ASC 450-20-50.

15. RESTRICTED STOCK UNITS (RSUs)

The following table sets forth the activity related to the number of outstanding RSUs for the three months ended March 31, 2023 (on a post-reverse split basis):

	Number of shares	Weighted- average grant date fair value (per share)
Non-vested as of December 31, 2022	1,001,428	\$ 30.57
Vested	(175,758)	\$ 26.28
Granted	205,742	\$ 2.64
Cancelled	(49,401)	\$ 32.41
Non-vested as of March 31, 2023	<u>982,011</u>	<u>\$ 25.40</u>

On March 6, 2023, the Board approved a 1-for-3.5 Reverse Stock Split of the Company's outstanding equity instruments to be effected as of March 9, 2023, as described in Note 1 – Description of Organization and Business Operations. Shares of common stock underlying outstanding restricted stock units were proportionately reduced from 3,507,250 to 1,001,428 as of December 31, 2022 (on a post-reverse split adjusted basis).

The Reverse Stock Split did not impact the fair value of the restricted stock units previously recorded and no modification accounting under ASC 718-20-35-2A is required because all three of the following conditions were met: (i) the fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified; (ii) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified and (iii) the classification of the modified award as an equity instrument is the same as the classification of the original award immediately before modification.

RSUs compensation expense for the three months ended March 31, 2023 and 2022 was \$2.0 million and \$6.8 million, respectively, which was recorded as follows (in thousands):

	Three Months Ended March 31,	
	2023	2022
Research and development	\$ 58	\$ 1,020
Sales and marketing	268	783
General and administrative	1,687	4,956
Total	<u>\$ 2,013</u>	<u>\$ 6,759</u>

As of March 31, 2023, there was \$9.4 million of unrecognized compensation cost related to non-vested RSUs to be recognized over a weighted-average remaining period of 1.19 years.

16. INCOME TAXES

The tax expense and the effective tax rate resulting from operations were as follows (in thousands):

	Three Months Ended March 31,	
	2023	2022
Loss before income taxes	\$ (8,940)	\$ (12,481)
Income tax expense	1,024	691
Effective tax rate	(11.46 %)	(5.54 %)

The change in the effective tax rate for the three months ended March 31, 2023, as compared to three ended March 31, 2022, was mainly driven by the mix of earnings by jurisdiction.

The Company's recorded effective tax rate is less than the U.S. statutory rate primarily due to recorded valuation allowance in various jurisdictions, current tax expense in certain tax jurisdictions, and foreign tax rate differentials from the U.S. domestic statutory tax rate.

The Company currently has valuation allowances recorded against its deductible temporary differences and net operating loss carryforwards in certain jurisdictions where the non-realizability of such deferred tax assets is concluded to be more likely than not. Each quarter, the Company evaluates all available evidence to assess the recoverability of its deferred tax assets in each jurisdiction, including significant events and transactions, both positive and negative, and the reversal of taxable temporary differences and forecasted earnings. As a result of the Company's analysis, management concluded that it is more likely than not that a portion of its deferred tax assets will not be realized. Therefore, the Company continues to provide a valuation allowance against its deferred tax assets in certain jurisdictions. The Company continues to monitor available evidence and may reverse some or all of its remaining valuation allowance in future periods, if appropriate.

On August 16, 2022, the Inflation Reduction Act of 2022 (the "Act") was signed into law. Many of the provisions are not expected to impact the Company. For example, effective January 1, 2023, companies that report over \$1 billion in profits to shareholders are required to calculate their tax liability using a 15% corporate alternative minimum tax (CAMT) based on book income. An applicable corporation is liable for the CAMT to the extent that its "tentative minimum tax" exceeds its regular US federal income tax liability plus its liability for the base erosion anti-abuse tax (BEAT). Since we are under the required thresholds for CAMT and BEAT, these two provisions do not apply. However, to the extent there are transactions classified as stock buybacks, the Company will assess, as part of the annual tax provision calculation, whether the new excise tax will impact any potential future transactions.

17. WARRANTS

Prior to the Reverse Stock Split of the Company's shares of common stock, Kaleyra had issued and outstanding warrants listed on NYSE American to purchase a total of 5,440,662 shares of Kaleyra common stock, with each whole warrant being exercisable to purchase one share of common stock at \$11.50 per share. After giving effect to the Reverse Stock Split of Kaleyra's shares of common stock as of March 9, 2023, as described in Note 1 - Description of Organization and Business Operations, the Company's outstanding warrants are now exercisable for a total of approximately 1,554,474 shares of common stock, with each whole warrant being exercisable to purchase 0.2857 of a share of common stock at \$40.25 per share.

Under the terms of the warrant agreement dated December 12, 2017 (the "Warrant Agreement"), the Company agreed to use its best efforts to file a new registration statement following the completion of the Business Combination, for the registration of the shares of common stock issuable upon exercise of the warrants. That registration statement was filed by the Company on May 4, 2020 and declared effective by the SEC on May 8, 2020. No fractional shares are issuable upon exercise of the warrants. If, upon exercise of the warrants, a holder would be entitled to receive a fractional interest in a share, the Company will, upon exercise, round down to

the nearest whole number for the number of shares of common stock to be issued to the warrant holder. Each warrant became exercisable 30 days after the completion of the Business Combination and will expire five years after the completion of the Business Combination or earlier upon redemption or liquidation. Once the warrants became exercisable, the Company could redeem the outstanding warrants in whole and not in part at a price of \$0.01 per warrant upon a minimum of 30 days' prior written notice of redemption, only in the event that the last sale price of the Company's shares of common stock equals or exceeds \$63.00 per share (on a post-reverse split basis) for any 20 trading days within the 30-trading day period ending on the third trading day before the Company sends the notice of redemption to the warrant holders.

On April 12, 2021, the SEC issued a SEC Staff Statement on "Accounting and Reporting Considerations for Warrants Issued by Special Purpose Acquisition Companies ("SPACs") (the "SEC Staff Statement"). The SEC Staff Statement addresses certain accounting and reporting considerations related to warrants of a kind similar to those issued by the Company at the time of its initial public offering in December 2019. Based on ASC 815-40, "Contracts in Entity's Own Equity", warrant instruments that do not meet the criteria to be considered indexed to an entity's own stock shall be initially classified as liabilities at their estimated fair values. In periods subsequent to issuance, changes in the estimated fair value of the derivative instruments should be reported in the consolidated statements of operations. Following the SEC Staff Statement, management evaluated the fact pattern set forth within the Company's Warrant Agreement and concluded that the warrants issued in connection with private placements that occurred in December 2017 and January 2018 concurrently with its initial public offering (the "Private Placement Warrants") should have been recorded as a liability at fair value as the Private Placement Warrants were not considered to be indexed to the entity's own stock.

During the three months ended March 31, 2023, the Company recorded interest expense equal to \$12,000, in the condensed consolidated statements of operation line item "Financial expense, net" for the change in fair value of the Private Placement Warrants.

As of March 31, 2023, there were 5,440,662 warrants outstanding.

18. NET LOSS PER SHARE

The following table sets forth the calculation of basic and diluted net loss per share during the period presented (in thousands, except share and per share data):

	Three Months Ended March 31,	
	2023	2022
Net loss	\$ (9,964)	\$ (13,172)
Weighted average shares used to compute net loss per common share, basic and diluted	13,044,570	12,070,720
Net loss per common share, basic and diluted	<u>\$ (0.76)</u>	<u>\$ (1.09)</u>

The shares and net losses per common share, basic and diluted, as of December 31, 2022 and before that date differ from those published in our prior consolidated financial statements as they were retrospectively adjusted as a result of the Reverse Stock Split (as described in Note 1 - Description of Organization and Business Operations).

The Company generated a net loss for the three months ended March 31, 2023 and 2022. Accordingly, the effect of dilutive securities is not considered in the net loss per share for such periods because their effect would be anti-dilutive on the net loss per share.

For the three months ended March 31, 2023, the weighted average number of outstanding shares of common stock equivalents, which were excluded from the calculation of the diluted net loss per share as their effect would be anti-dilutive, was 1,128,722, and 1,802,401 for the three months ended March 31, 2022.

19. TRANSACTIONS WITH RELATED PARTIES

During the three months ended March 31, 2023 and 2022, related party transactions, other than compensation and similar arrangements in the ordinary course of business, were as follows:

i. Pietro Calogero, the son of the Company's Chief Executive Officer, Dario Calogero, is an employee within the research and development team of Kaleyra S.p.A. Mr. Pietro Calogero received salary and benefits in the amount of \$12,000 in the three months ended March 31, 2023 (\$10,000 in the three months ended March 31, 2022); and

ii. Lynrock Lake LP, which has disclosed a greater than 10% beneficial ownership position in the Company, as reported in the Form 13G/A filed by Lynrock Lake LP with the SEC on February 14, 2023, is party to the Company's Merger Convertible Note.

The following table presents the expenses for transactions with related parties reported in the condensed consolidated statements of operations (in thousands):

	Three Months Ended March 31,	
	2023	2022
Research and development	\$ 12	\$ 10
Sales and marketing	—	56
General and administrative	—	12

20. REVENUE

Revenue Recognition

Kaleyra derives revenue primarily from usage-based fees earned from the sale of communications services offered through Platforms access to customers and business partners across enterprises. Revenue can be billed in advance or in arrears depending on the term of the agreement; for the majority of customers revenue is invoiced on a monthly basis in arrears.

The Company follows the provisions of Accounting Standards Codification (“ASC”) 606, “Revenue from Contracts with Customers” (“ASC 606”). Among other things, ASC 606 requires entities to assess the products or services promised in contracts with customers at contract inception to determine the appropriate unit at which to record revenue, which is referred to as a performance obligation. Revenue is recognized when control of the promised products or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those products or services.

Revenue Recognition Policy

Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration Kaleyra expects to receive in exchange for those products or services. Kaleyra enters into contracts that can include various combinations of products and services, which are generally not capable of being distinct and are therefore accounted for as a series of distinct services under a single performance obligation in accordance with ASC 606-10-25-14 and ASC 606-10-25-15. Revenue is recognized net of allowances for any credits and any taxes collected from customers, which are subsequently remitted to governmental authorities.

Kaleyra determines revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when, or as, the Company satisfies a performance obligation.

No significant judgments are required in determining whether products and services are considered distinct performance obligations and should be accounted for separately versus together, or to determine the stand-alone selling price.

The Company’s arrangements do not contain general rights of return. The contracts do not provide customers with the right to take possession of the software supporting the applications. Amounts that have been invoiced are recorded in trade receivables and in revenue or deferred revenue depending on whether the revenue recognition criteria have been met.

Nature of Products and Services

Revenue is recognized upon the sending of a SMS or the connection of a voice call to the end-user of the Company’s customer using the Company’s Platforms in an amount that reflects the consideration the Company expects to receive from the Company’s customers in exchange for those rendered services, which is generally based upon agreed fixed prices per unit.

Platforms access services are considered a monthly series comprised of one performance obligation and usage-based fees are recognized as revenue in the period in which the usage occurs. After usage occurs, there are no remaining obligations that would preclude revenue recognition. Revenue from usage-based fees represented 87% of total revenue for the three months ended March 31, 2023 (94% of total revenue for the three months ended March 31, 2022).

Subscription-based fees are derived from certain term-based contracts, such as with the sales of short code subscriptions and customer support, which is generally one year. Term-based contract revenue is recognized on a ratable basis over the contractual term

of the arrangement beginning on the date that the service is made available to the customer. Revenue from term-based fees represented 13% of total revenue for the three months ended March 31, 2023 (6% of total revenue for the three months ended March 31, 2022).

Deferred Revenue

Deferred revenue consists of advance cash payments from customers to be applied against future usage and customer billings in advance of revenues being recognized under the Company's non-cancellable contracts. Deferred revenue is generally expected to be recognized during the succeeding 12-month period and is thus recorded as a current liability. As of March 31, 2023 and December 31, 2022, the Company recorded \$3.3 million and \$3.5 million, respectively, as deferred revenue in its condensed consolidated balance sheets. In the three months ended March 31, 2023, the Company recognized \$1.6 million of revenue in its condensed consolidated statements of operations that was included in deferred revenue as of December 31, 2022.

Disaggregated Revenue

In general, revenue disaggregated by geography is aligned according to the nature and economic characteristics of the Company's business and provides meaningful disaggregation of the Company's results of operations. See Note 12 – Geographic Information – for details of revenue by geographic area.

21. SUBSEQUENT EVENTS

On April 3, 2023, the Company received a written notice (the "Market Cap Notice") from the NYSE that the Company was not in compliance with the continued listing criteria set forth in Section 802.01B of the NYSE's Listed Company Manual with respect to the minimum market capitalization and shareholders' equity requirement, as the average market capitalization of the Company over a consecutive 30 trading-day period was less than \$50 million and, at the same time, the Company's last reported stockholders' equity was less than \$50 million. As of March 31, 2023, the 30 trading-day average market capitalization was approximately \$31.5 million, and its last reported stockholders' equity was \$33.6 million (\$42.2 million as of December 31, 2022). Within forty-five days of receipt of the Market Cap Notice, the Company will respond to the NYSE with a business plan aimed to demonstrate the definitive actions Kaleyra has taken, or is taking, to regain compliance with the continued listing standards within eighteen months of the Market Cap Notice. Should the Listings Operations Committee of the NYSE review and approve the plan, the Company's common stock will continue to be listed and traded on the NYSE during the eighteen-month cure period, subject to the Company's compliance with the other continued listing criteria of the NYSE and the periodic monitoring of the business plan by the NYSE. The Market Cap Notice does not affect the Company's reporting obligations with the Securities and Exchange Commission, and it does not conflict with or cause an event of default under any of the Company's material debt or other agreements.

In addition, with the Market Cap Notice, Kaleyra also received written confirmation from the NYSE that the Company has regained compliance with the minimum share price continued listing criteria set forth in Section 802.01C of the NYSE's Listed Company Manual, as the Company's common stock had a closing share price of at least \$1.00 and an average closing share price of at least \$1.00 over the consecutive 30 trading-day period ended March 31, 2023. As described in Note 1 - Description of organization and business operations, on November 7, 2022, the NYSE had notified the Company that it was not in compliance with the continued listing criteria set forth in Section 802.01C of the NYSE's Listed Company Manual, as the average closing price of the Company's common stock was less than \$1.00 per share over a consecutive 30 trading-day period.

On the settlement date of May 1, 2023, Kaleyra reimbursed the outstanding amount of the convertible promissory note previously issued to Chardan for a principal amount of \$405,000 plus accrued and unpaid interest. Following this payment the Company has no further obligations with respect to the Chardan Note.

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

You should read the following management’s discussion and analysis in conjunction with the condensed consolidated financial statements of Kaleyra, Inc. (“Kaleyra,” the “Company,” “we,” “us,” and “our” refer to Kaleyra, Inc. and all of its consolidated subsidiaries) and the related notes included elsewhere in our Quarterly Report on Form 10-Q for the three-month period ended March 31, 2023. The discussion below includes forward-looking statements about Kaleyra’s business, operations and industry that are based on current expectations that are subject to uncertainties and unknown or changed circumstances. Kaleyra’s actual results may differ materially from these expectations as a result of many factors, including, but not limited to, those risks and uncertainties described under “Risk Factors” and elsewhere in our Annual Report on Form 10-K for the year ended December 31, 2022 and this Quarterly Report on Form 10-Q. We assume no obligation to update the forward-looking statements or such risk factors.

This Quarterly Report on Form 10-Q and the documents incorporated herein by reference include forward-looking statements within the meaning and protections of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These forward-looking statements are also made in reliance upon the safe harbor provision of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements with respect to Kaleyra’s beliefs, plans, objectives, goals, expectations, anticipations, assumptions, estimates, intentions, and future performance, and involve known and unknown risks, uncertainties and other factors, which may be beyond our control, and which may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements.

Overview

1. History

Kaleyra is a result of the expansion of the former Ubiquity, which was founded in Milan, Italy in 1999. Ubiquity secured a leading market position in mobile messaging on behalf of the Italian financial services industry and then expanded its products and geographic offerings. Ubiquity acquired Solutions Infini of Bangalore, India in 2017 and Buc Mobile of Vienna, Virginia in 2018. Kaleyra was rebranded as Kaleyra S.p.A. in February 2018. Following the integration of the acquired entities, the combined company became collectively engaged in the operation of the Platforms on behalf of Kaleyra’s customers.

On February 22, 2019, the Company (f/k/a GigCapital, Inc.) entered into a stock purchase agreement (the “Stock Purchase Agreement”) by and among the Company, Kaleyra S.p.A., Shareholder Representative Services LLC, as representative for the holders of the ordinary shares of Kaleyra S.p.A. immediately prior to the closing of the business combination with Kaleyra (the “Business Combination”), and all of the stockholders of all of the Kaleyra S.p.A. stock (collectively, such Kaleyra S.p.A. stockholders, the “Sellers”), for the purpose of the Company acquiring all of the shares of Kaleyra S.p.A.. GigCapital Inc. was incorporated in Delaware on October 9, 2017 for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or similar business combination with one or more businesses.

As a result of the Business Combination, which closed on November 25, 2019, the Company (headquartered in Milan, Italy) became a multi-channel integrated communications services provider on a global scale. At the time of the closing of the Business Combination, Kaleyra operated in the CPaaS market with operations primarily in Italy, India, Dubai and the United States. In connection with the closing, the Company changed its name from GigCapital, Inc. to Kaleyra, Inc..

Kaleyra provides mobile communications services to financial institutions, e-commerce players, OTTs, software companies, logistic enablers, healthcare providers, retailers, and other large organizations worldwide. Through its proprietary cloud communications platforms (collectively, the “Platforms”), Kaleyra manages multi-channel integrated communications services on a global scale, consisting of inbound/outbound messaging solutions, programmable voice and Interactive Voice Response (IVR) configurations, hosted telephone numbers, conversational marketing solutions, RCS, and other types of IP communications services such as e-mail, push notifications, video/audio/chat, and WhatsApp®.

On October 22, 2019, Kaleyra’s U.S. subsidiary, TCR, was incorporated under the laws of Delaware to promote a systems initiative to reduce spam by collecting robotically driven campaign information and processing and sharing that information with mobile operators and the messaging ecosystem. TCR started to account for its first revenue in the second half of fiscal year 2020 and revenue has constantly increased since then. On March 26, 2021, a wholly owned subsidiary of TCR was incorporated under the laws of Canada, with the registered office in Vancouver, British Columbia. This new subsidiary was established with the goal to further expand the registry legacy business in North America.

On July 29, 2020, Kaleyra registered a German branch of Kaleyra S.p.A. with the German Chamber Tax Authority of Commerce. Kaleyra established its branch in Germany to expand Kaleyra’s footprint in Central Europe and the Nordic countries and allow it to leverage Kaleyra’s trusted business solutions for customers in additional jurisdictions.

On February 18, 2021, Kaleyra entered into an agreement and plan of merger (the “Merger Agreement”) with Vivial, Inc. (“Vivial”) for the acquisition of the business known as mGage (“mGage”), a leading global mobile messaging provider (the transaction contemplated by the Merger Agreement, the “Merger”).

On June 1, 2021, Kaleyra completed its acquisition of mGage for a total purchase price of \$218.0 million. The Merger consideration consisted of both cash consideration and common stock consideration. On August 30, 2021, the Company prepared and delivered to the Stockholder Representative a written statement (the “Post-Closing Statement”) setting forth the calculation of closing cash and closing net working capital which ultimately resulted in the final Merger consideration to be equal to \$217.0 million pursuant to the terms of the Merger Agreement. The cash consideration amounted to \$199.2 million of which \$198.6 million was paid on June 1, 2021 and the remaining amount was settled during the period ended September 30, 2021, including a working capital adjustment of \$997,000. The common stock consideration was paid with the issuance to Vivial’s former equity holders of a total of 457,143 shares of Kaleyra common stock at the \$41.20 per share closing price (on a post-reverse split basis) of Kaleyra common stock on the date of issuance, equal to \$18.8 million. In support of the consummation of the Merger, on February 18, 2021, Kaleyra entered into subscription agreements (the “PIPE Subscription Agreements”), with certain institutional investors (the “PIPE Investors”), pursuant to which, among other things, Kaleyra agreed to issue and sell, in private placements to close immediately prior to the closing of the Merger, an aggregate of 2,400,000 shares of Kaleyra common stock to the PIPE Investors at \$43.75 per share (on a post-reverse split basis). Kaleyra also entered into convertible note subscription agreements (the “Convertible Note Subscription Agreements”) with certain institutional investors (the “Convertible Note Investors”), pursuant to which Kaleyra agreed to issue and sell, in private placements to close immediately prior to the closing of the Merger, \$200 million aggregate principal amount of unsecured convertible notes (the “Merger Convertible Notes”).

On July 1, 2021, Kaleyra completed a company reorganization of the acquired business of mGage through the initial dissolution of the Delaware single member LLCs of Vivial Holdings, LLC, Vivial Networks, LLC, and the following merger of mGage, LLC into the surviving holding company, Vivial Inc., which subsequently changed its name into Kaleyra US Inc., as a result of the reorganization. As a result of the merger, Kaleyra US Inc. became the holding company and one hundred percent (100%) owner of Kaleyra UK Limited – previously known as mGage Europe Ltd. (UK) and mGage SA de SV (Mexico).

On July 8, 2021, Kaleyra completed the acquisition of Bandyer S.r.l. (“Bandyer”) for cash consideration of \$15.4 million. Bandyer offers cloud-based audio/video communications services via Web Real Time Communication (“WebRTC”) technology to financial institutions, retail companies, utilities, industries, insurance companies, human resources, and digital healthcare organizations. Bandyer provides customers with programmable audio/video APIs and Software Development Kits (“SDKs”) based on WebRTC technology for a variety of use cases, including Augmented Reality (“AR”) applications for smart glasses.

Effective August 31, 2021, the common stock of the Company ceased trading on the NYSE American and commenced trading on the NYSE under the ticker symbol “KLR.” Kaleyra’s warrants continue to trade on the NYSE American under the symbol “KLR WS”.

On October 11, 2021, Kaleyra Africa Ltd, a wholly owned subsidiary of Kaleyra Inc., was incorporated under the law of South Africa with the registered office in Waterfall City, Gauteng. This newly established subsidiary is part of Kaleyra’s broader strategic plan of expanding into emerging markets whereby South Africa will serve as Kaleyra’s hub to enter the entire African market.

On November 15, 2021, pursuant to the provisions of the Merger Agreement, Kaleyra Dominicana, S.R.L., the ninety-nine percent (99%) direct owner of Kaleyra US Inc. and one percent (1%) direct ownership of Kaleyra Inc., was incorporated under the laws of the Dominican Republic with the registered office in Santo Domingo. This newly established subsidiary is aimed to provide the Kaleyra group with back-office technology support and engage in product development and innovation.

On January 13, 2022, Kaleyra completed a company reorganization of the acquired business of Bandyer by means of the merger of the Italian legal entity of Bandyer into the holding company, Kaleyra S.p.A.. As a result of the merger, Bandyer ceased to exist as a separate legal entity and all its assets and liabilities have been incorporated under Kaleyra S.p.A. effective January 13, 2022.

On November 7, 2022, Kaleyra received a written notice (the “Price Notice”) from the NYSE that it was not in compliance with the continued listing criteria set forth in Section 802.01C of the NYSE’s Listed Company Manual, as the average closing share price of the Company’s common stock was less than \$1.00 per share over a consecutive 30 trading-day period. Within ten business days of receipt of the Notice, the Company responded to the NYSE with respect to its intent to cure the deficiency and provided available alternatives, including, but not limited to, a reverse stock split, subject to shareholder approval, to regain compliance. Pursuant to Section 802.01C, the Company had a period of six months following the receipt of the Notice to regain compliance with the minimum share price requirement.

On February 14, 2023, Kaleyra held the Special Meeting to approve an amendment to the Company’s Certificate of Incorporation to effect, at the discretion of the Board of Directors, the Reverse Stock Split.

On March 6, 2023, the Company announced that, following shareholder approval at the Special Meeting of the stockholders held on February 14, 2023, the Company’s Board of Directors approved a 1-for-3.5 Reverse Stock Split of the Company’s issued and outstanding shares of common stock, par value \$0.0001 per share, effective as of 12:01 a.m. Eastern Time on March 9, 2023.

Beginning with the opening of trading on March 9, 2023, Kaleyra's common stock began trading on the New York Stock Exchange on a split-adjusted basis under new CUSIP number 483379202 and will continue to trade under the symbol "KLR".

Subsequent to March 31, 2023, on April 3, 2023, the Company received a written notice (the "Market Cap Notice") from the NYSE that the Company was not in compliance with the continued listing criteria set forth in Section 802.01B of the NYSE's Listed Company Manual with respect to the minimum market capitalization and shareholders' equity requirement. Within forty-five days of receipt of the Market Cap Notice, the Company will respond to the NYSE with a business plan to cure the deficiency and to regain compliance, subject to review, acceptance and monitoring by the NYSE, within the eighteen-month cure period following the receipt of the Market Cap Notice. In addition, with the Market Cap Notice, Kaleyra also received written confirmation from the NYSE that the Company has regained compliance with the minimum share price continued listing criteria set forth in Section 802.01C of the NYSE's Listed Company Manual, as the Company's common stock had a closing share price of at least \$1.00 and an average closing share price of at least \$1.00 over the consecutive 30 trading-day period ended March 31, 2023. Refer to Note 21 - Subsequent Events for more information.

The Company continues to pursue avenues to expand its customer base as well as increase revenue from existing customers. Kaleyra's revenue growth is fueled by the Company's ability to maintain its customers, drive new services into existing customers, and monetize its pipeline to expand its enterprise customer base. Combined with deep integrations with customer software, and the ability to deliver messages across the world on its trusted network, the Company's product offering remains compelling. Brands are always going to seek to connect with their customers, especially on mobile devices, and Kaleyra is ready to be their partner regardless of channel. While challenges in the global economy may impact near-term growth rates, the industry remains vital and healthy. Kaleyra's ability to further penetrate its customer base, expand margins and grow geographically is dependent on the Company's success in attracting new customers, selling additional products into our existing customer base, and adding higher gross margin products in our product portfolio. The Company also plans to expand its reach geographically. The ability to expand into new geographies is supported by an already sizeable global footprint, both in terms of carrier direct connections and physical offices.

Kaleyra has always invested heavily in research and development, as the market is fast moving, and new channels are always developing. There are opportunities to layer in intelligence into the CPaaS market and the Company is actively pursuing these areas. Kaleyra has already achieved early success with chatbots and SMS-over-IP which cuts out termination costs yielding higher gross margins.

Kaleyra's competitive positioning in the market is due in part to its unique infrastructure and continued enhancements and investments in research and development. This infrastructure entails a combination of security, compliance and integration capabilities that protect the integrity and privacy of our customers' transactions. The Company believes this foundation leads to continued customer satisfaction and enables Kaleyra to maintain a leadership position in the fast-evolving industry in which it operates. Evidence of our success in maintaining best in class customer satisfaction can be seen by the top ten customers contributing 45.2% of revenue in the quarter ended March 31, 2023, and zero customer churn over the past year.

On February 15, 2023, in conjunction with the Company's fourth quarter and full year earnings release, to drive improved financial and operating performance, and ensure continued sustainable and scalable growth, the Company announced an initial restructuring and cost reduction program for 2023: the Value Creation Program (the "Program"). The Program is designed to position Kaleyra to serve the demand from global businesses using existing and emerging communication channels, while driving labor and cost efficiencies. The Program is anticipated to start delivering results beginning as early as the first quarter of 2023 and will run through the remainder of 2023 when the effects will become measurable. As of the date of the announcement, significant cost savings and cash flow improvement plans have successfully been launched. This includes fixed costs being heavily scrutinized.

As a result of the Company's recently launched initiatives, significant improvement in Adjusted EBITDA is expected in 2023 compared to 2022, with additional growth anticipated in 2024 when compared to 2023. This is further supported by the organizational streamlining aimed at reducing monthly cash payroll costs by more than 15%. Further savings are anticipated to be achieved by leveraging the Company's global footprint to relocate costs from high-cost geographies to low-cost geographies. Ultimately, the result of the Company's Adjusted EBITDA improvement will convert to cash. The expected increase in cash flow is important and will significantly aid Kaleyra's servicing its outstanding debt requirements. The improvement in the Company's ability to service debt requirements is a direct result of the Program initiatives.

2. Positioning

The demand for cloud communications is increasingly driven by the growing, and often mandated, need for enterprises to undertake a digital transformation that includes omnichannel, mobile-first and interactive customer communications. Mobile network operators and OTTs typically are the gateway to reach end-users' mobile devices. Kaleyra enables its customers and business partners to connect enterprise software and applications to mobile network operators by providing carefully documented Application Programming Interfaces ("APIs"). APIs allow building omnichannel journeys in a seamless way, with failover capabilities from one channel to another. In addition, Kaleyra also offers an extensive set of no-coding cloud-based visual interfaces to program communications to the customers across multiple channels. Kaleyra's Platforms couple the possibility of sending communications to

end-users to a “Software as a Service” or SaaS business model, creating what is generally referred to as a “Communications Platform as a Service”, or simply CPaaS.

Kaleyra’s vision is to be the CPaaS provider that best aligns with its customers’ and business partners’ communication requirements and outcomes, and the most trusted provider in the world. This requires a combination of security, compliance and integration capabilities that protects the integrity and privacy of Kaleyra’s customers’ transactions and includes other key features such as ease of provisioning, reliable network connectivity, high availability for scaling, redundancy, embedded regulatory compliance, configurable monitoring, analytics, and reporting. Kaleyra believes the percentage of CPaaS customers that will require security, compliance and integrations will represent an increasingly larger portion of the market, particularly with the expected exponential growth of transactional-by-nature cloud communications applications, better enabling Kaleyra to set itself apart from its competition.

Kaleyra’s customers are primarily enterprises that use digital mobile communications in the conduct of their business. Kaleyra provides multiple levels of global customer support 24x7, SLAs and network reliability to meet the expectations and requirements of its customers. Customers and business partners that use the Platforms value the Platforms’ network reliability, and Kaleyra’s responsive customer support and competitive pricing. In particular, Kaleyra was listed by Gartner (Gartner, Market Guide for Communications Platform as a Service, Worldwide, Daniel O’Connell, Lisa Under-Farboud, October 2022) as a co-creator, in other words, a CPaaS focused on a consultative business model that emphasizes consulting services, solves business problems and often pursues specific verticals. Kaleyra also partners with consulting companies and digital transformation players worldwide. Kaleyra was awarded the Gold award for “CPaaS Provider of the Year” by Juniper Research in February 2022, and was ranked as a Leading Challenger in the global CPaaS market by Juniper Research, a leading independent market research, forecasting and consulting services firm, in its latest CPaaS Competitor Leaderboard (2023).

Kaleyra services a broad base of customers and business partners throughout the world operating in diverse sectors and regions. Kaleyra’s key customers are large Business to Consumer (“B2C”) and Business to Business to Consumer (“B2B2C”) enterprises that use digital and mobile communications in the conduct of their business. Kaleyra has a concentration of business within the financial services industry that serves its major European banking end-users. With each relationship, Kaleyra is the link between the financial institutions and their end-users. In linking these two parties, Kaleyra’s Platforms leverage the telecommunications providers to transmit message data to these end-users.

3. Business

During the three months ended March 31, 2023, Kaleyra processed nearly 11.7 billion billable messages and 2.2 billion voice calls. Kaleyra organizes its efforts in four regions, Americas, Europe, APAC and MEA. Its workforce is spread across the globe either in full-remote or office-based mode, in one of its principal offices based in New York, New York, Vienna, Virginia, Atlanta, Georgia, Milan, Italy, Munich, Germany, London, United Kingdom, and Bangalore, India. Kaleyra has over 640 employees across the four regions.

Kaleyra has customers and business partners worldwide across industry verticals such as financial services, e-commerce and transportation. In both the three months ended March 31, 2023 and 2022, Kaleyra had no individual customer which accounted for more than 10% of Kaleyra’s consolidated total revenue.

For the three months ended March 31, 2023, 94.8% of revenues came from customers which have been on the Platforms for at least one year. Although Kaleyra continues to expand by introducing new customers to the Platforms, the breadth and stability of its existing customers provide it with a solid base of revenue upon which it can continue to innovate and make investments. In continuity with the past, Kaleyra is committed to strengthening its product portfolio, expand its global presence, recruit world-class talent and develop synergies with external players to capitalize on its growing market penetration opportunities and value creation.

For the three months ended March 31, 2023 and 2022, the majority of Kaleyra’s revenue was derived from its multi-channel CPaaS product offering market.

Kaleyra’s revenue is primarily driven by the number of messages delivered and voice calls connected to its customers and business partners. Kaleyra’s fees vary depending on the contract. In the three months ended March 31, 2023, the number of messages delivered to customers decreased by 19.3%, compared to the three months ended March 31, 2022, and the number of voice calls connected to customers increased by 36.2%, compared to the three months ended March 31, 2022. The decrease in the number of messages delivered to customers was mainly driven by the revised product and geographic mix, as compared to the same period of the prior year. The increase in voice calls connected to its customers was mainly the result of higher voice activities in India, as compared to the same period of prior year.

Volume increase has been driven by the increased number of digital payments transactions made by the end-users (such as credit card transactions and other digital payments), by the increasing usage of mobile banking features and by the increasing penetration rate of digital payments in the underlying payments markets. Kaleyra is exposed to fluctuations of the currencies in which

its transactions are denominated. Specifically, a material portion of Kaleyra's revenues and purchases are denominated in Euro, Indian Rupees and United Arab Emirates Dirham.

FACTORS AFFECTING COMPARABILITY OF RESULTS

In the three-month period ending March 31, 2023, there are no material factors affecting the comparability of results.

Critical Accounting Policies and Management Estimates

Our critical accounting policies and significant estimates are detailed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022. Aside from the below listed change in accounting policy relating to Financial Instruments – Credit Losses (Topic 326), our critical accounting policies and significant estimates have not changed substantially from those previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2022. In January 2023, Kaleyra ceased to be an emerging growth company upon the end of fiscal year 2022, following the fifth anniversary of the IPO. Actual results and outcomes may differ from management's estimates and assumptions due to risks and uncertainties, including uncertainty in the current economic environment due to the disruptive effects of global inflation and the armed conflict between Russia and Ukraine.

Refer to Note 2 - Summary of Significant Accounting Policies in the Company's condensed consolidated financial statements for more information relating Kaleyra's considerations on going concern basis of accounting

Trade receivables

The Company adopted ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" as of January 1, 2023. The Company reports a loss allowance for expected credit losses on financial assets measured at amortized cost, mostly referring to trade receivables. In calculating expected credit losses the Company has determined a modified Loss Rate Method to be the most appropriate taking into consideration (i) data availability, (ii) familiarity with historical procedure and historical losses and (iii) compliance with the provisions of the standard with regard to the forecasting requirement. Receivables are grouped based on historical credit loss information, specific risk characteristics and any other credit factor determined appropriate such that the group of receivables shares a similar risk profile. An overall loss rate percentage is derived from an eight-quarter historical lookback period. The historical loss rate is then adjusted for reasonable and supportable forecasts with the adjusted expected credit loss rates applied to the respective groupings trade receivable balances outstanding. Expected credit losses are reviewed periodically by management. Trade receivables are presented net of an allowance for credit losses.

Key Business Metrics

Revenue

Kaleyra's revenue is generated primarily from usage-based fees earned from the sale of communications services offered through access to the Company's Platforms to customers and business partners across enterprises. Revenue can be billed in advance or in arrears depending on the terms of the agreement; for the majority of customers, revenue is invoiced on a monthly basis in arrears.

Cost of Revenue and Gross Profit

Cost of revenue consists primarily of costs of communications services purchased from network service providers. Cost of revenue also includes the cost of Kaleyra's cloud infrastructure and technology platform, amortization of capitalized internal-use software development costs related to the platform applications and amortization of developed technology acquired in past business combinations.

Gross profit is equal to the revenue less cost of revenue associated with delivering the communication services to Kaleyra's customers.

Operating Expenses

Kaleyra's operating expenses include research and development expense, sales and marketing expense, general and administrative expense, transactions costs and depreciation and amortization, excluding the depreciation and amortization expense related to the technology platform, which is included in cost of revenues as per above.

Research and Development Expense

Research and development expense consists primarily of personnel costs, including stock-based compensation, the costs of the technology platform used for staging and development, outsourced engineering services, amortization of capitalized internal-use software development costs (other than those related to the technology platform) and an allocation of general overhead expenses. Kaleyra capitalizes the portion of its software development costs that meet the criteria for capitalization.

Sales and Marketing Expense

Sales and marketing expense is comprised of compensation, variable incentive compensation, benefits related to Kaleyra's sales personnel, along with travel expenses, other employee related costs including stock-based compensation, and expenses related to advertising, marketing campaigns and events.

General and Administrative Expense

General and administrative expense is comprised of compensation and benefits of administrative personnel, including variable incentive pay and stock-based compensation, and other administrative costs such as facilities expenses, professional fees, and travel expenses.

Results of Operations

Comparison of the three months ended March 31, 2023 and 2022

	Three Months Ended March 31,			
	2023	2022	\$ Change	% Change
Revenue	\$ 83,618	\$ 80,481	\$ 3,137	4 %
Cost of revenue	62,518	62,743	(225)	NM
Gross profit	21,100	17,738	3,362	19 %
Operating expenses:				
Research and development	5,402	4,890	512	10 %
Sales and marketing	6,014	7,100	(1,086)	(15 %)
General and administrative	14,036	15,380	(1,344)	(9 %)
Total operating expenses	25,452	27,370	(1,918)	(7 %)
Loss from operations	(4,352)	(9,632)	(5,280)	(55 %)
Other income, net	15	46	(31)	(67 %)
Financial expense, net	(3,634)	(3,152)	482	15 %
Foreign currency income (loss)	(969)	257	1,226	NM
Loss before income tax expense	(8,940)	(12,481)	(3,541)	(28 %)
Income tax expense	1,024	691	333	48 %
Net loss	<u>\$ (9,964)</u>	<u>\$ (13,172)</u>	<u>\$ (3,208)</u>	(24 %)

NM = Not meaningful

Revenue

In the three months ended March 31, 2023, revenue increased by \$3.1 million or 4%, compared to the three months ended March 31, 2022. This increase was mainly driven by the significant increase in registry legacy business revenue in the quarter ended March 31, 2023, as compared to the same period of the prior year.

Cost of Revenue and Gross Profit

In the three months ended March 31, 2023, cost of revenue decreased by \$225,000, compared to the three months ended March 31, 2022. Gross profit increased by 19% in the quarter ended March 31, 2023, compared to the same period of the prior year, mainly driven by the increase in registry legacy business revenue.

Operating Expenses

In the three months ended March 31, 2023, research and development expenses increased by \$512,000, or 10%, compared to the three months ended March 31, 2022. Research and development expenses included \$58,000 of stock-based compensation in the three months ended March 31, 2023, compared to \$1.0 million in the three months ended March 31, 2022. Excluding such costs and \$1.8 million in capitalized software development costs, compared to \$2.3 million capitalized costs in the three months ended March 31, 2022, research and development expenses would have increased by \$948,000, mainly due to severance costs of the period.

In the three months ended March 31, 2023, sales and marketing expenses decreased by \$1.1 million, or 15%, compared to the three months ended March 31, 2022. Sales and marketing expenses included \$268,000 of stock-based compensation in the three months ended March 31, 2023, compared to \$783,000 in the three months ended March 31, 2022. Excluding such costs, sales and marketing expenses would have decreased by \$571,000.

In the three months ended March 31, 2023, general and administrative expenses decreased by \$1.3 million, or 9%, compared to the three months ended March 31, 2022. General and administrative expenses included (i) \$1.7 million of stock-based compensation in the three months ended March 31, 2023, compared to \$5.0 million in the three months ended March 31, 2022; and (ii) \$77,000 of mGage acquisition transaction costs in the three months ended March 31, 2023, compared to \$81,000 in the three months ended March 31, 2022. Excluding such costs, general and administrative expenses would have increased by \$1.9 million, mainly due to an increase in the provision for bad debt and the increase in headcount compared to the same period of last year.

Financial Expense, Net

In the three months ended March 31, 2023, financial expense, net increased by \$482,000, compared to the same period last year. Such increase in financial expense is mainly attributable to the accrued contractual interest expense and the amortization of issuance costs amounting to \$3.0 million and \$515,000, respectively, and the change in the fair value of the private warrant liability of \$12,000. The same period last year accounted for the accrued contractual interest expense and the amortization of issuance costs amounting to \$3.0 million and \$478,000, respectively, partially offset by the change in fair value of the private warrant liability of \$546,000. Excluding such costs, financial expense, net would have decreased by \$74,000.

Foreign Currency Income (Loss)

In the three months ended March 31, 2023, foreign currency loss increased by \$1.2 million, compared to the three months ended March 31, 2022. Such change was mainly attributable to the effects of the fluctuation of the Indian Rupee and Euro against the U.S. dollar.

Income Tax Expense

In the three months ended March 31, 2023, income tax expense increased by \$333,000, from an income tax expense of \$691,000 to an income tax expense of \$1.0 million, mainly due to the increase in registry legacy business revenue.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2023, the Company had \$74.4 million of cash and cash equivalents, \$488,000 of restricted cash and \$637,000 of short-term investments with maturity terms between 4 and 12 months held in India. Of the \$75.5 million in cash, restricted cash and short-term investments, \$29.0 million was held in U.S. banks, \$27.6 million was held in Italy, \$17.8 million was held in India with the remainder held in other banks. As of December 31, 2022, the Company had \$77.5 million of cash and cash equivalents, \$480,000 of restricted cash and \$587,000 of short-term investments with maturity terms between 4 and 12 months held in India. Management currently plans to retain the cash in the jurisdictions where these funds are currently held.

The condensed consolidated balance sheets as of March 31, 2023 includes total current assets of \$166.5 million and total current liabilities of \$119.1 million, resulting in net current assets of \$47.4 million and a short-term net financial position of \$61.9 million.

Kaleyra finances its operations through a combination of cash generated from operations and from borrowings under Kaleyra bank facilities primarily with banks located in Italy, as well as proceeds from equity offerings and convertible note arrangements. Kaleyra's long-term cash needs primarily include meeting debt service requirements, working capital requirements and capital expenditures.

Kaleyra may also pursue strategic acquisition opportunities that may impact its future cash requirements. There are a number of factors that may negatively impact its available sources of funds in the future including the ability to generate cash from operations, obtain additional financing or refinance existing short-term debt obligations, including those related to acquisitions completed in prior periods. The amount of cash generated from operations is dependent upon factors such as the successful execution of Kaleyra's business strategies and worldwide economic conditions. The amount of debt available under future financings is dependent on Kaleyra's ability to maintain adequate cash flow for debt service and sufficient collateral, and general financial conditions in Kaleyra's market.

On February 18, 2021, and for the purposes of raising the cash portion of the consideration for the Merger, Kaleyra entered into the PIPE Subscription Agreements with the PIPE Investors and the Convertible Note Subscription Agreements with the Convertible Note Investors, pursuant to which Kaleyra agreed to issue \$200 million in aggregate principal of Merger Convertible Notes. Subject to the terms of the Merger Convertible Notes, Kaleyra may opportunistically raise debt capital, subject to market and other conditions, to refinance its existing capital structure at a lower cost of capital and extend the maturity period of certain debt. Additionally, Kaleyra may also raise debt capital for strategic opportunities which may include acquisitions of additional companies, and general corporate

purposes. If additional financing is required from outside sources, Kaleyra may not be able to raise it on terms acceptable to it or at all. If Kaleyra is unable to raise additional capital when desired, Kaleyra's business, operating results and financial condition may be adversely affected.

Kaleyra has a number of long-standing business and banking relationships with major Italian commercial banks where it maintains both cash accounts and a credit relationship. Historically, Kaleyra has used cash generated from operations and other sources to fund its growth and investment opportunities. As Kaleyra's management made the decision to expand its operations outside of Italy and acquire additional companies, it took on certain additional financing in order to fund cash payments due on the acquisitions. As of March 31, 2023, Kaleyra's total bank and other borrowings, including amounts drawn under the revolving credit line facilities, was \$24.9 million (\$28.8 million as of December 31, 2022).

Kaleyra has credit line facilities of \$5.4 million as of March 31, 2023, of which \$3.0 million has been used. As of December 31, 2022, Kaleyra had credit line facilities of \$5.4 million, of which \$4.0 million had been used. Amounts drawn under the credit line facilities are collateralized by specific customer trade receivables and funds available under the line are limited based on eligible receivables.

The Company's outstanding Merger Convertible Notes in the amount of \$192.3 million contain redemption features in the event Kaleyra is not able to maintain its NYSE listing or another eligible listing.

On November 7, 2022, Kaleyra received a written notice (the "Price Notice") from the New York Stock Exchange (the "NYSE") that it was not in compliance with the continued listing criteria set forth in Section 802.01C of the NYSE's Listed Company Manual, as the average closing share price of the Company's common stock was less than \$1.00 per share over a consecutive 30 trading-day period. Within ten business days of receipt of the Price Notice, the Company responded to the NYSE with respect to its intent to cure the deficiency and provided available alternatives, including, but not limited to, a reverse stock split, subject to shareholder approval, to regain compliance.

On February 14, 2023, Kaleyra held the Special Meeting to approve an amendment to the Company's Certificate of Incorporation to effect, at the discretion of the Board of Directors, the Reverse Stock Split.

On March 6, 2023, the Company announced that, following shareholder approval at the Special Meeting of the stockholders held on February 14, 2023, the Company's Board of Directors approved a 1-for-3.5 Reverse Stock Split of the Company's issued and outstanding shares of common stock, par value \$0.0001 per share, effective as of 12:01 a.m. Eastern Time on March 9, 2023. Beginning with the opening of trading on March 9, 2023, Kaleyra's common stock began trading on the New York Stock Exchange on a split-adjusted basis under new CUSIP number 483379202 and continued to trade under the symbol "KLR".

Subsequent to March 31, 2023, on April 3, 2023, the Company received a written notice (the "Market Cap Notice") from the NYSE that the Company was not in compliance with the continued listing criteria set forth in Section 802.01B of the NYSE's Listed Company Manual with respect to the minimum market capitalization and shareholders' equity requirement. Within forty-five days of receipt of the Market Cap Notice, the Company will respond to the NYSE with a business plan to cure the deficiency and to regain compliance, subject to review, acceptance and monitoring by the NYSE, within the eighteen-month cure period following the receipt of the Market Cap Notice. In addition, with the Market Cap Notice, Kaleyra also received written confirmation from the NYSE that the Company has regained compliance with the minimum share price continued listing criteria set forth in Section 802.01C of the NYSE's Listed Company Manual, as the Company's common stock had a closing share price of at least \$1.00 and an average closing share price of at least \$1.00 over the consecutive 30 trading-day period ended March 31, 2023. Refer to Note 21 - Subsequent Events for more information.

As of March 31, 2023, and through the date the financial statements are issued, the Company believes it has sufficient liquidity to be able to operate its business for at least 12 months following the date that the financial statements are issued. However, the Company was not in compliance with NYSE continued listing criteria, as described above. If Kaleyra fails to regain and maintain compliance with the NYSE continued listing requirements, including but not limited to the above, the NYSE may take steps to delist the Company's securities. Delisting from the NYSE (and the inability of Kaleyra to list its common stock on the Nasdaq Global Select Market or the Nasdaq Global Market, or any other eligible market) would trigger a fundamental change under the terms of the Indenture, which would entitle each holder of the Merger Convertible Notes, at such holder's option, to require Kaleyra to repurchase for cash all or any portion of such holder's notes at a repurchase price equal to 100% of the principal amount thereof, plus accrued and unpaid interest thereon – refer to Note 10 – Notes Payable in the Company's condensed consolidated financial statements for additional information relating the Merger Convertible Notes. In such event, Kaleyra may not have enough available cash or be able to obtain financing to meet the repurchase obligations that may arise if the Company is not able to regain compliance with the NYSE continued listing criteria for at least the 12 months following the date that the financial statements are issued, and Kaleyra's failure to repurchase such notes would constitute a default under the Indenture. The Company continues to seek other sources of capital and other alternatives to maintain its listing on the NYSE. In addition, the Company is focusing on improving operations with actions aimed at expanding its customer base, increasing revenue and margins from existing customers, reducing costs, as well as expanding into geographic areas where Kaleyra currently has low concentration.

On February 15, 2023, to drive improved financial and operating performance, and ensure continued sustainable and scalable growth, the Company announced an initial restructuring and cost reduction program for 2023 (the “Program”). The Program is designed to position Kaleyra to serve the demand from global businesses using existing and emerging communication channels, while driving labor and cost efficiencies. The Program is anticipated to start delivering results beginning as early as the first quarter of 2023 and will run through the remainder of 2023 when the effects will become measurable. This includes fixed costs being heavily scrutinized. As a result of the Company’s recently launched initiatives, significant improvements in the Company’s results are expected in 2023 compared to 2022, with additional growth anticipated in 2024 when compared to 2023. This is further supported by the organizational streamlining aimed at reducing monthly cash payroll costs by more than 15%. Further savings are anticipated to be achieved by leveraging the Company’s global footprint to relocate costs from high-cost geographies to low-cost geographies.

Despite the measures the Company is undertaking and plans to undertake, the factors outlined above raise substantial doubt about the ability of the Company to continue as a going concern within one year after the date that these financial statements are issued. Refer to Note 2 - Summary of Significant Accounting Policies in the Company’s condensed consolidated financial statements for more information relating going concern.

Notes Payable - Other

On April 16, 2020, in connection with the Business Combination, Kaleyra entered into a Settlement Agreement and Release (the “Settlement Agreement”) with its financial advisory service firms, Cowen and Company, LLC (“Cowen”) and Chardan Capital Markets, LLC, (“Chardan” and collectively the “Service Firms”), pursuant to which it agreed to pay an affiliate of Cowen, Cowen Investments II LLC (“Cowen Investments”), and Chardan, in full satisfaction of all amounts owed to the Service Firms as of December 31, 2019, \$5.4 million in the aggregate, as follows: (i) \$2.7 million in the aggregate in common stock of Kaleyra (the “Settlement Shares”) to be issued the business day prior to the filing of a resale registration statement for such Settlement Shares (the “Resale Registration Statement”), (ii) convertible notes totaling \$2.7 million in the aggregate with a maturity date three years after issuance and bearing interest at five percent (5%) per annum (but with lower interest rates if the notes are repaid earlier than one year or two years after issuance) and with interest paid in arrears to the payee on March 15, June 15, September 15 and December 15 of each year, with such convertible notes to also be issued the business day prior to the filing of the Resale Registration Statement and (iii) in the event that the Beneficial Ownership Limitation (as defined below) would otherwise be exceeded upon delivery of the Settlement Shares above, a warrant agreement also to be entered into with and issued to the Services Firms the business day prior to the filing of the Resale Registration Statement, whereby the amount of common stock of Kaleyra by which the Beneficial Ownership Limitation would otherwise have been exceeded upon delivery of the Settlement Shares will be substituted for by warrants with an exercise price of \$0.01 per share issued pursuant to a Warrant Agreement (the “Warrant Agreement”) and the common stock underlying the Warrant Agreement (the “Warrant Shares”). The Beneficial Ownership Limitation shall initially be 4.99% of the number of shares of the common stock outstanding of Kaleyra immediately after giving effect to the issuance of these shares of common stock. The number of Settlement Shares was calculated using as the price per Settlement Share an amount equal to a fifteen percent (15%) discount to the ten-day (10-day) trailing dollar volume-weighted average price for the common stock of Kaleyra on the NYSE American LLC stock exchange (the “VWAP”) on the business day immediately prior to the date on which Kaleyra files the Resale Registration Statement. In addition, the price per share for determining the number of shares of common stock of Kaleyra to be issued upon the conversion of the convertible notes shall be a five percent (5%) premium to the ten-day (10-day) trailing VWAP as of the date immediately prior to the issuance date of the convertible notes, rounded down to the nearest whole number.

On May 1, 2020, in connection with the Settlement Agreement, Kaleyra issued: (i) an aggregate of 125,885 Settlement Shares to Cowen Investments and Chardan, consisting of 107,002 Settlement Shares issued to Cowen Investments, and 18,883 Settlement Shares issued to Chardan (on a post-reverse split basis); and (ii) convertible promissory notes in the aggregate principal amount of \$2.7 million to Cowen Investments and Chardan, consisting of a convertible promissory note in the principal amount of \$2.3 million issued to Cowen Investments (the “Cowen Note”) and a convertible promissory note in the principal amount of \$405,000 issued to Chardan (the “Chardan Note”). The unpaid principal of the Cowen Note is convertible at the option of Cowen Investments into 86,620 shares of common stock of Kaleyra, if there has been no principal reduction, and the unpaid principal of the Chardan Note is convertible at the option of Chardan into 15,285 shares of common stock of Kaleyra, if there has been no principal reduction (on a post-reverse split basis). As the Beneficial Ownership Limitation was not triggered by the issuance of the Settlement Shares, no Warrant Agreement was necessary and no warrants were issued.

On February 4, 2021, Cowen Investments elected to convert the outstanding amount of the Cowen Note into 86,620 shares of common stock pursuant to the terms of the Cowen Note, and as a result the Company has no further obligations with respect to the Cowen Note (on a post-reverse split basis).

As of March 31, 2023, the outstanding amount of the Chardan Note was \$405,000 and accrued interest was \$59,000. On May 1, 2023, Kaleyra reimbursed the outstanding amount of the Chardan Note. Following this payment, the Company has no further obligations with respect to the Chardan Note. Refer to Note 21 - Subsequent Events in the Company’s condensed consolidated financial statements for more information relating the settlement of the Chardan Note.

Merger Convertible Notes

On February 18, 2021, in support of the consummation of the Merger, Kaleyra entered into Convertible Note Subscription Agreements, each dated February 18, 2021, with the Convertible Note Investors. In June 2021, the Company issued the Merger Convertible Notes with an aggregate principal amount of \$200 million. The Company incurred \$11.4 million of issuance costs as a result of the issuance of the Merger Convertible Notes.

In connection with the issuance of the Merger Convertible Notes pursuant to the terms of the Convertible Note Subscription Agreements, the Company entered into an indenture (the "Indenture") with Wilmington Trust, National Association, a national banking association, in its capacity as trustee thereunder, in respect of the \$200 million of Merger Convertible Notes that were issued to the Convertible Note Investors.

The Merger Convertible Notes bear interest at a rate of 6.125% per annum, payable semi-annually, in arrears on each June 1 and December 1 of each year, commencing on December 1, 2021, to holders of record at the close of business on the preceding May 15 and November 15, respectively. After giving effect to the Reverse Stock Split of Kaleyra's shares of common stock as of March 9, 2023, as described in Note 1 - Description of Organization and Business Operations, the Merger Convertible Notes are convertible into 3,386,243 shares of Kaleyra common stock at a conversion price of \$59.063 per share of Kaleyra common stock in accordance with the terms of the Indenture, and mature five years after their issuance. The Company may, at its election, force conversion of the Merger Convertible Notes after (i) the first anniversary of the issuance of the Merger Convertible Notes, subject to a holder's prior right to convert, if the last reported sale price of the Kaleyra common stock exceeds 150% of the conversion price for at least 20 trading days during the period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter and (ii) the second anniversary of the issuance of the Merger Convertible Notes, subject to a holder's prior right to convert, if the last reported sale price of the Kaleyra common stock exceeds 130% of the conversion price for at least 20 trading days during the period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter. Following certain corporate events that occur prior to the maturity date or if the Company forces a mandatory conversion, the Company will, in certain circumstances, increase the conversion rate for a holder who elects to convert its Merger Convertible Notes in connection with such a corporate event or has its Merger Convertible Notes mandatorily converted, as the case may be. In addition, in the event that a holder of the Merger Convertible Notes elects to convert its Merger Convertible Notes prior to the third anniversary of the issuance of the Merger Convertible Notes, the Company will be obligated to pay an amount equal to twelve months of interest, or if on or after such third anniversary of the issuance of the Merger Convertible Notes, any remaining amounts that would be owed to, but excluding, the fourth anniversary of the issuance of the Merger Convertible Notes (the "Interest Make-Whole Payment"). The Interest Make-Whole Payment will be payable in cash or shares of Kaleyra common stock as set forth in the Indenture.

The terms of the Merger Convertible Notes require Kaleyra to repurchase the Merger Convertible Notes for cash at the option of the holder in the event of a fundamental change. The Merger Convertible Notes provide that the delisting of our common stock from the NYSE would constitute a "fundamental change" under Section 15.02 of the Indenture, which would entitle each holder, at such holder's option, to require the Company to repurchase for cash all or any portion of such holder's notes at a repurchase price equal to 100% of the principal amount thereof, plus accrued and unpaid interest thereon. On April 3, 2023, Kaleyra received a written notice (the "Market Cap Notice") from the NYSE that it was not in compliance with the continued listing criteria set forth in Section 802.01B of the NYSE's Listed Company Manual with respect to the minimum market capitalization and shareholders' equity requirement. Kaleyra is committed to regaining compliance with the market capitalization and shareholders' equity continued listing standard within the eighteen-month cure period following the receipt of the Market Cap Notice, as provided by the NYSE's Listed Company Manual. However, if Kaleyra fails to regain compliance with the NYSE continued listing requirements, including but not limited to the above, it is at risk of having the Company's common stock delisted, triggering a fundamental change under the Indenture for the Merger Convertible Notes, as discussed below in Part 2, Item 1A. Risk Factors. Refer to Note 2 - Summary of Significant Accounting Policies and Note 21 - Subsequent Events in the Company's condensed consolidated financial statements for more information relating to Kaleyra's considerations on going concern basis of accounting and the Market Cap Notice, respectively.

Upon the issuance of the Merger Convertible Notes management made the assessment whether the convertible instrument contained embedded conversion features for bifurcation and concluded that such embedded conversion features met the definition of a derivative but qualified for the scope exception under ASC 815-10-15-74(a) as they are indexed to the Company's stock and qualify for classification within stockholders' equity. Management determined that the Interest Make-Whole Payment feature met the definition of a derivative but did not fall within the above scope exception, nonetheless its value was de minimis and as such no amount was recorded at the time of the issuance of the Merger Convertible Notes nor at any subsequent reporting date. Management will continue to monitor the valuation of the Interest Make-Whole Payment provision and assess the need to record a liability in future periods.

As of March 31, 2023, the outstanding amount of the Merger Convertible Notes was \$192.3 million, net of issuance costs. During the three ended March 31, 2023, contractual interest expense on the Merger Convertible Notes amounted to \$3.0 million and amortization of the debt issuance costs amounted to \$515,000. The liability is included in the condensed consolidated balance sheet

line item “Long-term portion of notes payable” and the interest expense is included in “Financial expense, net” on the condensed consolidated statements of operations.

Long-term financial obligations

Long-term financial obligations, excluding credit line facilities, consisted of the following (in thousands):

	As of		Maturity	Interest Contractual Rate as of March 31, 2023	Interest Nominal Rate	
	March 31, 2023	December 31, 2022			As of March 31, 2023	As of December 31, 2022
UniCredit S.p.A. (Line A Tranche 1)	\$ 639	\$ 943	July 2023	Euribor 3 months + 3.10%	2.80 %	2.80 %
UniCredit S.p.A. (Line A Tranche 2)	41	53	November 2023	Euribor 3 months + 3.10%	2.80 %	2.80 %
UniCredit S.p.A. (Line B)	1,121	1,324	May 2024	Euribor 3 months + 2.90%	2.60 %	2.60 %
UniCredit S.p.A. (Line C)	514	755	August 2023	Euribor 3 months + 3.90%	6.94 %	6.03 %
Intesa Sanpaolo S.p.A. (Line 2)	1,407	1,654	April 2024	Euribor 3 months + 3.10%	6.14 %	5.23 %
Intesa Sanpaolo S.p.A. (Line 3)	6,982	7,927	June 2026	Euribor 3 months + 2.15%	5.19 %	4.28 %
Intesa Sanpaolo S.p.A. (Line 4)	4,248	4,466	July 2026	Euribor 3 months + 2.20%	5.24 %	4.33 %
Monte dei Paschi di Siena S.p.A. (Line 2)	362	356	June 2023	1.50 %	1.50 %	1.50 %
Banco BPM S.p.A. (Line 1)	97	189	June 2023	Euribor 3 months + 2.00%	5.04 %	4.13 %
Banco BPM S.p.A. (Line 3)	2,683	3,059	September 2024	Euribor 3 months + 3.00%	6.04 %	5.13 %
Banco BPM S.p.A. (Line 4)	2,301	2,491	July 2025	Euribor 3 months + 1.95%	4.99 %	4.08 %
Simest 1	91	134	December 2023	0.50 %	0.50 %	0.50 %
Simest 2	90	133	December 2023	0.50 %	0.50 %	0.50 %
Simest 3	165	244	December 2023	0.50 %	0.50 %	0.50 %
Simest 4	1,168	1,150	April 2027	0.50 %	0.50 %	0.50 %
Total bank and other borrowings	21,909	24,878				
Less: current portion	10,234	11,419				
Total long-term portion	<u>\$ 11,675</u>	<u>\$ 13,459</u>				

All bank and other borrowings are unsecured borrowings of Kaleyra.

Cash Flows

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

	Three Months Ended March 31,	
	2023	2022
Net cash provided by operating activities	\$ 2,453	\$ 3,192
Net cash used in investing activities	(2,083)	(3,983)
Net cash used in financing activities	(4,402)	(2,688)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	902	(334)
Net decrease in cash, cash equivalents and restricted cash	<u>\$ (3,130)</u>	<u>\$ (3,813)</u>

In the three months ended March 31, 2023, cash provided by operating activities was \$2.5 million, primarily consisting of \$2.8 million of changes in operating assets and liabilities, mainly attributable to changes in other current liabilities of \$6.4 million and accounts payable of \$2.6 million.

In the three months ended March 31, 2022, cash provided by operating activities was \$3.2 million, primarily consisting of \$2.2 million of changes in operating assets and liabilities and non-cash items, mainly \$6.8 million of stock-based compensation, \$5.9 million of depreciation and amortization expense, \$820,000 of deferred taxes, \$534,000 of change in the fair value of the warrant liability and \$490,000 of non-cash interest expense, partially offset by a net loss of \$13.2 million.

In the three months ended March 31, 2023, cash used in investing activities was \$2.1 million, primarily consisting of \$1.8 million to fund the cost of internally developed software and \$231,000 of purchases of property and equipment.

In the three months ended March 31, 2022, cash used in investing activities was \$4.0 million, primarily consisting of \$2.3 million to fund the cost of internally developed software, \$1.2 million of purchases in short-term investments and \$544,000 of purchases of property and equipment.

In the three months ended March 31, 2023, cash used in financing activities was \$4.4 million, primarily consisting of \$3.3 million of repayments on term loans and \$1.0 million of repayments on lines of credit.

In the three months ended March 31, 2022, cash used in financing activities was \$2.7 million, primarily consisting of \$2.1 million of repayments on term loans and \$525,000 of repayments on lines of credit.

Seasonality

Historically, Kaleyra has experienced clear seasonality in its revenue generation, with slower traction in the first calendar quarter, and increasing revenues as the year progresses. Kaleyra typically experiences higher revenues in messaging and notification services during the fourth calendar quarter. This patterned revenue generation behavior takes place due to Kaleyra's customers sending more messages to their end-users who are engaged in consumer transactions at the end of the calendar year, resulting in an increase in notifications of electronic payments, credit card transactions and e-commerce.

Taxes

The Company files income tax returns in the United States and in foreign jurisdictions including Italy, Germany, United Kingdom, Dominican Republic, Greece and India. As of March 31, 2023, the tax years 2016 through the current period remain open to examination in certain of the major jurisdictions in which the Company is subject to tax.

Additionally, Kaleyra is closely monitoring the OECD's development and imposition of proposed BEPS Pillar Two rules which would impose global minimum tax mechanisms in most tax jurisdictions sometime in 2024 and thereafter. At this time based on the guidance issued to date, we do not expect to be materially impacted by these BEPS Pillar Two rules when fully implemented but will continue to monitor further developments in this area.

The Company recorded an income tax expense of \$1.0 million and \$691,000 for the three months ended March 31, 2023 and 2022, respectively.

Recent Accounting Pronouncements

See Note 2 - Summary of Significant Accounting Policies – to the condensed consolidated financial statements included in Part I of this Quarterly Report on Form 10-Q for more information on new accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to certain market risks in the ordinary course of our business. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily the result of fluctuations in interest rates and foreign currency exchange rates.

Interest Rate Risk

As of March 31, 2023, the Company had \$74.4 million of cash and cash equivalents, \$488,000 of restricted cash and \$637,000 of short-term investments with maturity terms between 4 and 12 months held in India. Our cash and cash equivalents consist of funds deposited into saving accounts. Short-term investments primarily consist of mutual funds and certificates of deposit. Kaleyra also entered into a limited number of derivative financial instruments to manage its interest rate risk exposure with respect to the bank borrowing held by Italian commercial banks.

Interest rates are highly sensitive to many factors including the current international economic and political scenario, as well as other factors beyond Kaleyra's control. Interest rate risk is the exposure to loss resulting from changes in the level of interest rates and the spread between different interest rates. Kaleyra's interest rates on the bank borrowing held by Italian commercial banks are at market in Italy and well below market in other geographical locations. The Merger Convertible Notes bear interest at a fixed coupon rate of 6.125% per annum, and for this reason Kaleyra has no financial or economic interest exposure associated with changes in interest rates. Therefore, Kaleyra does not believe there is material exposure to market risk from changes in interest rates on debt.

Foreign Currency Risk

Kaleyra's condensed consolidated financial statements are presented in U.S. dollars while the functional currencies of foreign subsidiaries are other than U.S. dollar. The main functional currencies of foreign subsidiaries include: Euro for Kaleyra S.p.A., Indian Rupee for Solutions Infini Technologies Private Limited, Great Britain Pound for Kaleyra UK Limited, United Arab Emirates Dirham for Solutions Infini FZE.

More than 45% of our total revenue was generated outside the United States for the three-month period ended March 31, 2023. The majority of our revenues and operating expenses are denominated in currency other than U.S. dollars, and therefore are currently subject to significant foreign currency risk. To the extent the U.S. dollar weakens against foreign currencies, the translation of these foreign currencies result in increased revenue and operating expenses for our non-U.S. operations. Similarly, our revenue and operating expenses for our non-U.S. operations decrease if the U.S. dollar strengthens against foreign currencies.

Each company remeasures monetary assets and liabilities denominated in currencies other than its functional currency at period-end exchange rates and non-monetary items are remeasured at historical rates.

Remeasurement adjustments are recognized in the condensed consolidated statement of operations as foreign currency income (loss) in the period of occurrence.

For legal entities where the functional currency is a currency other than the U.S. dollar, including Kaleyra S.p.A., adjustments resulting from translating the financial statements into U.S. dollar are recorded as a component of accumulated other comprehensive income (loss) in stockholders' equity (deficit). Monetary assets and liabilities denominated in a currency that is other than the U.S. dollar are translated into U.S. dollar at the exchange rate on the balance sheet date. Revenue and expenses are translated at the weighted average exchange rates during the period. Equity transactions are translated using historical exchange rates. Kaleyra does not engage on a regular basis in any hedging activity to reduce Kaleyra's potential exposure to currency fluctuations, although Kaleyra may elect to do so in the future if use of derivatives would be beneficial to Kaleyra.

Item 4. Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted 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 ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Evaluation of Disclosure Controls and Procedures

As required by Rules 13a-15 and 15d-15 under the Exchange Act, our Chief Executive Officer and Chief Financial Officer carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2023. Based upon their evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective as of March 31, 2023.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the three-month period ended March 31, 2023, which were identified in connection with our evaluation required pursuant to Rules 13a-15 or 15d-15 under the Exchange Act, 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

From time to time, Kaleyra may be involved in litigation relating to claims arising out of its operations in the normal course of business. Kaleyra is not currently involved in any material legal proceedings as a defendant.

On October 17, 2018, Kaleyra filed a claim against Vodafone Italia S.p.A. (“Vodafone”) before the Court of Milan seeking compensation in the amount of €6.1 million (\$6.9 million at the December 31, 2021 exchange rate) for all the damages suffered as a consequence of the illicit and anticompetitive conduct of Vodafone, as previously determined by the Italian Antitrust Authority (namely, Autorità Garante della Concorrenza e del Mercato or AGCM) in their decisions issued on December 13, 2017; Vodafone has appealed that sanctioning resolution before the Italian Regional Administrative Court.

The deadline for filing a counterclaim by Vodafone has passed and according to Italian Law, Vodafone is no longer entitled to file a counterclaim against Kaleyra in these proceedings. Both Kaleyra and Vodafone filed their final pleadings on October 1, 2019 and October 21, 2019.

The Court of Milan has decided to suspend the procedure, through order no. 1570 on May 18, 2020. The decision of the Court of Milan is based on procedural reasons only (concerning the unprecedented definition of the relationship between administrative and civil proceedings in the case at hand) and does not analyze or take into any consideration the merits of the action brought by Kaleyra. The procedural suspension ordered by the Court of Milan shall last until the appeal brought by Vodafone before the Italian Regional Administrative Court against the decision of the Italian Antitrust Authority (the “ICA”) is concluded with a definitive judgment. Accordingly, following the order of suspension issued by the Civil Court of Milan, on August 10, 2020, Kaleyra filed a request to speed up the scheduling of the hearing in relation to the pending appeal before the Italian Regional Administrative Court brought by Vodafone Italia. The Court upheld Kaleyra’s request and the hearing took place on February 24, 2021. Accordingly, the parties submitted their final defenses. On September 15, 2021, the Administrative Court issued its first instance decision that upheld Vodafone’s appeal and annulled the sanctioning resolution issued by the Italian Competition Authority (decision no. 9803/2021). On December 10, 2021, the ICA filed its appeal to the second instance Court (Council of State) against the Administrative Court first instance decision no. 9803/2021 asking to overrule it. Both Vodafone and Kaleyra submitted their appearances in the judicial proceeding. The public hearing to discuss the appeal was held before the Council of State on March 16, 2023. The Council of State on April 14, 2023 overruled the TAR Lazio decision and, accordingly, confirmed Vodafone's abuse of a dominant position ascertained by the ICA (decision number 03793/2023). The terms for Vodafone to file a demand to revoke the sentence or to appeal the decision before the Civil Supreme Court (Corte di Cassazione) will expire on May 22, 2023 and June 20, 2023, respectively.

The outcome of such action cannot be determined at this time. Therefore, no recognition of these actions has been made in the condensed consolidated financial statements of the Company.

On April 16, 2019, Kaleyra filed a claim against Telecom Italia S.p.A. (“Telecom”) and Telecom Italia Sparkle S.p.A. (“Sparkle”, jointly with Telecom “Defendants”) before the Court of Milan seeking compensation in the amount of €8.3 million (\$10.2 million at the December 31, 2020 exchange rate) for damages suffered after the illicit conduct of both counterparts, determined by the Italian Antitrust Authority in the decision issued on December 13, 2017.

At the first hearing before the Court of Milan held for the appearance of the parties on December 11, 2019, the judge reserved the decision on the possible suspension of the case in consideration of the appeal brought by Telecom Italia S.p.A and Telecom Italia Sparkle S.p.A. against the Italian Antitrust Authority’s decision of December 13, 2017 before the Regional Administrative Court, which is currently pending.

By order issued on December 14, 2019, the judge released his reserve and referred the issue concerning the relation between the assessment of the pending administrative case and the one to be carried out in the civil case to a panel composed of three judges. The case was therefore adjourned for a hearing on April 29, 2020 where the parties had to file their final pleadings.

On April 9, 2020, following the measures taken by the Italian legislator for the COVID-19 pandemic, the above-mentioned hearing was postponed to and then held on October 7, 2020. At the hearing of October 7, 2020, the parties exposed their closing arguments and the decision on the preliminary question as to the suspension of the civil proceedings has been reserved to a panel composed of three judges. The parties also submitted written observations concerning the preliminary question.

On January 7, 2021, the Court issued an order by which the civil proceedings have been suspended until the decision in the pending administrative case – which was deemed to be prejudicial to the civil one – becomes final (i.e., it is no longer subject to appeal). The order was communicated to the parties via certified electronic mail on January 11, 2021.

In light of the average duration of cases before the Italian Administrative Courts and the Defendants’ interest in both having the Italian Competition Authority’s decision annulled and procrastinating the administrative case (on which the civil proceedings now

depend pursuant to the above-mentioned order) for dilatory purposes, the civil case is unlikely to proceed in the short term. In order to speed up the administrative proceedings (and thus the civil case), on February 9, 2021, Kaleyra filed an application with the Administrative Court of Latium requesting that the hearing on the merits of the case be held as soon as possible (“istanza di prelievo”). On September 23, 2021, the Defendants filed with the Administrative Court of Latium their “istanza di prelievo” aimed at requesting a prompt schedule of the hearing on the merits of the case. The request is motivated taking into consideration, inter alia, the decision, dated September 15, 2021, by which – in a parallel case – the same Administrative Court annulled the decision by which the Italian Competition Authority (decision no. 9803/2021) ascertained that Vodafone Italia S.p.A. committed an abuse of a dominant position in violation of art. 102 TFEU for margin squeeze (i.e., for behaviors similar to those attributed to the Defendants in the decision). The hearing took place on March 23, 2022. On April 11, 2022, the Administrative Court issued its first instance decision that upheld Telecom and Sparkle’s appeal and annulled the sanctioning resolution issued by the Italian Competition Authority (decision no. 4333/2022). The decision was notified to Kaleyra on April 12, 2022. All the Parties that took part in the proceeding have respectively filed their appeal or cross appeal to the second instance Court (Council of State). The public hearing to discuss the appeal was held before the Council of State on May 4, 2023. Until a final decision is reached by the Council of State there will be no effect on the civil proceeding that will therefore remain suspended.

Also, in light of the above, neither the outcome of Kaleyra’s civil action nor its duration is predictable at this time.

The outcome of such civil action cannot be determined at this time. Therefore, no recognition of these actions has been made in the condensed consolidated financial statements of the Company.

In addition to the above, Kaleyra appealed the resolutions issued by the Italian Communications Authority (namely, Autorità per le Garanzie nelle Comunicazioni or AGCom) concerning their request for the annual fee to AGCom for years 2016, 2017, 2018, 2019 and 2020.

The first instance proceeding against AGCom’s resolutions for the 2016 contribution was successful for Kaleyra and the Italian Regional Administrative Court annulled the resolutions Kaleyra had appealed (judgement no. 2161/2019). However, AGCom filed its second instance appeal before the Council of State seeking the overruling of the Court’s decision. The appeal has been regularly discussed at the hearing of September 17, 2020 and the Council of State issued its decision number 6175/2020 on October 13, 2020, overruling in part the Regional Court decision. AGCom will have to recalculate the annual contribution due from Kaleyra for year 2016. However, the annual contribution is not considered material to Kaleyra’s condensed consolidated financial statements.

The first instance proceeding against AGCom’s resolutions for the 2017 contribution was successful for Kaleyra and the Italian Regional Administrative Court, following the public hearing held on April 21, 2023, on April 24, 2023 annulled the resolutions Kaleyra had appealed (decision number 06970/2023). AGCom will have to recalculate the annual contribution due by Kaleyra for year 2017. However, such annual contribution is not considered material to Kaleyra’s consolidated financial statements

For the annual contribution to AGCom relating the years 2018, 2019 and 2020 the legal proceedings are currently pending before the Italian Regional Administrative Court and no hearing has been scheduled yet. However, the European Court of Justice (“ECJ”) has already delivered its decision on the request for a preliminary ruling submitted by the Council of State on the relevant EU law (case C-399/18). Such decision was delivered on April 29, 2020, in accordance with a simplified procedure due to the previous issuance by the ECJ of a number of judgements on the matter.

Finally, Kaleyra took part in two appeals brought before the Regional Administrative Court of Lazio (TAR Lazio) by, respectively, an Association of Content Service Providers (“CSP”) for Value Added Services on mobile network (“VAS”), and one singular CSP, against a specific resolution of the Italian Communications Authority regarding the rules for applying a barring mechanism on the SIM of the final users of VAS (resolution no. 10/21/CONS). Kaleyra filed its interventions in both the judicial proceedings to support the measures issued by AGCom.

Specifically, following the hearing before TAR Lazio that took place on March 17, 2021, the Court has issued two orders (no. 1748 and no. 1751, dated March 18, 2021) that rejected the precautionary measures requested by both the plaintiffs, upholding the position represented by Kaleyra to support the legitimacy of the abovementioned resolution. Following the definition of the precautionary phase, both appeals are likely to be discussed on the merits in the next months. As of today, TAR Lazio has not scheduled any further hearing, hence there is no imminent deadline with regard to those judicial proceedings. For the sake of completeness, the final judgments of TAR Lazio on the two appeals above shall not result in any economic direct impact on Kaleyra.

Item 1A. Risk Factors

Aside from the below listed item, there have been no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022. We encourage investors to review the risk factors and uncertainties relating to our business disclosed in that Form 10-K, as well as those contained in Part 1, Item 2, Management’s Discussion and Analysis of Financial Condition and Results of Operations, above.

The risk factor contained in the Form 10-K for the fiscal year ended December 31, 2022 titled “There can be no assurance that Kaleyra will be able to comply with the continued listing standards of the NYSE and the NYSE American” is updated as follows:

There can be no assurance that Kaleyra will be able to comply with the continued listing standards of the NYSE and the NYSE American. Kaleyra’s common stock is currently listed on the NYSE and its warrants on the NYSE American. If the NYSE or NYSE American delists Kaleyra’s securities from trading on its exchange for failure to meet the listing standards, Kaleyra and its stockholders could face significant material adverse consequences including:

- a limited availability of market quotations for Kaleyra’s securities;
- a determination that the common stock is a “penny stock” which will require brokers trading in its common stock to adhere to more stringent rules, possibly resulting in a reduced level of trading activity in the secondary trading market for the common stock;
- a limited amount of analyst coverage; and
- a decreased ability to issue additional securities or obtain additional financing in the future.

On April 3, 2023, the Company received a written notice (the "Market Cap Notice") from the NYSE that the Company was not in compliance with the continued listing criteria set forth in Section 802.01B of the NYSE’s Listed Company Manual with respect to the minimum market capitalization and shareholders' equity requirement. Kaleyra is committed to regaining and maintaining compliance with the continued listing standards within the eighteen month cure period following the receipt of the notice.

If we fail to regain and maintain the compliance with the NYSE continued listing standards, including but not limited to the above, the NYSE may take steps to delist our securities. There can be no assurance that we will continue to meet the minimum market capitalization and shareholders' equity requirement or any other NYSE listing requirement in the future. If our common stock and publicly traded warrants were to be delisted, the liquidity of our common stock would be adversely affected, its market prices could decrease, and our ability to raise equity capital and our reputation and relationships with business partners could be impaired.

In the event that Kaleyra is delisted from the NYSE (and Kaleyra is unable to list its common stock on the Nasdaq Global Select Market or the Nasdaq Global Market, or any other eligible market), a fundamental change will be triggered under the Indenture for the Merger Convertible Notes, as discussed above in “Liquidity and Capital Resources” in Part 1, Item 2, Management’s Discussion and Analysis of Financial Condition and Results of Operations.

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

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Exhibit No.	Description
31.1*	<u>Certification of Principal Executive Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15(d)-14(a), as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
31.2*	<u>Certification of Principal Financial Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15(d)-14(a), as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
32.1*	<u>Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
32.2*	<u>Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because 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 (embedded within the Inline XBRL document)

* Filed herewith

SIGNATURES

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

KALEYRA, INC.

Dated: May 10, 2023

By: /s/ Dario Calogero
Name: Dario Calogero
Title: Chief Executive Officer, and President
(Principal Executive Officer)

KALEYRA, INC.

Dated: May 10, 2023

By: /s/ Giacomo Dall'Aglio
Name: Giacomo Dall'Aglio
Title: Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

Pursuant to Rule 13a-14(a) and Rule 15d-14(a) under the
Securities Exchange Act of 1934

(Section 302 of the Sarbanes-Oxley Act of 2002)

I, Dario Calogero, certify that:

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

Date: May 10, 2023

By: /s/ Dario Calogero
Name: Dario Calogero
Title: Chief Executive Officer and President
(Principal Executive Officer)

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

Pursuant to Rule 13a-14(a) and Rule 15d-14(e) under the
Securities Exchange Act of 1934

(Section 302 of the Sarbanes-Oxley Act of 2002)

I, Giacomo Dall'Aglio, certify that:

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

Dated: May 10, 2023

By: /s/ Giacomo Dall'Aglio
Name: Giacomo Dall'Aglio
Title: Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
Pursuant to 18 U.S.C. 1350
(Section 906 of the Sarbanes-Oxley Act of 2002)

In connection with the Quarterly Report on Form 10-Q of Kaleyra, Inc. (the "Company") for the quarter ended March 31, 2023, as filed with the Securities and Exchange Commission (the "Report"), I, Dario Calogero, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to §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, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 10, 2023

By: /s/ Dario Calogero
Name: Dario Calogero
Chief Executive Officer and President
Title: (Principal Executive Officer)

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

Pursuant to 18 U.S.C. 1350

(Section 906 of the Sarbanes-Oxley Act of 2002)

In connection with the Quarterly Report on Form 10-Q of Kaleyra, Inc. (the "Company") for the quarter ended March 31, 2023, as filed with the Securities and Exchange Commission (the "Report"), I, Giacomo Dall'Aglio, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §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.

Date: May 10, 2023

By: /s/ Giacomo Dall'Aglio
Name: Giacomo Dall'Aglio
Executive Vice President and Chief Financial Officer
Title: (Principal Financial Officer)
