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

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 or 15d-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934

For the month of August 2022

Commission File Number: 001-40207

Waldencast plc
(Translation of Registrant's name into English)

10 Bank Street, Suite 560
White Plains, New York, 10606
(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F ☒ Form 40-F ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ☐

On August 11, 2022, Waldencast plc (the "Company") will host a conference call and simultaneous webcast to discuss the Company's financial results for the three and six months ended June 30, 2022. An archived replay of the webcast and the investor presentation used during the webcast will be available shortly after the live event has concluded in the Investors section of the Company's website, https://ir.waldencast.com. A copy of the Company's press release and earnings release supplement for the three and six months ended June 30, 2022 is attached as Exhibit 99.1 and Exhibit 99.2, respectively, to this Quarterly Report on Form 6-K and is incorporated by reference herein.

In addition, the Company's Quarterly Report for the three and six months ended June 30, 2022 is attached as Exhibit 99.3 to this Quarterly Report on Form 6-K and is incorporated by reference herein. The Company is also providing supplemental information for the financial results for the six months ended June 30, 2022 for each of Obagi Global Holdings Limited, a Cayman Islands exempted company limited by shares, and Milk Makeup LLC, a Delaware limited liability company, which is attached as Exhibit 99.4 and 99.5, respectively, to this Quarterly Report on Form 6-K and is incorporated by reference herein.

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
99.1	Waldencast plc press release, dated August 11, 2022
99.2	Waldencast plc Supplemental Information for the three and six months ended June 30, 2022
99.3	Waldencast plc Quarterly Report for the three and six months ended June 30, 2022
99.4	Obagi Global Holdings Limited Supplemental Information for the six months ended June 30, 2022
99.5	Milk Makeup LLC Supplemental Information for the six months ended June 30, 2022
99.6	Unaudited Pro Forma Condensed Combined Financial Information of the Waldencast plc, Obagi Global Holdings Limited and Milk Makeup LLC.

SIGNATURE

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

		Waldencast plc
		(Registrant)
Date: August 11, 2022	By:	/s/ Michel Brousset
		Name: Michel Brousset
		Title: Chief Executive Officer and Principal Financial Officer

Waldencast Reports Second Quarter and First Half 2022 Results

- 1H 2022 Total Net Sales of $138.2 million, increasing 24.6% from 1H 2021
- 1H 2022 Gross margin of 73.8%, up 294 bps from 1H 2021
- 1H 2022 Pro Forma Adjusted EBITDA margin of 23.5% versus 22.8% in 1H 2021
- Q2 2022 Total Net Sales of $77.1 million, increasing 23.8% from Q2 2021
- Q2 2022 Gross margin of 75.1%, up 578 basis points from Q2 2021
- Q2 2022 Pro Forma Adjusted EBITDA margin of 28.4% versus 25.4% in Q2 2021
- Company Reaffirms Guidance

August 11, 2022 – New York, New York – Waldencast plc, (NASDAQ: WALD) ("Waldencast"), a global multi-brand beauty and wellness platform, today announced results for the second quarter and first half of 2022.

Michel Brousset, Waldencast Founder and CEO, said: "We are very pleased to report significant growth in net sales and Pro Forma Adjusted EBITDA in our second quarter and first half of fiscal year 2022. Our performance reflects the successful execution of our growth strategies which position well our Obagi and Milk Makeup brands to extend their leadership within the beauty industry. We expect the Waldencast platform to build upon Obagi and Milk Makeup's strong brand affinity and core strengths to further accelerate profitable growth. Despite the broader macro environment, the beauty market continues to be very dynamic and we remain very excited about our outlook as we build awareness for our award-winning brands, launch compelling innovation, and continue our footprint expansion."

Second Quarter Financial Highlights

- Total net sales of $77.1 million, an increase of 23.8% from $62.3 million in the 2021 second quarter
  - OBAGI net sales of $56.6 million rose 10.9%
  - Milk net sales of $20.5 million, up 82.0%
- Gross profit of $57.9 million, an increase of 34.1% from the 2021 second quarter with gross margin rising 578 basis points to 75.1%
  - OBAGI gross profit margin increased 692 basis points to 77.7%
  - Milk gross profit margin increased 528 basis points to 67.9%
- Pro Forma Adjusted EBITDA was $21.9 million an increase of 38.6% reaching a Pro Forma Adjusted EBITDA margin of 28.4%

Dollars ($M)	2Q2021	2Q2022	% Change
Total Net Sales	$ 62.3	$ 77.1	+23.8%
OBAGI	$ 51.0	$ 56.6	+10.9%
Milk	$ 11.3	$ 20.5	+82.0%
Gross Profit	$ 43.2	$ 57.9	+34.1%
OBAGI	$ 36.1	$ 44.0	+21.8%
Milk	$ 7.1	$ 13.9	+97.4%
Gross Margin	69.3%	75.1%	+578bps
OBAGI	70.8%	77.7%	+692bps
Milk	62.6%	67.9%	+528bps
Pro Forma Adjusted EBITDA	$ 15.8	$ 21.9	+38.6%
OBAGI	$ 14.5	$ 16.5	+14.2%
Milk	$ 1.3	$ 5.4	+301.5%
Pro Forma Adjusted EBITDA Margin	25.4%	28.4%	+303bps
OBAGI	28.3%	29.1%	+83bps
Milk	11.9%	26.3%	+1436bps

First Half 2022 Financial Highlights

- Total net sales of $138.2 million, an increase of 24.6%
  - o OBAGI net sales of $99.7million up 18.1%
  - o Milk net sales were $38.5 million, up 45.0%
- Gross profit of $102.1 million an increase of 29.7% from the 2021 second half with gross margin rising 294 basis points to 73.8%
  - o OBAGI gross profit margin increased 201 basis points to 77.1%
  - o Milk gross profit margin increased 783 basis points to 65.3%
- Pro Forma Adjusted EBITDA was $32.4 million, an increase of 28.2% reaching a Pro Forma Adjusted EBITDA margin of 23.5%

Dollars ($M)	1H2021	1H2022	% Change
Total Net Sales	$ 110.9	$ 138.2	+24.6%
OBAGI	$ 84.4	$ 99.7	+18.1%
Milk	$ 26.6	$ 38.5	+45.0%
Gross Profit	$ 78.7	$ 102.1	+29.7%
OBAGI	$ 63.4	$ 76.9	+21.3%
Milk	$ 15.3	$ 25.2	+64.8%
Gross Margin	70.9%	73.8%	+294bps
OBAGI	75.1%	77.1%	+201bps
Milk	57.5%	65.3%	+783bps
Pro Forma Adjusted EBITDA	$ 25.3	$ 32.4	+28.2%
Pro Forma Adjusted EBITDA Margin	22.8%	23.5%	+66bps

Balance Sheet

On a Pro Forma basis, as of June 30, 2022, the Company had $44.2 million in cash and cash equivalents, gross debt of $186.1 million and net debt of $141.9 million.

Fiscal 2022 Outlook

The Company reaffirms its previously issued outlook for Fiscal 2022 provided on November 15, 2021.

- Net Sales of $256.3 million
- Gross profit of $189.8 million
- Adjusted EBITDA of $49.6 million

In addition, as of the transaction close, there were 112.8 million fully diluted shares outstanding. The Company has reserved 16.1 million shares for future issuances of employee incentive awards.

Webcast and Conference Call Information

Waldencast plc will host a conference call to discuss second quarter and first half fiscal 2022 results today, August 11, 2022, at 8:00am ET. Those interested in participating in the conference call are invited to dial (855) 327-6837 (conference ID: 10020040). International callers may dial (613) 891-4304. The live webcast of the conference call will be available online at https://ir.waldencast.com/. A replay of the webcast will remain available on the website for 90 days.

About Waldencast plc

Founded by Michel Brousset and Hind Sebti, Waldencast's ambition is to build a global best-in-class beauty and wellness operating platform by developing, acquiring, accelerating, and scaling conscious, high-growth purpose-driven brands. Waldencast's vision is fundamentally underpinned by its brand-led business model that ensures proximity to its customers, business agility, and market responsiveness, while maintaining each brand's distinct DNA. The first step in realizing its vision was the business combination with Obagi Skincare and Milk Makeup. As part of the Waldencast platform, its brands will benefit from the operational scale of a multi-brand platform; the expertise in managing global beauty brands at scale; a balanced portfolio to mitigate category fluctuations; asset light efficiency; and the market responsiveness and speed of entrepreneurial indie brands. For more information please visit: https://ir.waldencast.com/.

Obagi Skincare is an industry-leading, advanced skin care line rooted in research and skin biology, refined with a legacy of 30 years' experience. First known as leaders in the treatment of hyperpigmentation with the Obagi Nu-Derm® System, Obagi Skincare products are designed to diminish the appearance of premature aging, photodamage, skin discoloration, acne, and sun damage. More information about Obagi Skincare is available on the brand's website, Facebook, Twitter and Instagram pages.

Founded in 2016, Milk Makeup quickly became a cult-favorite among the beauty community for its values of self-expression and inclusion, captured by its signature Live Your Look, its innovative formulas and clean ingredients. The brand creates vegan, cruelty-free, clean formulas from its Milk Makeup HQ in Downtown NYC. Currently, Milk Makeup offers over 300 products through its US website www.MilkMakeup.com, and its retail partners including Sephora in North America, Europe, the Middle East and Australia and Cult Beauty and Selfridges in the UK.

Cautionary Statement Regarding Forward-Looking Statements

Statements in this release that are not historical, are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements include, but are not limited to, statements regarding Waldencast's outlook and guidance for fiscal 2022 and Fiscal 2023; and any assumptions underlying any of the foregoing. Words such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "plan," "predict," "project," "should," and "will" and variations of such words and similar expressions are intended to identify such forward-looking statements.

These forward-looking statements are not guarantees of future performance, conditions or results, and involve a number of known and unknown risks, uncertainties, assumptions and other important factors, many of which are outside the control of Waldencast, that could cause actual results or outcomes to differ materially from those discussed in the forward-looking statements. Important factors, among others, that may affect actual results or outcomes include, but are not limited to: (i) the inability to recognize the anticipated benefits of the transactions with Obagi and Milk; (ii) changes in general economic conditions, including as a result of the COVID-19 pandemic, (iii) the ability to continue to meet Nasdaq's listing standards; (iv) volatility of Waldencast's securities due to a variety of factors, including Waldencast's, inability to implement its business plans or meet or exceed its financial projections and changes; (v) the ability to implement business plans, forecasts, and other expectations, and identify and realize additional opportunities; and (vi) the ability of Obagi and Milk Makeup to implement their strategic initiatives and continue to innovate their existing products and anticipate and respond to market trends and changes in consumer preferences.

These and other risks, assumptions and uncertainties are more fully described in the Risk Factor section of our definitive proxy statement/final prospectus dated July 7, 2022, and filed by us with the SEC on July 7, 2022 and in our other documents that we file or furnish with the Securities and Exchange Commission (the "SEC"), which you are encouraged to read. To the extent that COVID-19 adversely affects our business and financial results, it may also have the effect of heightening many of such risk factors.

Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those indicated or anticipated by such forward-looking statements. Accordingly, you are cautioned not to rely on these forward-looking statements, which speak only as of the date they are made. Waldencast expressly disclaims any current intention, and assumes no duty, to update publicly any forward-looking statement after the distribution of this release, whether as a result of new information, future events, changes in assumptions or otherwise. Waldencast gives no assurance that the combined company will achieve its expectations.

Reconciliation of Non-GAAP Financial Measures

The financial information and data contained in this release have not been audited in accordance with the standards of the Public Company Accounting Oversight Board and does not conform to Regulation S-X.

This release also includes certain financial measures not presented in accordance with U.S. generally accepted accounting principles ("GAAP") including Pro Forma Adjusted EBITDA and Pro Forma Adjusted EBITDA Margin. Waldencast defines Pro Forma Adjusted EBITDA as net income (loss) before interest income or expense, income tax expense, depreciation and amortization, and further adjusted for the following items: restructuring-related costs, transaction-related costs, losses on extinguishment of debt, gain on PPP loan forgiveness, stock-based compensation costs, inventory fair value adjustments, changes in fair value of warrant liabilities, losses on disposal of assets and foreign currency transaction gains and losses ("Adjusted EBITDA"). Waldencast defines Pro Forma Adjusted EBITDA Margin as combined Pro Forma Adjusted EBITDA divided by net revenue ("Adjusted EBITDA Margin"). These non-GAAP financial measures are not measures of financial performance in accordance with GAAP and may exclude items that are significant in understanding and assessing Waldencast's financial results. Therefore, these measures should not be considered in isolation or as an alternative to net income under GAAP. You should be aware that Waldencast's presentation of these measures may not be comparable to similarly-titled measures used by other companies. Waldencast believes these non-GAAP measures of financial results provide useful information to management and investors regarding certain financial and business trends relating to its financial condition and results of operations. Waldencast believes that the use of these non-GAAP financial measures provides an additional tool for investors to use in evaluating ongoing operating results and trends in comparing its financial measures with other similar companies, many of which present similar non-GAAP financial measures to investors. These non-GAAP financial measures are subject to inherent limitations as they reflect the exercise of judgments by management about which expense and income are excluded or included in determining these non- GAAP financial measures.

This release also includes certain projections of non-GAAP financial measures. Due to the high variability and difficulty in making accurate forecasts and projections of some of the information excluded from these projected measures, together with some of the excluded information not being ascertainable or accessible, Waldencast is unable to quantify certain amounts that would be required to be included in the most directly comparable GAAP financial measures without unreasonable effort. Consequently, no disclosure of estimated comparable GAAP measures is included and no reconciliation of the forward-looking non-GAAP financial measures is included. For the same reasons, Waldencast is unable to address the probable significance of the unavailable information, which could be material to future results.

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Reconciliation of GAAP net income to Pro Forma Adjusted EBITDA
(unaudited)
(in thousands)

	1H22A				1H21A			
(in thousands)	**Obagi**	**Milk**	**Waldencast Acquisition Corp**	**Combined Waldencast**	**Obagi**	**Milk**	**Waldencast Acquisition Corp**	**Combined Waldencast**
Net income/(loss)	(2,915)	4,961	5,791	7,837	12,946	2,020	(2,735)	12,231
Cumulative Pro Forma Adjustments	744	(3,817)	2,812	(261)	(42,856)	(22,923)	(30,457)	(96,236)
China carve-out	9,328	-	-	9,328	990	-	-	990
Pro Forma Net Income	**7,157**	**1,144**	**8,603**	**16,904**	**(28,920)**	**(20,903)**	**(33,192)**	**(83,015)**
Adjusted For:								
Interest expense, net	5,896	21	(1)	5,916	5,537	(25)	-	5,512
Income tax benefit	232	-	-	232	(7,117)	-	-	(7,117)
Depreciation and amortization	8,570	6,032	-	14,602	8,215	5,794	-	14,009
Transaction costs	-	-	-	-	33,080	12,776	30,578	76,434
Loss on extinguishment of debt	-	-	-	-	12,628	-	-	12,628
Gain on PPP loan forgiveness	-	-	-	-	(6,824)	-	-	(6,824)
Stock-based compensation expense	2,179	669	-	2,848	2,179	665	174	3,018
Inventory fair value adjustment	-	-	-	-	4,843	4,632	-	9,475
Change in fair value of warrant liabilities	-	-	(8,602)	(8,602)	-	-	1,046	1,046
Restructuring costs	289	-	-	289	-	-	-	-
Loss on disposal of assets	-	24	-	24	52	27	-	79
Foreign currency transaction loss	26	209	-	235	94	(27)	-	67
Pro Forma Adjusted EBITDA	**24,349**	**8,099**	**-**	**32,448**	**23,767**	**2,939**	**(1,394)**	**25,312**

	2Q22A				2Q21A			
(in thousands)	**Obagi**	**Milk**	**Waldencast Acquisition Corp**	**Combined Waldencast**	**Obagi**	**Milk**	**Waldencast Acquisition Corp**	**Combined Waldencast**
Net income/(loss)	2,179	3,809	2,768	8,756	12,355	918	(1,551)	11,722
Cumulative Pro Forma Adjustments	477	(1,882)	1,477	72	365	(5,074)	855	(3,854)
China carve-out	5,028	-	-	5,028	193	-	-	193
Pro Forma Net Income	**7,684**	**1,927**	**4,245**	**13,856**	**12,913**	**(4,156)**	**(696)**	**8,061**
Adjusted For:								
Interest expense, net	2,947	(4)	(1)	2,942	3,284	(23)	-	3,261
Income tax benefit	306	-	-	306	(2,671)	-	-	(2,671)
Depreciation and amortization	4,308	3,068	-	7,376	4,120	2,901	-	7,021
Transaction costs	-	-	-	-	-	-	-	-
Loss on extinguishment of debt	-	-	-	-	-	-	-	-
Gain on PPP loan forgiveness	-	-	-	-	(6,824)	-	-	(6,824)
Stock-based compensation expense	1,009	254	-	1,263	1,089	335	-	1,424
Inventory fair value adjustment	-	-	-	-	2,421	2,316	-	4,737
Change in fair value of warrant liabilities	-	-	(4,244)	(4,244)	-	-	696	696
Restructuring costs	279	-	-	279	-	-	-	-
Loss on disposal of assets	-	-	-	-	52	27	-	79
Foreign currency transaction loss	(32)	143	-	111	69	(58)	-	11
Pro Forma Adjusted EBITDA	**16,501**	**5,388**	**-**	**21,889**	**14,453**	**1,342**	**-**	**15,795**


waldencast®
Q2 2022 Earnings Presentation
August 2022

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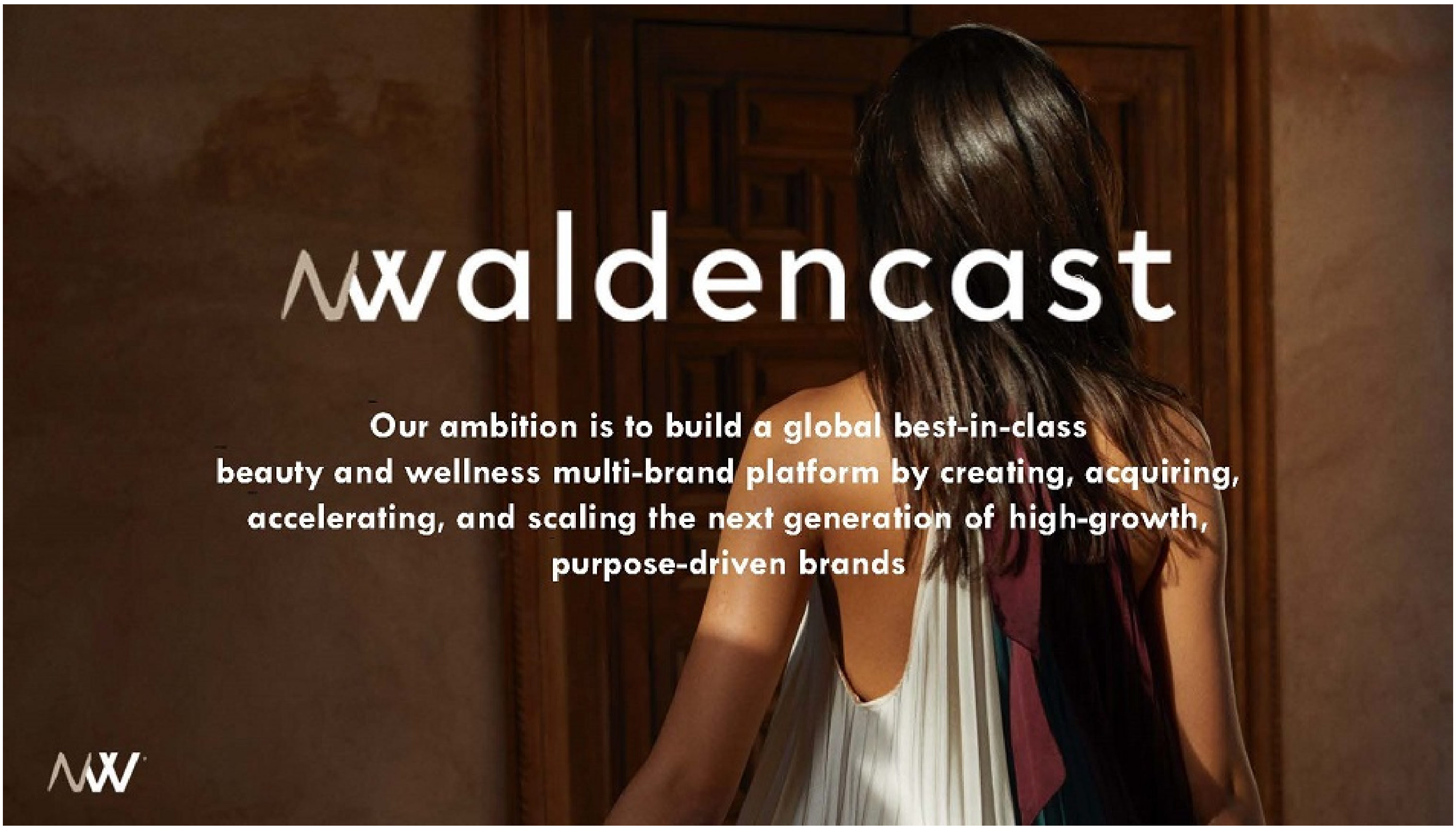

waldencast
Our ambition is to build a global best-in-class
beauty and wellness multi-brand platform by creating, acquiring,
accelerating, and scaling the next generation of high-growth,
purpose-driven brands

Beauty is a proven and resilient, high-growth and highly profitable market

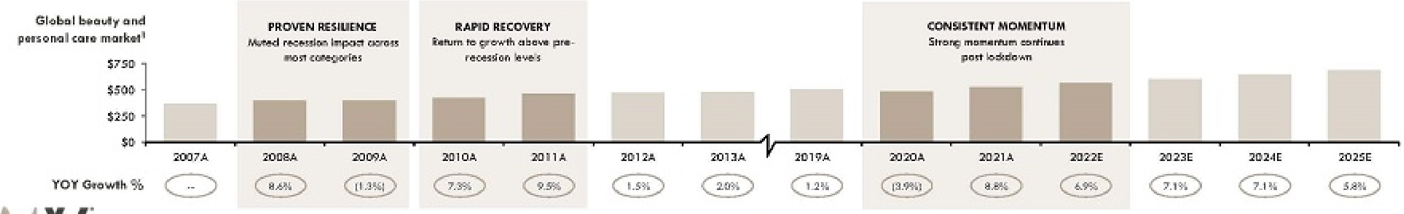
Massive addressable market with attractive category dynamics…

	Global market size[1]	% of BPC market[1]	2021-2023 CAGR[1]
Skincare	$155bn	29%	7.0%
Color cosmetics	$66bn	12%	9.5%
Haircare	$83bn	16%	6.3%
Bath and shower	$48bn	9%	4.6%
Fragrance	$54bn	10%	8.3%

Key drivers of industry growth:

- ✓ Shifting desire for quality over price.
- ✓ Increasing appetite for innovative and higher-performance products, particularly in skin care and make-up.
- ✓ Emerging market expansion.
- ✓ Adaptability to eCommerce channels, particularly by skincare and makeup consumers.

…and proven resiliency through economic cycles

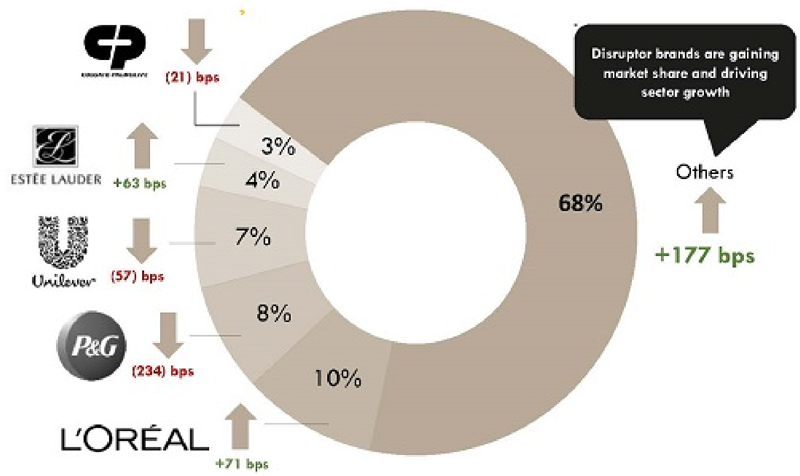


[1] Euromonitor International, Beauty & Personal Care, 2022ed, retail value sales, current prices, 2021 fixed ex rates

Highly fragmented market with growth driven by independent brands

New consumer trends and technology are driving an explosion of new independent brands
Clear opportunity to aggregate emerging brands under a new platform to accelerate growth and scale

'21 market share and change ('15 – '21)[1]



Fragmented industry

Top 5 players represent only 32%

Not a "winner takes all" market

Expandable consumption category

Emerging players driving growth and gaining market share

[1] Euromonitor International, Beauty & Personal Care, 2022ed, retail value sales, current prices, 2021 fixed ex rates
Note: bps indicates market share change from 2015 to 2021

waldencast

- Operational scale of a multi-brand platform built for growth and profitability
- Balanced portfolio in structurally attractive segments of the category
- Expertise in managing and scaling global beauty brands
- Asset light efficiency vs. slow, inflexible, and costly traditional structures
- Market responsiveness and speed of entrepreneurial indie brands
- Strong alignment of management incentives to long-term value creation thru operational and capital allocation excellence

US Premium Beauty showing consistent growth and resilience

YTD BEAUTY	YTD MAKE UP	YTD SKIN CARE
+17.3%	+20.0%	+11.6%
Q2 BEAUTY	Q2 MAKE UP	Q2 SKIN CARE
+15.9%	+18.5%	+12.3%

Women are gradually returning to their previous makeup habits.
About 70% reported going back to previous routines or wearing more makeup than they used to.

Growth of skincare driven by premiumization. Bolstered by rise of "skintellectual" consumers increasingly focused on product potency and efficacy

Source: NPD US June'2022


waldencast
Our starting point in
building this
vision are
OBAGI Skin Care
and
Milk Make up
MILK

OBAGI

The leading physician-dispensed brand

Attractive growth potential and strong anchor capabilities in skin health, complemented by a robust financial and operational backbone

MILK MAKEUP

Leading clean make-up brand with a cult following among Gen-Z consumers known for its cultural relevance and iconic products
Anchored by strong community following with significant growth opportunities

This is only the beginning…

TODAY

OBAGI

Milk MAKEUP

✓ Strong brand identity and equity	✓ High consumer affinity	✓ Differentiated offering and positioning	✓ Growing omnichannel presence	✓ Sustainable long-term growth	✓ Management team with deep operating experience

FUTURE

Optimized multi-brand portfolio spanning:

CATEGORIES

Skin | Color | Hair | Body | Wellness | Fragrance | Capabilities

GEOGRAPHIES

Global | U.S. | Europe | APAC | LATAM

CHANNELS

Professional | Specialty | Online | Food / Drug / Mass

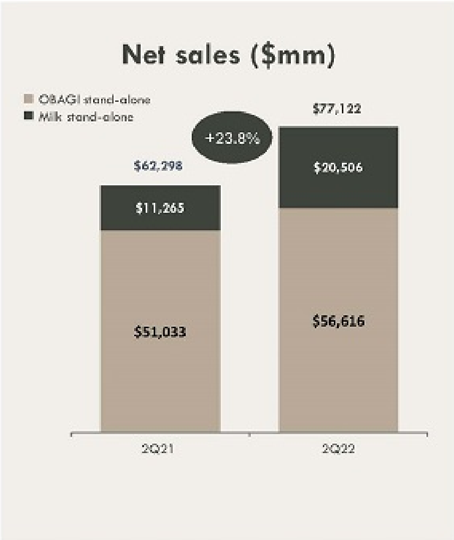
PRICE POINTS

Prestige | Masstige | Mass


First Half 2022 Overview

OBAGI + Milk MAKEUP

2Q22 combined financial profile[1]



Note: OBAGI financials exclusive of China business
[1] Discrepancies in arithmetic are due to rounding;
[2] For a reconciliation of OBAGI, Milk and combined company adjusted EBITDA to net income, the most comparable GAAP measure, see appendix in this presentation.

1H2022 – Waldencast Pro Forma Key Highlights

Net revenue	Gross Margin	Pro Forma Adjusted EBITDA[2]
$138.2M (+24.6%)	73.8% (+294 bp)	23.5% (+28.2%)

OBAGI	MILK
Continued growth on core US physician dispensed business	Growth outperforming US market[1] driven by core and innovation
Strong international growth	Strong gross margin progress
Setting the base for D2C growth	Beginning strong international expansion

1 Source: NPD US June'2022. 2 Reconciliations of Pro Forma Adjusted EBITDA to net income, the most directly comparable GAAP financial measure, are included in this presentation.

Waldencast Group – 1H 2022 Key Financials

		FY21E	FY21A	FY22E	FY21A vs. FY21E	FY22E vs. FY21A	Q122A	Q122A vs. Q121A	2Q22A	2Q22A vs. 2Q21A	1H22A	H122A vs. H121A
Net sales ($mm)	OBAGI[1]	$167,999	$178,681	$190,295	6.4%	6.5%	$43,039	29.1%	$56,616	10.9%	$99,654	18.1%
	Milk	$47,069	$47,076	$66,032	0.0%	40.3%	$18,042	17.8%	$20,506	82.0%	$38,548	45.0%
	Waldencast	$215,068	$225,757	$256,327	5.0%	13.5%	$61,081	25.6%	$77,122	23.8%	$138,202	24.6%
Gross profit ($mm)	OBAGI[1]	$126,726	$136,371	$149,846	7.6%	9.9%	$32,855	20.6%	$44,018	21.8%	$76,873	21.3%
	GM %	*75.4%*	*76.3%*	*78.7%*			*76.3%*		*77.7%*		*77.1%*	
	Milk	$23,230	$25,295	$39,962	8.9%	58.0%	$11,264	36.8%	$13,919	97.4%	$25,183	64.8%
	GM %	*49.4%*	*53.7%*	*60.5%*			*62.4%*		*67.9%*		*65.3%*	
	Waldencast	$149,956	$161,666	$189,808	7.8%	17.4%	$44,119	24.4%	$57,937	34.1%	$102,056	29.7%
	GM %	*69.7%*	*71.6%*	*74.0%*			*72.2%*		*75.1%*		*73.8%*	
Pro Forma Adj. EBITDA ($mm)	OBAGI[1]	$41,525	$43,569	$49,726	4.9%	14.1%	$7,848	-15.8%	$16,501	14.2%	$24,349	2.4%
	Adj EBITDA %	***24.7%***	***24.4%***	***26.1%***			*18.2%*		*29.1%*		*24.4%*	
	Milk	**($2,986)**	**($3,403)**	$4,632	-14.0%	236.1%	$2,711	69.9%	$5,388	301.5%	$8,099	175.7%
	Adj EBITDA %	***-6.3%***	***-7.2%***	*7.0%*			*15.0%*		*26.3%*		*21.0%*	
	Central costs[2]	$0	($1,394)	($4,800)	NA	NA	$0	NA	$0	NA	$0	NA
	Adj EBITDA %	***0.0%***	***-0.6%***	***-1.9%***			*0.0%*		*0.0%*		*0.0%*	
	Waldencast	$38,539	$38,772	$49,558	0.6%	27.8%	$10,559	10.9%	$21,889	38.6%	$32,448	28.2%
	Adj EBITDA %	*17.9%*	*17.2%*	*19.3%*			*17.3%*		*28.4%*		*23.5%*	

Source: Company fillings
[1]OBAGI financials exclude China; [2] Central costs represents Waldencast Acquisition Corp. expenses for 2021 and forecasted expenses for central overhead for 2022. [3]Reconciliations of Pro Forma Adjusted EBITDA to net income, the most directly comparable GAAP financial measure, are included in the appendix of this presentation..

Waldencast fully diluted share count, conservatively including existing allocated but unvested tranches

Waldencast capitalization table positions the company for success

Diluted share count calculation (assuming closing share price on 07/29/22)

	No.	Weighted-avg price	Shares
Basic shares outstanding[1]			107,564,779
Vested employee RSUs[2]			395,471
Pro forma basic shares outstanding			**107,960,250**
Unvested employee RSUs			1,394,827
Vested employee stock rights with exercise prices[3]	4,046,591	$4.43	1,971,802
Unvested employee stock rights with exercise prices[3]	3,898,151	$5.44	1,445,708
Total diluted shares outstanding ("DSO")			**112,772,588**
Warrants[4]		*$11.50*	*29,533,332*

Warrants out-of-the-money given exercise price of $11.50; at illustrative pro forma share price of $12.50, warrants would create ~2.4mm shares of incremental dilution (assuming net share settlement)

Summary of investor lock-up agreements

- 1.8mm (2% of DSO) and 47.5mm shares (42% of DSO) owned by former members of Obagi and Milk locked up until 07/27/23
- 24.5mm (22% of DSO) shares owned by Founders[5] locked up until 07/27/23

2022 Incentive Award Plan

- Diluted share count excludes management equity award pool not yet allocated
- The company has reserved 16,134,716 shares for future issuances of employee incentive awards

Source: Management information; Public filings; [1] Includes 21,104,225 Waldencast plc Class B ordinary shares owned by former members of Milk; [2] Vested RSUs not yet included in basic shares outstanding as not yet converted at discretion of unit holders; [3] Dilution from employee stock rights with exercise prices assumes net share settlement under treasury stock method, based on WALD closing price of $8.64 on July 29, 2022; [4] Includes 11,500,000 Waldencast plc Warrants, 5,333,333 Waldencast plc warrants issued in a private placement in connection with the Sponsor Forward Purchase Agreement, and 5,766,666 Waldencast plc Warrants issued in a private placement in connection with the Third-Party Forward Purchase Agreement with $11.50 strike price, redeemable at $18.00; includes 5,933,333 Waldencast plc Warrants issued in a private placement at the closing of Waldencast Acquisition Corp.'s initial public offering and 1,000,000 Waldencast plc Warrants issued in a private placement in connection with the Working Capital Loan with $11.50 strike price;

Waldencast Pro Forma Net Debt and Ownership

Pro Forma Net Debt at June 30, 2022 and Terms

Total Financing Line Available (Term + Revolver)	$225
Pro Forma Gross Debt	$186
Pro Forma Net Debt	**$142**
Term Loan Terms	SOFR + 3.6%

Ownership at Transaction Close

Obagi Shareholders	26.3%
Milk Shareholders	19.6%
Founders and Sponsor Members	22.8%
Third Party FPA	16.1%
PIPE Investors	11.0%
SPAC Public Shareholders	4.2%
Independent Directors	0.1%


OBAGI®

OBAGI

$99.7M
1H 2022
Net revenue[1]

+18.1%
1H 2022
Net revenue growth

$56.6M
Q2 2022
Net revenue[1]

+10.9%
Q2 2022
Net revenue growth

77.1%
1H 2022
Gross Profit

+201 BPS vs. YA

24.4%
1H 2022
Pro Forma Adj. EBITDA[4]

-374 BPS vs. YA

80+
Patents worldwide[2]

#1
perceived best performing brand among US providers[3]

[1] 2022 OBAGI financials exclusive of China business
[2] OBAGI management information
[3] "2020 Kline Physician-Dispensed Skincare: U.S. Perception & Satisfaction Survey," Kline & Company
[4] Reconciliations of Pro Forma Adjusted EBITDA and Pro Forma Adjusted EBITDA Margin to net income, the most directly comparable GAAP financial measure, are included in the appendix of this presentation.

OBAGI GROWTH STRATEGY

Grow Core Medical

1. Expand US physician penetration
2. Expand breadth and depth of portfolio
3. Expand US and international footprint

+ add more

1. Capture opportunities in the device market
2. Build an accessible consumer proposition

US Physician Dispensed

Expand Physician Penetration

US PHYSICIAN DISPENSED
+8.3%
NET SALES vs YAGO

REVENUE FROM NEW ACCOUNTS
+$1.4m
NET SALES YTD

PENETRATION TODAY
35%-40%
Of US DERMS

Source: H1 2022 vs. H1 2021 Obagi Internal Sales Data

Expand Depth and Breath of Portfolio – **AWARD WINNING HERO**

Professional-C® Serum

1H SALES RANK	ACCOUNT PENETRATION	BEAUTY AWARDS
#2 ACROSS ALL CHANNELS	**+7.9%** PHYSICIAN CHANNEL	**2** NEW AWARD SEALS

Obagi Medical Professional-C Serum 20%

Packed with antioxidants and 20% L-ascorbic acid, the Obagi Medical Professional-C Serum works overtime to minimize fine lines and protect the skin from damage. And due to the featured hyaluronic acid, it won't dry out your skin either.

VOGUE

SKIN

The Best Vitamin C Serums for a More Vibrant Complexion

BY AKILI KING AND KIANA MURDEN

January 11, 2022

Source: LTM end of June 2022 vs. FY2021. Obagi Internal Sales Data. Published awards.

Expand Depth and Breath of Portfolio - **INNOVATION**

ELASTIderm®
Neck and Décolleté

1H SALES RANK

#4 PHYSICIAN CHANNEL

ELASTIDERM FRANCHISE GROWTH

+38%

ELASTIDERM® NECK AND DÉCOLLETÉ CONCENTRATE

94% of study participants showed **visible signs of improvement to horizontal lines and sagging skin** for the neck after 12 weeks*

*Results based on a 2021 12-week blinded study.

Source: Obagi internal sales data. Results based on a 2021 12-week blinded study. Phots are not retouched. Results may vary.

Footprint Expansion

INTERNATIONAL

+45.9%
GROWTH

SOUTH-EAST ASIA

+81%
GROWTH

$9.2BN
#1 BRIGHTENING MARKET GLOBALLY

DRIVERS

- LAUNCH OF OBAGI CLINICAL® ENTRY PRICE POINT RANGE
- TAILORED NPD SCAR CREAM FOR ASIA PACIFIC
- LAUNCH OF D2C STRATEGY + AMAZON STRATEGY

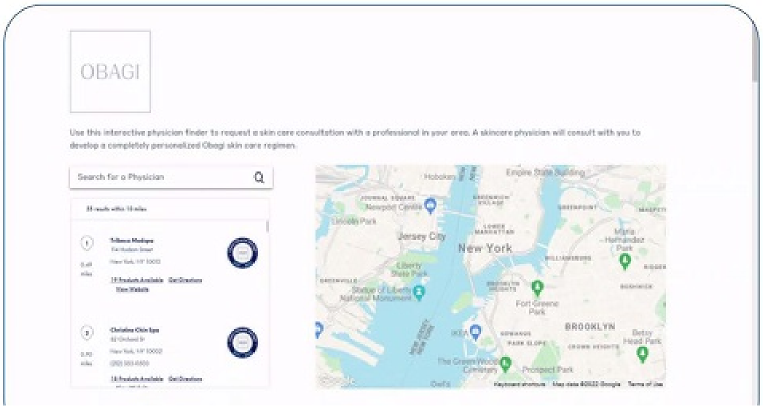
Source: H1 2022 vs. H1 2021 Obagi Internal Sales Data. Euromonitor

Digital Footprint

Unlocking Digital and DTC

2022 Q2 VS Q1

+41%



Source: H1 2022 vs. H1 2021 Obagi Internal Sales Data.


MILK HYDRO
MAKEUP
MILK
MAKEUP
MILK
MAKEUP
Milk
MAKEUP

MILK MAKEUP
KEY FIGURES: 1H 2022

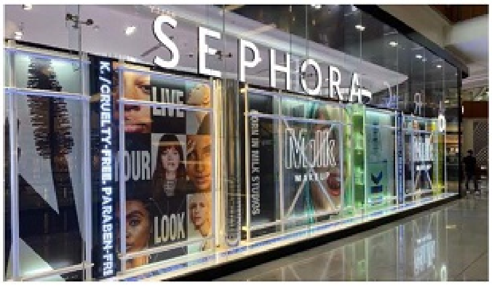
$38.5M 1H 2022 Net revenue[1]	**+45.0%** 1H 2022 Net revenue growth	**$20.5M** Q2 2022 Net revenue[1]	**+82.0%** Q2 2022 Net revenue growth
65.3% 1H 2022 Gross Profit +783 BPS vs. YA	**21.0%** 1H 2022 Pro Forma Adj. EBITDA[4] +996 BPS vs. YA	**+48.1%** YTD Consumption vs Selective Beauty Make-Up market at +20%[2] +46.8% vs 2019	**Top 10** Face Primers Setting Spray Blush Bronzer Mascara at Sephora USA[3]

[1] Milk financials ; [2] NPD USA consumption data 1H 2022, prestige makeup; [3] Sephora management [4] Reconciliations of Pro Forma Adjusted EBITDA and Pro Forma Adjusted EBITDA Margin to net income, the most directly comparable GAAP financial measure, are included in the appendix of this presentation.;

OUR GROWTH ROADMAP

KEY GROWTH LEVERS

GROW AWARENESS + COMMUNITY	DELIVER BREAKTHROUGH INNOVATION	EXPAND + INTERNATIONALIZE DISTRIBUTION



A STRONG GROWTH IN COMMUNITY + CORE PRODUCTS 1H 2022

AWARENESS + COMMUNITY GROWTH

SEPHORA	Instagram	TikTok
	2.1M Followers[4]	582K Followers[4] 196.9M #milkmakeup views
+22% Client Growth 1H22[1]	+196K followers 1H22[2]	+16K followers 1H22[2]
62% of clients are new to brand 1H22[1]	6.5M video views 1H22[2]	6.3M video views 1H22[2]
+5 ranks on sephora.com YTD to #17[1]	18.7M impressions 1H22[2]	+424K likes 1H2022[2]

STRONG CORE PRODUCT GROWTH

	Hydro Grip Primer $18 (mini) / $36 (full size)	Hydro Grip Spray $20 (mini) / $36 (full size)	Lip + Cheek $21	Matte Bronzer $21
Launch date:	2019	2020	2016	2016
% of YTD 2022 revenue:	23.7%[3]	11.8%[3]	9.3%[3]	9.0%[3]
YTD 2022 % growth	+65%[3]	+241%[3]	+90%[3]	+209%[3]

[1] Sephora management report; [2] Milk internal measurement tools as of Friday August 5th at 1:00pm EST. [3] Milk internal sales data. [4] Updated as of Friday August 5th at 1:00pm EST

LOOKING AHEAD: SIGNIFICANT CONSUMER + PLATFORM OPPORTUNITIES

CONSUMER EXPANSION OPPORTUNITIES

Objective: Grow awareness across all consumer segments

GEN-Z	MILLENNIAL	GEN-X	BOOMER
100 Index[1]	84 Index	68 Index	60 Index




[1] Survey conducted June 11-21, 2020 with female participants ages 13-64 who have purchased beauty products for themselves in the past 3 months and do not work in the beauty industry)

NEW PLATFORM OPPORTUNITIES

ROBLOX

twitch

Discord

DELIVERING BREAKTHROUGH INNOVATION

NEW LAUNCHES +29% 1H 2022[1]. STRATEGY TO REINFORCE CORE CATEGORIES MASCARA + PRIMER BEFORE NEW CATEGORY EXPANSION

[1] Milk internal sales data ; [2] Sephora management;

NEW PORE ECLIPSE PRIMER N3 AT SEPHORA, INCREMENTALLY TO HYDRO THE BRAND HISTORICAL #1 PRIMER BY ADRESSING AN UNMET NEED

STRENGTHENING MILK'S POSITION ON THE CORE PRIMER CATEGORY

+65% YTD[1]

#1 Primer Sephora[1]

NEW

Top 3 Primer Sephora[1]

[1] Sephora management; [2] Milk internal sales data

MORE TO COME: SIGNIFICANT CATEGORY EXPANSION OPPORTUNITIES

MILK GROWTH TO DATE DRIVEN BY ANCILLARIES AND LOW BARRIER CATEGORIES. NOW READY FOR FACE EXPANSION, THE BIGGEST MAKE UP CATEGORY.

Active + Whitespace Milk Categories[1]

Established | Emerging | Whitespace[3]

	Mascara $1.9B	Primer[2] $0.3B	Blusher & Bronzer $0.5B	Skin Tints $2.3B
Make-up	Foundation / Concealer $3.8B	Lash & Brow $1.0B	Lip $2.8B	Shadow $0.5B
Category Expansion	Skincare $21.9B	Haircare $14.1B	Bath / Shower $9.5B	Fragrance $8.7B

Milk Makeup has the opportunity to grow through innovation and launches

Milk	330 SKUs[4]

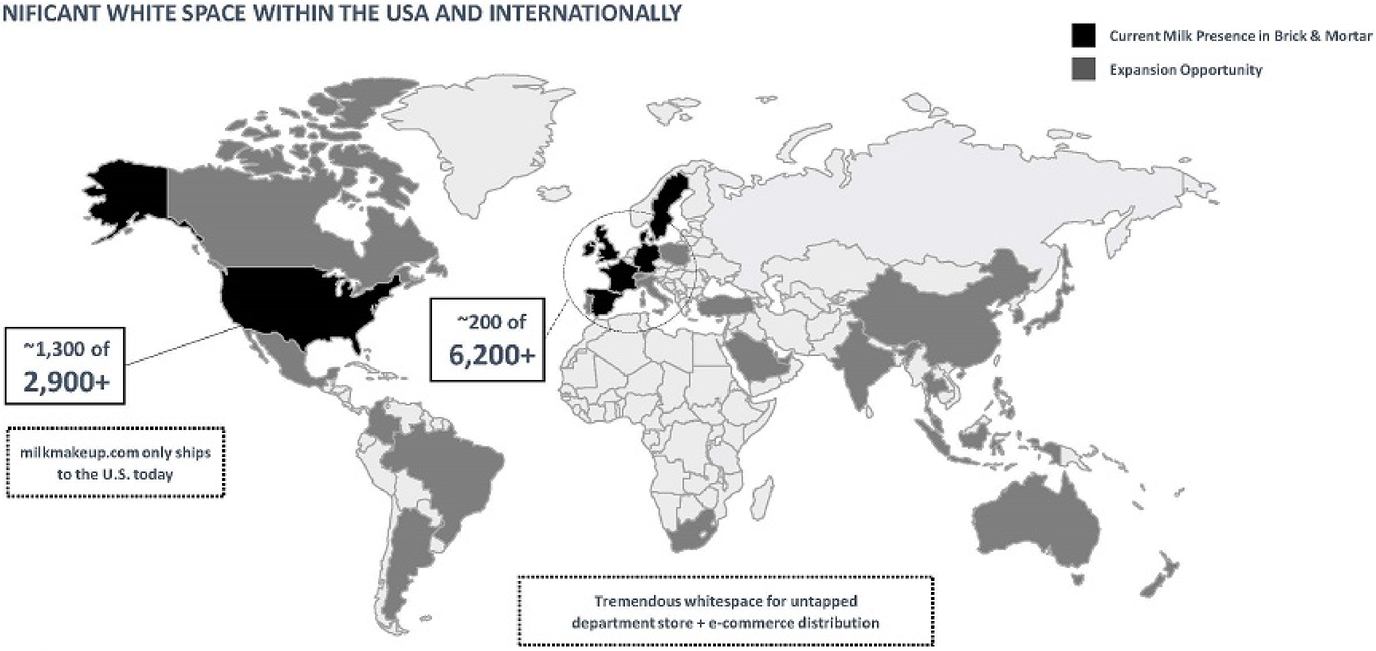
v/s

Other Leading Make-Up Specialist Brands	1,500-7,000 SKUs

[1] Market sizes reflect 2021E data for the USA market; Euromonitor International; Beauty & Personal Care and Color Cosmetics in the US, 2021ed, retail value sales, current prices, 2020 fixed ex rates; [2] Primer refers to EMI's category BB/CC creams and skin tints refers to EMI's premium foundation / concealer; [3] Areas where management believes product offering expansions or introduction of new categories are possible [4] Milk internal sku count

EXPAND + INTERNATIONALIZE DISTRIBUTION

SIGNIFICANT WHITE SPACE WITHIN THE USA AND INTERNATIONALLY



Note: Door counts represent expansion opportunities in brick and mortar stores
Source: Retailer company websites

H2 2022: EXPANDING BRAND PRESENCE DOMESTICALLY AND ABROAD

BOTH BRICK & MORTAR AND PURE PLAYER.

USA EXPANSION	INTERNATIONAL EXPANSION

KOHL'S + SEPHORA

2021 Doors: 200

1H 2022 Doors: 400+

FY 2022 Proj. Doors: 600

amazon

Launch USA: June 2022

#4

MAKE-UP MARKET GLOBALLY

AND BUILDING A STRONG FOUNDATION FOR D2C GROWTH

MilkMakeup.com **+30.8%** 1H 2022 revenue growth[1] Q1 +18.9% Q2 +49.7%	**+17.1%** 1H 2022 Conversion Rate[2]	**+14.9%** 1H 2022 Transactions[2]
+10.6% 1H 2022 Average Order Value[2]	**+16.1%** 1H 2022 Returning Users[2]	**Coming 2H** Live SMS Loyalty New Shade Finder Amazon Pay

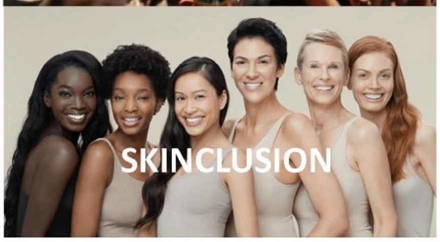
[1] Milk internal sales data [2] Google Analytics

Waldencast commitment to exemplary ESG

More Sustainable shipping & Outer Packaging

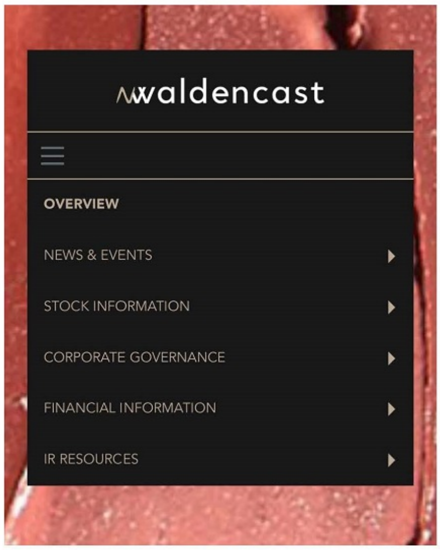
Environmentally friendly packs and refills

How To Recycle Partnerships



MMU social philanthropy focuses on self-expression and equality for underrepresented LGBTAIQ+ and POC groups.

SKINCLUSION is Obagi's commitment to provide effective, science-based skin care for all skin tones. They were the 1st to design clinical research on all six Fitzpatrick skin types.



Public Company Best in Class governance with Best In class board of Directors and Protocols.

waldencast

- Operational scale of a multi-brand platform built for growth and profitability
- Balanced portfolio in structurally attractive segments of the category
- Expertise in managing and scaling global beauty brands
- Asset light efficiency vs. slow, inflexible, and costly traditional structures
- Market responsiveness and speed of entrepreneurial indie brands
- Strong alignment of management incentives to long-term value creation thru operational and capital allocation excellence


Appendix

H1 2022 - Pro Forma Adjusted EBITDA reconciliation

	1H22A				2Q22A				1Q22A			
(in thousands)	Obagi	Milk	Waldencast Acquisition Corp	Combined Waldencast	Obagi	Milk	Waldencast Acquisition Corp	Combined Waldencast	Obagi	Milk	Waldencast Acquisition Corp	Combined Waldencast
Net income/(loss)	(2,915)	4,961	5,791	7,837	2,179	3,809	2,768	8,756	(5,094)	1,152	3,023	(919)
Cumulative Pro Forma Adjustments	744	(3,817)	2,812	(261)	477	(1,882)	1,477	72	267	(1,935)	1,335	(333)
China carve-out	9,328	-	-	9,328	5,028	-	-	5,028	4,300	-	-	4,300
Pro Forma Net Income	**7,157**	**1,144**	**8,603**	**16,904**	**7,684**	**1,927**	**4,245**	**13,856**	**(527)**	**(783)**	**4,358**	**3,048**
Adjusted For:												
Interest expense, net	5,896	21	(1)	5,916	2,947	(4)	(1)	2,942	2,949	25	-	2,974
Income tax benefit	232	-	-	232	306	-	-	306	(74)	-	-	(74)
Depreciation and amortization	8,570	6,032	-	14,602	4,308	3,068	-	7,376	4,262	2,964	-	7,226
Transaction costs	-	-	-	-	-	-	-	-	-	-	-	-
Loss on extinguishment of debt	-	-	-	-	-	-	-	-	-	-	-	-
Gain on PPP loan forgiveness	-	-	-	-	-	-	-	-	-	-	-	-
Stock-based compensation expense	2,179	669	-	2,848	1,009	254	-	1,263	1,170	415	-	1,585
Inventory fair value adjustment	-	-	-	-	-	-	-	-	-	-	-	-
Change in fair value of warrant liabilities	-	-	(8,602)	(8,602)	-	-	(4,244)	(4,244)	-	-	(4,358)	(4,358)
Restructuring costs	289	-	-	289	279	-	-	279	10	-	-	10
Loss on disposal of assets	-	24	-	24	-	-	-	-	-	24	-	24
Foreign currency transaction loss	26	209	-	235	(32)	143	-	111	58	66	-	124
Pro Forma Adjusted EBITDA	**24,349**	**8,099**	**-**	**32,448**	**16,501**	**5,388**	**-**	**21,889**	**7,848**	**2,711**	**-**	**10,559**

FY 2021 - Pro Forma Adjusted EBITDA reconciliation

	FY21A				2Q21A			
(in thousands)	Obagi	Milk	Waldencast Acquisition Corp	Combined Waldencast	Obagi	Milk	Waldencast Acquisition Corp	Combined Waldencast
Net income/(loss)	(70)	(7,847)	(14,428)	(22,345)	12,355	918	(1,551)	11,722
Cumulative Pro Forma Adjustments	(36,665)	(31,081)	(20,681)	(88,427)	365	(5,074)	855	(3,854)
China carve-out	3,437	-	-	3,437	193	-	-	193
Pro Forma Net Income	**(33,298)**	**(38,928)**	**(35,109)**	**(107,335)**	**12,913**	**(4,156)**	**(696)**	**8,061**
Adjusted For:								
Interest expense, net	12,151	18	(1)	12,168	3,284	(23)	-	3,261
Income tax benefit	(6,998)	-	-	(6,998)	(2,671)	-	-	(2,671)
Depreciation and amortization	16,611	11,688	-	28,299	4,120	2,901	-	7,021
Transaction costs	33,080	12,776	30,578	76,434	-	-	-	-
Loss on extinguishment of debt	12,628	-	-	12,628	-	-	-	-
Gain on PPP loan forgiveness	(6,824)	-	-	(6,824)	(6,824)	-	-	(6,824)
Stock-based compensation expense	4,358	1,395	174	5,927	1,089	335	-	1,424
Inventory fair value adjustment	9,687	9,263	-	18,950	2,421	2,316	-	4,737
Change in fair value of warrant liabilities	-	-	2,964	2,964	-	-	696	696
Restructuring costs	1,972	-	-	1,972	-	-	-	-
Loss on disposal of assets	-	166	-	166	52	27	-	79
Foreign currency transaction loss	202	219	-	421	69	(58)	-	11
Pro Forma Adjusted EBITDA	**43,569**	**(3,403)**	**(1,394)**	**38,772**	**14,453**	**1,342**	**-**	**15,795**

EXPLANATORY NOTE

On July 27, 2022, subsequent to the fiscal quarter ended June 30, 2022, the fiscal quarter to which this Quarterly Report relates (this "Quarterly Report") Waldencast Acquisition Corp., now known as Waldencast plc (the "Company"), consummated its initial business combination (the "Obagi and Milk Business Combinations") with (i) Obagi Global Holdings Limited, a Cayman Islands exempted company limited by shares ("Obagi") and Obagi Merger Sub, Inc., a Cayman Islands exempted company limited by shares and an indirect wholly owned subsidiary of the Company ("Merger Sub"), pursuant to an Agreement and Plan of Merger dated November 15, 2021 (the "Obagi Merger Agreement"), by and among the Company, Obagi and Merger Sub; and (ii), Milk Makeup LLC, a Delaware limited liability company ("Milk"), Obagi Holdco 1 Limited, a limited company incorporated under the laws of Jersey ("Holdco Purchaser"), Waldencast Partners LP, a Cayman Islands exempted limited partnership ("Waldencast LP" and together with Holdco Purchaser, the "Purchasers"), certain members of Milk (the "Milk Members"), and Shareholder Representative Services LLC, a Colorado limited liability company, solely in its capacity as representative of the Milk Members (the "Equityholder Representative"), pursuant to an Equity Purchase Agreement dated November 15, 2021 (the "Milk Equity Purchase Agreement" and together with the Obagi Merger Agreement, the "Transaction Agreements"), by and among the Company, Holdco Purchaser, Waldencast LP, Milk, the Milk Members and the Equityholder Representative.

Upon the consummation of the Obagi and Milk Business Combinations: (i) Merger Sub merged with and into Obagi (the "Merger") and the separate corporate existence of Merger Sub ceased, with Obagi surviving as an indirect subsidiary of the Company; (ii) as a result of the Merger, among other things, each outstanding share in the capital of Obagi of par value US $0.50 each per share (the "Obagi Common Stock") as of immediately prior to the effective time of the Merger (the "Obagi Merger Effective Time") (other than in respect of Excluded Shares (as defined in the Obagi Merger Agreement)) were cancelled and converted into the right to receive (a) an amount in cash equal to the quotient obtained by dividing (1) the Obagi Cash Consideration (as defined in the Obagi Merger Agreement) by (2) the number of Aggregate Fully Diluted Company Common Shares (as defined in the Obagi Merger Agreement), and (b) a number of Waldencast plc Class A ordinary shares (defined below) equal to the quotient obtained by dividing (1) the Obagi Stock Consideration (as defined in the Obagi Merger Agreement) by (2) the number of Aggregate Fully Diluted Company Common Shares; (iii) the Purchasers acquired from the Milk Members and the Milk Members sold to the Purchasers all of the issued and outstanding membership units of Milk in exchange for the Milk Cash Consideration (as defined in the Milk Equity Purchase Agreement), and the Milk Equity Consideration (as defined in the Milk Equity Purchase Agreement), which consist of partnership units of Waldencast LP exchangeable for Waldencast plc Class A ordinary shares (as defined below), and the Class B ordinary shares, par value $0.0001 per share, of the Company (following the Domestication) (the "Waldencast plc Non-Economic ordinary shares"); and (iv) as a result of the Milk Transaction, among other things, (a) Holdco Purchaser purchased from the Milk Members a percentage of the outstanding membership units in exchange for (1) the Milk Cash Consideration and (3) a number of Waldencast plc Non-Economic ordinary shares equal to the Milk Equity Consideration and (b) Waldencast LP purchased from the Milk Members the remainder of the outstanding membership units in exchange for the Milk Equity Consideration.

Immediately following consummation of the Obagi and Milk Business Combinations, (i) Holdco Purchaser contributed its equity interest in (a) Milk to Waldencast LP in exchange for limited partnership units in Waldencast LP and (b) Obagi Holdco 2 Limited, a limited company incorporated under the laws of Jersey ("Holdco 2") and an indirect subsidiary of Waldencast plc,in exchange for limited partnership units in Waldencast LP. The combined company is organized in an "Up-C" structure, in which the equity interests of Obagi and Milk are held by Waldencast LP. The Company in turn holds its interests in Obagi and Milk through Waldencast LP and Holdco Purchaser.

Prior to the consummation of the Obagi and Milk Business Combinations, following the approval of the Company's shareholders, and in accordance with the Cayman Act, the Companies (Jersey) Law 1991, as amended (the "Jersey Companies Law") and the Company's amended and restated memorandum and articles of association, the Company effected a deregistration under the Cayman Act and a domestication under Part 18C of the Jersey Companies Law (by means of filing a memorandum and articles of association with the Registrar of Companies in Jersey), pursuant to which the Company's jurisdiction of incorporation was changed from the Cayman Islands to Jersey (the "Domestication"). Upon the effective time of the Domestication, the Company was renamed "Waldencast plc."

In connection with the Domestication, (i) each of the then issued and outstanding Class A ordinary shares, par value $0.0001 per share, of the Company, was converted automatically, on a one-for-one basis, into an ordinary share, par value $0.0001 per share, of the Company (following its Domestication) (the "Waldencast plc Class A ordinary shares"), (ii) each of the then issued and outstanding Class B ordinary shares, par value $0.0001 per share, of the Company, was converted automatically, on a one-for-one basis, into a Waldencast plc Class A ordinary share, (iii) each then issued and outstanding warrant of the Company was converted automatically into a warrant to acquire one Waldencast plc Class A ordinary share ("Waldencast plc Warrant"), pursuant to the Warrant Agreement, dated March 15, 2021, between the Company and Continental Stock Transfer & Trust Company, as warrant agent, and (iv) each then issued and outstanding unit of the Company was cancelled and the holders thereof were entitled to one Waldencast plc Class A ordinary share and one-third of one Waldencast plc Warrant.

As previously disclosed, in connection with the Company's initial public offering (the "Initial Public Offering"); (i) on February 22, 2021, the Company, Waldencast Long-Term Capital LLC, a Cayman Islands limited liability company (the "Sponsor") and Dynamo Master Fund (a member of the Sponsor) entered into a Forward Purchase Agreement (the "Sponsor Forward Purchase Agreement"), which was subsequently amended by the assignment and assumption agreement entered into by and between the Sponsor and Burwell Mountain PTC LLC, as trustee of Burwell Mountain Trust (a member of the Sponsor) (collectively, "Burwell") on December 20, 2021, under which the Sponsor assigned, and Burwell assumed, all of the Sponsor's rights and benefits under the Sponsor Forward Purchase Agreement, pursuant to which, Burwell and Dynamo Master Fund committed to subscribe for and purchase 16,000,000 Waldencast plc Class A ordinary shares and 5,333,333 Waldencast plc Warrants for an aggregate commitment amount of $160, 000,000 million (the "Sponsor FPA Investment"); and (ii) the Company and Beauty Ventures LLC ("Beauty Ventures" and, together with Dynamo Master Fund and Burwell, the "Forward Purchasers") entered into a Forward Purchase Agreement on March 1, 2021 ("the Third-Party Forward Purchase Agreement" and, together with the Sponsor Forward Purchase Agreement, the "Forward Purchase Agreements"), pursuant to which Beauty Ventures committed to subscribe for and purchase up to 17,300,000 Waldencast plc Class A ordinary shares and up to 5,766,666 Waldencast plc Warrants for an aggregate commitment amount of $173,000,000 (together with the Sponsor FPA Investment, the "FPA Investments"). The FPA Investments were consummated substantially concurrently with the consummation of the Obagi and Milk Business Combinations.

As previously disclosed, on November 14, 2021, concurrently with the execution of the Transaction Agreements, the Company entered into certain subscription agreements, executed on or prior to November 14, 2021 (the "Initial Subscription Agreements"), pursuant to which certain investors (the "Initial PIPE Investors") agreed to purchase, in the aggregate, 10,500,000 Waldencast plc Class A ordinary shares at $10.00 per share for an aggregate commitment amount of $105.0 million (the "Initial PIPE Investment"). The Transaction Agreements provided that Waldencast could enter into additional subscription agreements with investors to participate in the purchase of shares of Waldencast plc after November 15, 2021 but prior to July 27. 2022 (the "Closing Date"). On June 14, 2022, Waldencast entered into subsequent subscription agreements (the "June Subsequent Subscription Agreements") with certain investors (collectively, the "June Subsequent PIPE Investors") on the same terms as the Initial PIPE Investors, pursuant to which the June Subsequent PIPE Investors collectively subscribed for 800,000 shares of Waldencast plc Class A ordinary shares for an aggregate purchase price equal to $8.0 million (the "June Subsequent PIPE Investment"). On July 15, 2022, Waldencast entered into subsequent subscription agreements (the "July Subsequent Subscription Agreements" and together with the Initial Subscription Agreements and the June Subsequent Subscription Agreements, the "PIPE Subscription Agreements") with certain investors (collectively, the "July Subsequent PIPE Investors" and, together with the Initial PIPE Investors and the June Subsequent PIPE Investors, the "PIPE Investors") on the same terms as the Initial PIPE Investors and the June Subsequent PIPE Investors. Pursuant to, and on the terms and subject to the conditions of the applicable July Subsequent Subscription Agreement, the July Subsequent PIPE Investors collectively subscribed for 500,000 shares of Waldencast plc Class A ordinary shares for an aggregate purchase price equal to $5,000,000 (the "July Subsequent PIPE Investment" and together with the Initial PIPE Investment and the June Subsequent PIPE Investment, the "PIPE Investment"). The PIPE Investment was consummated substantially concurrently with the consummation of the Obagi and Milk Business Combinations.

Unless stated otherwise, this Quarterly Report contains information about Waldencast Acquisition Corp. before the Obagi and Milk Business Combinations. References to the "Company," "our," "us" or "we" in this Quarterly Report refer to Waldencast Acquisition Corp. before the consummation of the Obagi and Milk Business Combinations and to Waldencast plc after the Obagi and Milk Business Combinations, unless stated otherwise or the context otherwise requires.

For more information regarding the Obagi and Milk Business Combinations, see the Company's Shell Company Report on Form 20-F, as amended, filed on August 3, 2022.

Except as otherwise expressly provided herein, the information in this Quarterly Report does not reflect the consummation of the Obagi and Milk Business Combinations, which, as discussed above, occurred subsequent to the period covered by this Quarterly Report.

WALDENCAST PLC
TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

WALDENCAST PLC
(f/k/a WALDENCAST ACQUISITION CORP.)
CONDENSED BALANCE SHEETS

	June 30, 2022	December 31, 2021
	(Unaudited)	
Assets		
Current assets:		
Cash	$ 99,727	$ 1,503,768
Prepaid expenses – current	282,973	204,821
Total current assets	$ 382,700	$ 1,708,589
Prepaid expenses – non-current portion	—	33,050
Investments held in Trust Account	345,312,792	345,052,047
Total assets	**$ 345,695,492**	**$ 346,793,686**
Liabilities, Class A Ordinary Shares Subject to Possible Redemption and Shareholders' Deficit		
Current liabilities:		
Accounts payable and accrued expenses	$ 1,039,314	$ 272,953
Due to related party	155,043	95,000
Total current liabilities	1,194,357	367,953
Warrant liabilities	12,552,000	21,153,666
Deferred legal fees	13,801,196	8,186,101
Forward purchase agreement liabilities	7,992,000	13,320,000
Working Capital Promissory Notes – related party	2,100,000	1,500,000
Deferred underwriters' discount	12,075,000	12,075,000
Total liabilities	**49,714,553**	**56,602,720**
Commitments & Contingencies (Note 6)		
Class A ordinary shares subject to possible redemption, 34,500,000 shares at redemption value	345,312,792	345,000,000
Shareholders' Deficit:		
Preference shares, $0.0001 par value; 5,000,000 shares authorized; none issued and outstanding	—	—
Class A ordinary shares, $0.0001 par value; 500,000,000 shares authorized; no shares issued and outstanding (excluding 34,500,000 and no shares subject to redemption) at June 30, 2022 and December 31, 2021	—	—
Class B ordinary shares, $0.0001 par value; 50,000,000 shares authorized; 8,625,000 issued and outstanding at June 30, 2022 and December 31, 2021	863	863
Additional paid-in capital	—	—
Accumulated deficit	(49,332,716)	(54,809,897)
Total Shareholders' Deficit	**(49,331,853)**	**(54,809,034)**
Total liabilities, Class A ordinary shares subject to possible redemption and Shareholders' Deficit	**$ 345,695,492**	**$ 346,793,686**

See accompanying notes to the unaudited condensed financial statements.

WALDENCAST PLC
(f/k/a WALDENCAST ACQUISITION CORP.)
CONDENSED STATEMENTS OF OPERATIONS
(UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2022	**2021**	**2022**	**2021**
Formation and operating costs	$ 4,397,526	$ 201,567	$ 8,401,003	$ 319,082
Loss from operations	(4,397,526)	(201,567)	(8,401,003)	(319,082)
Other income (expense):				
Interest income on operating account	126	311	565	442
Interest income on marketable securities held in Trust Account	257,125	13,082	260,745	14,376
Offering expenses related to warrant issuance	—	—	—	(719,201)
Change in fair value of forward purchase agreement liabilities	2,664,000	(666,000)	5,328,000	(666,000)
Change in fair value of warrant liabilities	4,243,333	(697,334)	8,601,666	(1,046,000)
Total other income (expense), net	7,164,584	(1,349,941)	14,190,976	(2,416,383)
Net income (loss)	**$ 2,767,058**	**$ (1,551,508)**	**$ 5,789,973**	**$ (2,735,465)**
Weighted average shares outstanding, Class A ordinary shares subject to possible redemption	34,500,000	34,500,000	34,500,000	19,933,333
Basic and diluted net income (loss) per share, Class A ordinary shares subject to possible redemption	$ 0.06	$ (0.04)	$ 0.13	$ (0.10)
Weighted average shares outstanding, Non-redeemable Class B ordinary shares	8,625,000	8,625,000	8,625,000	7,643,056
Basic and diluted net income (loss) per share, Non-redeemable Class B ordinary shares	$ 0.06	$ (0.04)	$ 0.13	$ (0.10)

See accompanying notes to the unaudited condensed financial statements.

WALDENCAST PLC
(f/k/a WALDENCAST ACQUISITION CORP.)
CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2022 AND JUNE 30, 2021
(UNAUDITED)

	Class B Ordinary Shares		Additional Paid-in Capital	Accumulated Deficit	Total Shareholders' Deficit
	Shares	Amount			
Balance as of December 31, 2021	**8,625,000**	**$ 863**	**$ —**	**$ (54,809,897)**	**$ (54,809,034)**
Net income	—	—	—	3,022,915	3,022,915
Balance as of March 31, 2022	**8,625,000**	**$ 863**	**$ —**	**$ (51,786,982)**	**$ (51,786,119)**
Accretion for Class A Common Stock to redemption value	—	—	—	(312,792)	(312,792)
Net loss	—	—	—	2,767,058	2,767,058
Balance as of June 30, 2022	**8,625,000**	**$ 863**	**$ —**	**$ (49,332,716)**	**$ (49,331,853)**

	Class B Ordinary Shares		Additional Paid-in Capital	Accumulated Deficit	Total Shareholders' Deficit
	Shares	Amount			
Balance as of December 31, 2020	**—**	**$ —**	**$ —**	**$ (10,951)**	**$ (10,951)**
Issuance of Founder Shares	8,625,000	863	24,137	—	25,000
Sale of 5,933,333 Private Placement Warrants on March 18, 2021	—	—	8,900,000	—	8,900,000
Initial value of private warrant liabilities	—	—	(6,230,000)	—	(6,230,000)
Initial value of FPA liabilities	—	—	(11,655,000)	—	(11,655,000)
Accretion of Class A ordinary shares subject to possible redemption	—	—	8,960,863	(40,371,261)	(31,410,398)
Net loss	—	—	—	(1,183,957)	(1,183,957)
Balance as of March 31, 2021	**8,625,000**	**$ 863**	**$ —**	**$ (41,566,169)**	**$ (41,565,306)**
Net loss	—	—	—	(1,551,508)	(1,551,508)
Balance as of June 30, 2021	**8,625,000**	**$ 863**	**$ —**	**$ (43,117,677)**	**$ (43,116,814)**

See accompanying notes to the unaudited condensed financial statements.

WALDENCAST PLC
(f/k/a WALDENCAST ACQUISITION CORP.)
CONDENSED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the Six Months Ended June 30, 2022	For the Six Months Ended June 30, 2021
Cash Flows from Operating Activities:		
Net income (loss)	$ 5,789,973	$ (2,735,465)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Interest earned on Trust Account	(260,745)	(14,376)
Increase in deferred legal costs	5,615,095	—
Change in fair value of warrant liabilities	(8,601,666)	1,046,000
Change in fair value of forward purchase agreement liabilities	(5,328,000)	666,000
Offering costs allocated to warrants	—	719,201
Changes in current assets and current liabilities:		
Prepaid assets	(45,102)	(438,615)
Accounts payable and accrued expenses	766,361	70,746
Due to related party	60,043	35,000
Net cash used in operating activities	(2,004,041)	(651,509)
Cash Flows from Investing Activities:		
Investment of cash into Trust Account	—	(345,000,000)
Net cash used in investing activities	—	(345,000,000)
Cash Flows from Financing Activities:		
Proceeds from issuance of Founder Shares	—	25,000
Proceeds from Initial Public Offering, net of underwriters' discount	—	338,100,000
Proceeds from issuance of Private Placement Warrants	—	8,900,000
Proceeds from Working Capital Promissory Note – related party	600,000	—
Payments of offering costs	—	(521,631)
Net cash provided by financing activities	600,000	346,503,369
Net Change in Cash	**(1,404,041)**	**851,860**
Cash – Beginning	1,503,768	—
Cash – Ending	**$ 99,727**	**$ 851,860**
Supplemental Disclosure of Non-cash Financing Activities:		
Initial value of Class A ordinary shares subject to possible redemption	$ —	$ 298,882,970
Initial value of warrant liabilities	$ —	$ 18,190,000
Initial value of forward purchase agreement liabilities	$ —	$ 11,655,000
Change in value of Class A ordinary shares subject to possible redemption	$ 312,792	$ (1,999,790)
Deferred underwriters' discount payable charged to additional paid-in capital	$ —	$ 12,075,000

See accompanying notes to the unaudited condensed financial statements.

WALDENCAST PLC
(f/k/a WALDENCAST ACQUISITION CORP.)
NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

Note 1 — Organization and Business Operations

Waldencast plc, formerly known as Waldencast Acquisition Corp. (the “Company”), was incorporated as a Cayman Islands exempted company on December 8, 2020. The Company was incorporated for the purpose of effecting a merger, share exchange, asset acquisition, share purchase, reorganization or similar business combination with one or more businesses (a “Business Combination”). As further discussed below, the Company completed the Obagi and Milk Business Combinations (as defined below) on July 27, 2022.

Obagi and Milk Business Combinations

On July 27, 2022, subsequent to the fiscal quarter ended June 30, 2022, the fiscal quarter to which the accompanying financial statements relate, the Company consummated its initial business combination (the “Obagi and Milk Business Combinations”) with (i) Obagi Global Holdings Limited, a Cayman Islands exempted company limited by shares (“Obagi”) and Obagi Merger Sub, Inc., a Cayman Islands exempted company limited by shares and an indirect wholly owned subsidiary of the Company (“Merger Sub”), pursuant to an Agreement and Plan of Merger dated November 15, 2021 (the “Obagi Merger Agreement”), by and among the Company, Obagi and Merger Sub; and (ii), Milk Makeup LLC, a Delaware limited liability company (“Milk”), Obagi Holdco 1 Limited, a limited company incorporated under the laws of Jersey (“Holdco Purchaser”), Waldencast Partners LP, a Cayman Islands exempted limited partnership (“Waldencast LP” and together with Holdco Purchaser, the “Purchasers”), certain members of Milk (the “Milk Members”), and Shareholder Representative Services LLC, a Colorado limited liability company, solely in its capacity as representative of the Milk Members (the “Equityholder Representative”), pursuant to an Equity Purchase Agreement dated November 15, 2021 (the “Milk Equity Purchase Agreement” and together with the Obagi Merger Agreement, the “Transaction Agreements”) by and among the Company, Holdco Purchaser, Waldencast LP, Milk, the Milk Members and the Equityholder Representative.

Upon the consummation of the Obagi and Milk Business Combinations: (i) Merger Sub merged with and into Obagi (the “Merger”) and the separate corporate existence of Merger Sub ceased, with Obagi surviving as an indirect subsidiary of the Company; (ii) as a result of the Merger, among other things, each outstanding share in the capital of Obagi of par value US $0.50 each per share (the “Obagi Common Stock”) as of immediately prior to the effective time of the Merger (the “Obagi Merger Effective Time”) (other than in respect of Excluded Shares (as defined in the Obagi Merger Agreement)) were cancelled and converted into the right to receive (a) an amount in cash equal to the quotient obtained by dividing (1) the Obagi Cash Consideration (as defined in the Obagi Merger Agreement) by (2) the number of Aggregate Fully Diluted Company Common Shares (as defined in the Obagi Merger Agreement), and (b) a number of Waldencast plc Class A ordinary shares (defined below) equal to the quotient obtained by dividing (1) the Obagi Stock Consideration (as defined in the Obagi Merger Agreement) by (2) the number of Aggregate Fully Diluted Company Common Shares; (iii) the Purchasers acquired from the Milk Members and the Milk Members sold to the Purchasers all of the issued and outstanding membership units of Milk in exchange for the Milk Cash Consideration (as defined in the Milk Equity Purchase Agreement), and the Milk Equity Consideration (as defined in the Milk Equity Purchase Agreement), which consist of partnership units of Waldencast LP exchangeable for Waldencast plc Class A ordinary shares (as defined below), and the Class B ordinary shares, par value $0.0001 per share, of the Company (following the Domestication) (the “Waldencast plc Non-Economic ordinary shares”); and (iv) as a result of the Milk Transaction, among other things, (a) Holdco Purchaser purchased from the Milk Members a percentage of the outstanding membership units in exchange for (1) the Milk Cash Consideration and (3) a number of Waldencast plc Non-Economic ordinary shares equal to the Milk Equity Consideration and (b) Waldencast LP purchased from the Milk Members the remainder of the outstanding membership units in exchange for the Milk Equity Consideration.

Immediately following consummation of the Obagi and Milk Business Combinations, (i) Holdco Purchaser contributed its equity interest in (a) Milk to Waldencast LP in exchange for limited partnership units in Waldencast LP and (b) Obagi Holdco 2 Limited, a limited company incorporated under the laws of Jersey (“Holdco 2”) and an indirect subsidiary of Waldencast plc, in exchange for limited partnership units in Waldencast LP. The combined company is organized in an “Up-C” structure, in which the equity interests of Obagi and Milk are held by Waldencast LP. The Company in turn holds its interests in Obagi and Milk through Waldencast LP and Holdco Purchaser.

Prior to the consummation of the Obagi and Milk Business Combinations, following the approval of the Company’s shareholders, and in accordance with the Cayman Act, the Companies (Jersey) Law 1991, as amended (the “Jersey Companies Law”) and the Company’s amended and restated memorandum and articles of association, the Company effected a deregistration under the Cayman Act and a domestication under Part 18C of the Jersey Companies Law (by means of filing a memorandum and articles of association with the Registrar of Companies in Jersey), pursuant to which the Company’s jurisdiction of incorporation was changed from the Cayman Islands to Jersey (the “Domestication”). Upon the effective time of the Domestication, the Company was renamed “Waldencast plc.”

In connection with the Domestication, (i) each of the then issued and outstanding Class A ordinary shares, par value $0.0001 per share, of the Company, was converted automatically, on a one-for-one basis, into an ordinary share, par value $0.0001 per share, of the Company (following its Domestication) (the "Waldencast plc Class A ordinary shares"), (ii) each of the then issued and outstanding Class B ordinary shares, par value $0.0001 per share, of the Company, was converted automatically, on a one-for-one basis, into a Waldencast plc Class A ordinary share, (iii) each then issued and outstanding warrant of the Company was converted automatically into a warrant to acquire one Waldencast plc Class A ordinary share ("Waldencast plc Warrant"), pursuant to the Warrant Agreement, dated March 15, 2021, between the Company and Continental Stock Transfer & Trust Company, as warrant agent, and (iv) each then issued and outstanding unit of the Company was cancelled and the holders thereof were entitled to one Waldencast plc Class A ordinary share and one-third of one Waldencast plc Warrant.

As previously disclosed, in connection with the Company's initial public offering (the "Initial Public Offering"); (i) on February 22, 2021, the Company, Waldencast Long-Term Capital LLC, a Cayman Islands limited liability company (the "Sponsor") and Dynamo Master Fund (a member of the Sponsor) entered into a Forward Purchase Agreement (the "Sponsor Forward Purchase Agreement"), which was subsequently amended by the assignment and assumption agreement entered into by and between the Sponsor and Burwell Mountain PTC LLC, as trustee of Burwell Mountain Trust (a member of the Sponsor) (collectively, "Burwell") on December 20, 2021, under which the Sponsor assigned, and Burwell assumed, all of the Sponsor's rights and benefits under the Sponsor Forward Purchase Agreement, pursuant to which, Burwell and Dynamo Master Fund committed to subscribe for and purchase 16,000,000 Waldencast plc Class A ordinary shares and 5,333,333 Waldencast plc Warrants for an aggregate commitment amount of $160, 000,000 million (the "Sponsor FPA Investment"); and (ii) the Company and Beauty Ventures LLC ("Beauty Ventures" and, together with Dynamo Master Fund and Burwell, the "Forward Purchasers") entered into a Forward Purchase Agreement on March 1, 2021 ("the Third-Party Forward Purchase Agreement" and, together with the Sponsor Forward Purchase Agreement, the "Forward Purchase Agreements"), pursuant to which Beauty Ventures committed to subscribe for and purchase up to 17,300,000 Waldencast plc Class A ordinary shares and up to 5,766,666 Waldencast plc Warrants for an aggregate commitment amount of $173,000,000 (together with the Sponsor FPA Investment, the "FPA Investments"). The FPA Investments were consummated substantially concurrently with the consummation of the Obagi and Milk Business Combinations.

As previously disclosed, on November 14, 2021, concurrently with the execution of the Transaction Agreements, the Company entered into certain subscription agreements, executed on or prior to November 14, 2021 (the "Initial Subscription Agreements"), pursuant to which certain investors (the "Initial PIPE Investors") agreed to purchase, in the aggregate, 10,500,000 Waldencast plc Class A ordinary shares at $10.00 per share for an aggregate commitment amount of $105.0 million (the "Initial PIPE Investment"). The Transaction Agreements provided that Waldencast could enter into additional subscription agreements with investors to participate in the purchase of shares of Waldencast plc after November 15, 2021 but prior to July 27, 2022 (the "Closing Date"). On June 14, 2022, Waldencast entered into subsequent subscription agreements (the "June Subsequent Subscription Agreements") with certain investors (collectively, the "June Subsequent PIPE Investors") on the same terms as the Initial PIPE Investors, pursuant to which the June Subsequent PIPE Investors collectively subscribed for 800,000 shares of Waldencast plc Class A ordinary shares for an aggregate purchase price equal to $8.0 million (the "June Subsequent PIPE Investment"). On July 15, 2022, Waldencast entered into subsequent subscription agreements (the "July Subsequent Subscription Agreements" and together with the Initial Subscription Agreements and the June Subsequent Subscription Agreements, the "PIPE Subscription Agreements") with certain investors (collectively, the "July Subsequent PIPE Investors" and, together with the Initial PIPE Investors and the June Subsequent PIPE Investors, the "PIPE Investors") on the same terms as the Initial PIPE Investors and the June Subsequent PIPE Investors. Pursuant to, and on the terms and subject to the conditions of the applicable July Subsequent Subscription Agreement, the July Subsequent PIPE Investors collectively subscribed for 500,000 shares of Waldencast plc Class A ordinary shares for an aggregate purchase price equal to $5,000,000 (the "July Subsequent PIPE Investment" and together with the Initial PIPE Investment and the June Subsequent PIPE Investment, the "PIPE Investment"). The PIPE Investment was consummated substantially concurrently with the consummation of the Obagi and Milk Business Combinations.

Business Prior to the Obagi and Milk Business Combinations

All activity for the period from December 8, 2020 (inception) through June 30, 2021 relates to the Company's formation and the Initial Public Offering, which is described below, and, subsequent to the Initial Public Offering, the search for a target company for a Business Combination, and the negotiation and execution of the Obagi and Milk Business Combinations. The Company has selected December 31 as its fiscal year end. The Company did not generate any operating revenues until after the completion of its initial Business Combination. Following the consummation of the Initial Public Offering, the Company generated non-operating income in the form of interest income on cash and cash equivalents from the net proceeds derived from the Initial Public Offering and the sale of the Private Placement Warrants (defined below).

Financing

On March 18, 2021, the Company consummated the Initial Public Offering of 34,500,000 units (the "Units" and, with respect to the Class A ordinary shares included in the Units offered, the "Public Shares"), at $10.00 per Unit, generating gross proceeds of $345,000,000, which is discussed in Note 3.

Simultaneously with the closing of the Initial Public Offering, the Company completed the private sale of 5,933,333 warrants (the "Private Placement Warrants"), at a price of $1.50 per Private Placement Warrant, which is discussed in Note 4.

Transaction costs amounted to $20,169,599, consisting of $6,900,000 of underwriting fee, $12,075,000 of deferred underwriting fee and $1,194,599 of other offering costs. Of the total transaction costs, $719,201 was reclassified as non-operating expense in the unaudited condensed statements of operations with the rest of the offering costs charged to shareholders' deficit. The transaction costs were allocated based on a relative fair value basis, compared to the total offering proceeds, between the fair value of the public warrant liabilities and the Class A ordinary shares.

Trust Account

Following the closing of the Initial Public Offering on March 18, 2021, an amount of $345,000,000 from the net proceeds of the sale of the Units in the Initial Public Offering and the sale of the Private Placement Warrants was placed in a trust account ("Trust Account"), which is invested in U.S. government securities, within the meaning set forth in Section 2(a)(16) of the Investment Company Act, with a maturity of 185 days or less or in any open-ended investment company that holds itself out as a money market fund meeting the conditions of Rule 2a-7 of the Investment Company Act, as determined by the Company. Except with respect to interest earned on the funds held in the Trust Account that may be released to the Company to pay its taxes, if any, the funds held in the Trust Account will not be released from the Trust Account until the earliest to occur of: (1) the completion of the Company's initial Business Combination; (2) the redemption of any Public Shares properly submitted in connection with a shareholder vote to amend the Company's amended and restated memorandum and articles of association (A) to modify the substance or timing of the Company's obligation to allow redemption in connection with its initial Business Combination or to redeem 100% of its Public Shares if the Company does not complete its initial Business Combination within 24 months from the closing of the Initial Public Offering or (B) with respect to any other provision relating to shareholders' rights or pre-initial Business Combination activity; and (3) the redemption of the Company's Public Shares if the Company has not completed its initial Business Combination within 24 months from the closing of the Initial Public Offering, subject to applicable law. The proceeds deposited in the Trust Account could become subject to the claims of the Company's creditors, if any, which could have priority over the claims of the Company's public shareholders.

Initial Business Combination

The Company's management had broad discretion with respect to the specific application of the net proceeds of the Initial Public Offering, although substantially all of the net proceeds were intended to be generally applied toward consummating a Business Combination.

The Company's Business Combination was required to be with one or more target businesses that together had a fair market value equal to at least 80% of the balance in the Trust Account (net of taxes payable) at the time of the signing of an agreement to enter into a Business Combination. However, the Company would only complete a Business Combination if the post-Business Combination company owned or acquired 50% or more of the outstanding voting securities of the target or otherwise acquired a controlling interest in the target sufficient for it not to be required to register as an investment company under the Investment Company Act. There was no assurance that the Company would be able to successfully effect a Business Combination.

The Company was required to provide its public shareholders with the opportunity to redeem all or a portion of their Public Shares upon the completion of the initial Business Combination either (i) in connection with a shareholder meeting called to approve the initial Business Combination or (ii) by means of a tender offer. The decision as to whether the Company would seek shareholder approval of a proposed initial Business Combination or conduct a tender offer was made by the Company, solely in its discretion. The shareholders were entitled to redeem their shares for a pro rata portion of the amount then on deposit in the Trust Account (initially $10.00 per share, plus any pro rata interest earned on the funds held in the Trust Account and not previously released to the Company to pay its tax obligations).

The Class A ordinary shares subject to redemption were recorded at redemption value and classified as temporary equity upon the completion of the Initial Public Offering, in accordance with Accounting Standards Codification ("ASC") Topic 480, "Distinguishing Liabilities from Equity." The Company would only proceed with a Business Combination if the Company has net tangible assets of at least $5,000,001 either immediately prior to or upon consummation of a Business Combination and, if the Company sought shareholder approval, a majority of the issued and outstanding shares voted were voted in favor of the Business Combination.

The Company had 24 months from the closing of the Initial Public Offering (with the ability to extend with shareholder approval) to consummate a Business Combination (the "Combination Period"). However, if the Company was unable to complete a Business Combination within the Combination Period, the Company would redeem 100% of the outstanding Public Shares for a pro rata portion of the funds held in the Trust Account, equal to the aggregate amount then on deposit in the Trust Account including interest earned on the funds held in the Trust Account and not previously released to the Company, divided by the number of then outstanding Public Shares, subject to applicable law and as further described in the registration statement, and then would seek to dissolve and liquidate.

The Company's Sponsor, officers and directors agreed to (i) waive their redemption rights with respect to their Founder Shares, private placement shares and Public Shares in connection with the completion of the initial Business Combination, (ii) waive their redemption rights with respect to their Founder Shares and Public Shares in connection with a shareholder vote to approve an amendment to the Company's amended and restated memorandum and articles of association, and (iii) waive their rights to liquidating distributions from the Trust Account with respect to their Founder Shares and private placement shares if the Company failed to complete the initial Business Combination within the Combination Period.

The Company's Sponsor agreed that it would be liable to the Company if and to the extent any claims by a third party for services rendered or products sold to the Company, or a prospective target business with which the Company entered into a written letter of intent, confidentiality or similar agreement or Business Combination agreement, reduced the amount of funds in the Trust Account to below the lesser of (i) $10.00 per Public Share and (ii) the actual amount per Public Share held in the Trust Account as of the date of the liquidation of the Trust Account, if less than $10.00 per share due to reductions in the value of the trust assets, less taxes payable, provided that such liability would not apply to any claims by a third party or prospective target business who executed a waiver of any and all rights to the monies held in the Trust Account (whether or not such waiver was enforceable) nor would it apply to any claims under the Company's indemnity of the underwriters of the Initial Public Offering against certain liabilities, including liabilities under the Securities Act. However, the Company has not asked its Sponsor to reserve for such indemnification obligations, nor had the Company independently verified whether its Sponsor had sufficient funds to satisfy its indemnity obligations and believed that the Company's Sponsor's only assets were securities of the Company. Therefore, the Company could not assure that its Sponsor would be able to satisfy those obligations.

On February 22, 2021, the Sponsor and Dynamo Master Fund (a member of the Sponsor) entered into a forward purchase agreement (the "Sponsor Forward Purchase Agreement"), with the Company that provided for the purchase of up to an aggregate of 13,000,000 units, with each unit consisting of one Class A ordinary share and one-third of one redeemable warrant, for an aggregate purchase price of $130,000,000, or $10.00 per unit, in a private placement to close substantially concurrently with the closing of the Company's initial Business Combination (the "Forward Purchase Securities"). The Sponsor Forward Purchase Agreement provided that the applicable forward purchase investors may, in their sole discretion, increase the amount of capital committed under the Sponsor Forward Purchase Agreement up to an amount not to exceed $160,000,000. On October 20, 2021, the Company received an allocation notice from the Sponsor and Dynamo Master Fund committing to purchase an aggregate of 16,000,000 units, with each unit consisting of one Class A ordinary share and one-third of one redeemable warrant, for an aggregate purchase price of $160,000,000, or $10.00 per unit. On December 20, 2021, the Sponsor and Burwell Mountain Trust (a member of the Sponsor) entered into an assignment and assumption agreement (the "Assignment and Assumption Agreement"). The Assignment and Assumption Agreement provides for the assignment by the Sponsor and assumption by Burwell Mountain Trust of all of the Sponsor's rights and benefits as purchaser under the Sponsor Forward Purchase Agreement, including the right to purchase the Forward Purchase Securities subscribed for by the Sponsor.

On March 1, 2021, the Company and Beauty Ventures LLC ("Beauty Ventures") entered into a forward purchase agreement (the "Beauty Forward Purchase Agreement," and together with the Sponsor Forward Purchase Agreement, the "Forward Purchase Agreements" or "FPA"), that provided for the purchase of an aggregate of up to 17,300,000 units, with each unit consisting of one Class A ordinary share and one-third of one redeemable warrant, for an aggregate purchase price of up to $173,000,000 (subject to the below), or $10.00 per unit, in a private placement to close substantially concurrently with the closing of the initial Business Combination. To the extent that the amounts available from the Trust Account and other financing (including the Sponsor Forward Purchase Agreement) were sufficient for the cash requirements in connection with our initial Business Combination, the Sponsor could, in its sole discretion, as the managing member of Beauty Ventures, reduce its purchase obligation, up to the full amount, under the Beauty Forward Purchase Agreement.

Liquidity and Capital Resources

As of June 30, 2022, the Company had cash in an operating bank account, outside of the Trust Account, with $99,727 available for working capital needs. As of June 30, 2022, the Company had a working capital deficit of $811,657. All remaining funds held in the Trust Account are generally unavailable for the Company's use, prior to an initial Business Combination, and are restricted for use either in a Business Combination, to redeem Class A ordinary shares or with respect to the interest earned, to be withdrawn for the payment of taxes. As of June 30, 2022, none of the amount in the Trust Account was withdrawn as described above.

On October 28, 2021, the Company drew down the entire balance of the Working Capital Promissory Note (as defined below) initially available, and the Sponsor deposited $1,500,000 in the Company's operating bank account. In addition, the Company issued working capital promissory notes to the Sponsor on (i) May 20, 2022, for up to $600,000 ("May Working Capital Note") and (ii) July 15, 2022, for up to $450,000 ("July Working Capital Note" and, together with May Working Capital Note, the "Non-Convertible Working Capital Notes"), in each case, for working capital purposes. As of July 27, 2022, the Company had a total aggregate principal amount of $1,050,000 in outstanding borrowings under the Non-Convertible Working Capital Notes. In connection with the closing of Business Combination, the aggregate outstanding balance under the Non-Convertible Working Capital Notes of $1,050,000 was repaid to the Sponsor. Borrowings under the Non-Convertible Working Capital Notes are no longer available.

As of July 27, 2022, substantial doubt about Company's ability to continue as going concern was alleviated due to closing of business combination.

Risks and Uncertainties

Management is continuing to evaluate the impact of the COVID-19 pandemic and the Russia-Ukraine war and has concluded that while it is reasonably possible that the virus and the war could have a negative effect on the Company's financial position and/or results of its operations and/or search for a target company, the specific impact is not readily determinable as of the date of these unaudited condensed financial statements. The unaudited condensed financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Additionally, in February 2022, the Russian Federation and Belarus commenced a military action with the country of Ukraine. As a result of this action, various nations, including the United States, have instituted economic sanctions against the Russian Federation and Belarus. Further, the impact of this action and related sanctions on the world economy are not determinable as of the date of these financial statements and the specific impact on the Company's financial condition, results of operations, and cash flows is also not determinable as of the date of these financial statements.

Note 2 — Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed financial statements of the Company are presented in U.S. dollars in conformity with accounting principles generally accepted in the United States of America ("GAAP") and pursuant to the rules and regulations of the SEC. In the opinion of management, all adjustments (consisting of normal recurring adjustments) have been made that are necessary to present fairly the financial position, and the results of its operations and its cash flows. The interim results for the three and six months ended June 30, 2022 are not necessarily indicative of the results to be expected for the year ending December 31, 2022 or for any future interim periods. The accompanying unaudited condensed financial statements should be read in conjunction with the Company's audited financial statements and notes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2021 (the "2021 Annual Report") filed by the Company with the Securities and Exchange Commission ("SEC") on March 31, 2022.

Emerging Growth Company Status

The Company is an "emerging growth company," as defined in Section 2(a) of the Securities Act of 1933, as amended (the "Securities Act"), as modified by the Jumpstart our Business Startups Act of 2012, (the "JOBS Act"), and it may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in its periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved.

Further, Section 102(b)(1) of the JOBS Act exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies (that is, those that have not had a Securities Act registration statement declared effective or do not have a class of securities registered under the Exchange Act) are required to comply with the new or revised financial accounting standards. The JOBS Act provides that a company can elect to opt out of the extended transition period and comply with the requirements that apply to non-emerging growth companies but any such election to opt out is irrevocable. The Company has elected not to opt out of such extended transition period which means that when a standard is issued or revised and it has different application dates for public or private companies, the Company, as an emerging growth company, can adopt the new or revised standard at the time private companies adopt the new or revised standard. This may make comparison of the Company's unaudited condensed financial statements with another public company which is neither an emerging growth company nor an emerging growth company which has opted out of using the extended transition period difficult or impossible because of the potential differences in accounting standards used.

Use of Estimates

The preparation of unaudited condensed financial statements in conformity with 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 unaudited condensed financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all short-term investments with an original maturity of three months or less when purchased to be cash equivalents. The Company had cash of $99,727 and $1,503,768 in its operating bank account, outside of the Trust Account as of June 30, 2022 and December 31, 2021, respectively. The Company did not have any cash equivalents as of June 30, 2022 and December 31, 2021.

Investment Held in Trust Account

At June 30, 2022 and December 31, 2021, the Trust Account had $345,312,792 and $345,052,047 of marketable securities, respectively. The Company accounts for its marketable securities, which are carried at fair value with changes in fair value included in the unaudited condensed statements of operations. As of June 30, 2022, the Company has not withdrawn any of the interest income from the Trust Account to pay its tax obligations.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of a cash account in a financial institution, which, at times, may exceed the Federal Depository Insurance Coverage of $250,000. At June 30, 2022 and December 31, 2021, the Company has not experienced losses on this account.

Class A Ordinary Shares Subject to Possible Redemption

The Company accounts for its Class A ordinary shares subject to possible redemption in accordance with the guidance in ASC Topic 480, "Distinguishing Liabilities from Equity." Class A ordinary shares subject to mandatory redemption (if any) are classified as a liability instrument and are measured at fair value. Conditionally redeemable ordinary shares (including ordinary shares that feature redemption rights that are either within the control of the holder or subject to redemption upon the occurrence of uncertain events not solely within the Company's control) are classified as temporary equity. At all other times, ordinary shares are classified as a part of shareholders' deficit. The Company's Class A ordinary shares feature certain redemption rights that are considered to be outside of the Company's control and subject to the occurrence of uncertain future events. Accordingly, all shares of Class A ordinary shares subject to possible redemption are presented at redemption value as temporary equity, outside of the shareholders' deficit section of the Company's condensed balance sheets.

All of the Class A ordinary shares sold as part of the Units in the Initial Public Offering contain a redemption feature which allows for the redemption of such Public Shares in connection with the Company's liquidation, if there is a shareholder vote or tender offer in connection with the Business Combination and in connection with certain amendments to the Company's amended and restated memorandum and articles of association (except that in no event may we redeem our Public Shares in an amount that would cause our net tangible assets to be less than $5,000,001 following such redemptions pursuant to our amended and restated memorandum and articles of association). In accordance with the SEC and its staff guidance on redeemable equity instruments, which has been codified in ASC 480-10-S99, redemption provisions not solely within the control of the Company require ordinary shares subject to redemption to be classified outside of permanent equity.

As of June 30, 2022 and December 31, 2021, the Class A ordinary shares reflected on the condensed balance sheets are reconciled in the following table:

Gross proceeds	$ 345,000,000
Less:	
Proceeds allocated to public warrants	(11,960,000)
Issuance costs related to Class A ordinary shares	(19,450,398)
Plus:	
Accretion of carrying value to redemption value	31,410,398
Contingently redeemable Class A ordinary shares, December 31, 2021	**$ 345,000,000**
Plus:	
Accretion of carrying value to redemption value	312,792
Contingently redeemable Class A ordinary shares, June 30, 2022	**$ 345,312,792**

Net Income (Loss) per Ordinary Share

The Company applies the two-class method in calculating earnings per share. The contractual formula utilized to calculate the redemption amount approximates fair value. The Class A feature to redeem at fair value means that there is effectively only one class of stock. Changes in fair value are not considered a dividend for the purposes of the numerator in the earnings per share calculation. Net income (loss) per ordinary share is computed by dividing the pro rata net income (loss) between the Class A ordinary shares and the Class B ordinary shares by the weighted average number of ordinary shares outstanding for each of the periods. The calculation of diluted income (loss) per ordinary share does not consider the effect of the warrants and rights issued in connection with the Initial Public Offering since the exercise of the warrants and rights are contingent upon the occurrence of future events and the inclusion of such warrants would be anti-dilutive. The warrants and Forward Purchase Agreements warrants are exercisable for 61,833,333 shares of Class A ordinary shares in the aggregate. Accretion of the carrying value of Class A ordinary shares to redemption value is excluded from net income (loss) per ordinary share because the redemption value approximates fair value.

Reconciliation of Net Income (Loss) per Ordinary Share

The Company's net income (loss) is adjusted for the portion of net income (loss) that is allocable to each class of ordinary shares. The allocable net income (loss) is calculated by multiplying net income (loss) by the ratio of weighted average number of shares outstanding attributable to Class A ordinary shares and Class B ordinary shares to the total weighted average number of shares outstanding for the period. Accretion of the carrying value of Class A ordinary shares to redemption value is excluded from net income (loss) per ordinary share because the redemption value approximates fair value.

Accordingly, basic and diluted income (loss) per ordinary share is calculated as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2022	2021	2022	2021
Ordinary shares subject to possible redemption				
Numerator:				
Net income (loss) allocable to Class A ordinary shares subject to possible redemption	$ 2,213,646	$ (1,241,206)	$ 4,631,978	$ (1,977,305)
Denominator:				
Weighted Average Redeemable Class A ordinary shares, Basic and Diluted	34,500,000	34,500,000	34,500,000	19,933,333
Basic and Diluted net income (loss) per share, Redeemable Class A ordinary shares	$ 0.06	$ (0.04)	$ 0.13	$ (0.10)
Non-Redeemable Ordinary shares				
Numerator:				
Net income (loss) allocable to Class B ordinary shares not subject to redemption	$ 553,412	$ (310,302)	$ 1,157,995	$ (758,160)
Denominator:				
Weighted Average Non-Redeemable Ordinary shares, Basic and Diluted	8,625,000	8,625,000	8,625,000	7,643,056
Basic and diluted net income (loss) per share, ordinary shares	$ 0.06	$ (0.04)	$ 0.13	$ (0.10)

Offering Costs

The Company complies with the requirements of the Financial Accounting Standards Board ("FASB") ASC 340-10-S99-1 and SEC Staff Accounting Bulletin ("SAB") Topic 5A—"Expenses of Offering." Offering costs consist principally of professional and registration fees incurred through the balance sheet date that are related to the Initial Public Offering and that were charged to shareholders' deficit upon the completion of the Initial Public Offering. Accordingly, as of the date of the IPO, offering costs totaling $20,169,599 have been charged to temporary equity (consisting of $6,900,000 of underwriting fee, $12,075,000 of deferred underwriting fee and $1,194,599 of other offering costs). Of the total transaction costs, $719,201 was reclassified as a non-operating expense in the unaudited condensed statements of operations with the rest of the offering costs charged to temporary equity. The transaction costs were allocated based on a relative fair value basis, compared to the total offering proceeds, between the fair value of the public warrant liabilities and the Class A ordinary shares.

Fair Value of Financial Instruments

The fair value of the Company's assets and liabilities, which qualify as financial instruments under the FASB ASC 820, "Fair Value Measurements and Disclosures," approximates the carrying amounts represented in the balance sheets.

Derivative Warrant Liabilities

The Company evaluates its financial instruments, including issued share purchase warrants, to determine if such instruments are derivatives or contain features that qualify as embedded derivatives, pursuant to ASC 480 and ASC 815-15. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is re-assessed at the end of each reporting period. The Company has determined its public warrants, private warrants and forward purchase agreements are derivative instruments.

The Company accounts for its 17,433,333 ordinary share warrants issued in connection with its Initial Public Offering (11,500,000) and Private Placement Warrants (5,933,333) as derivative warrant liabilities in accordance with ASC 815-40. Accordingly, the Company recognizes the warrant instruments as liabilities at fair value and adjusts the instruments to fair value at each reporting period. The liabilities are subject to re-measurement at each balance sheet date until exercised, and any change in fair value is recognized in the Company's unaudited condensed statements of operations. The fair value of warrants issued by the Company in connection with its Initial Public Offering and Private Placement Warrants has been estimated using Monte-Carlo simulations at each measurement date.

FASB ASC 470-20, "Debt with Conversion and Other Options," addresses the allocation of proceeds from the issuance of convertible debt into its equity and debt components. The Company applied this guidance to allocate Initial Public Offering proceeds from the Units between Class A ordinary shares and warrants, using the residual method by allocating Initial Public Offering proceeds first to the fair value of the warrants and contingent forward purchase units and then the Class A ordinary shares.

Income Taxes

The Company accounts for income taxes under ASC Topic 740, "Income Taxes," which requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed for differences between the financial statements and tax bases of assets and liabilities that will result in future taxable or deductible amounts, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

ASC Topic 740 prescribes a recognition threshold and a measurement attribute for the financial statements recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination by taxing authorities. The Company's management determined that the Cayman Islands is the Company's major tax jurisdiction. The Company recognizes accrued interest and penalties related to unrecognized tax benefits as income tax expense. As of June 30, 2022 and December 31, 2021, there were no unrecognized tax benefits and no amounts accrued for interest and penalties. The Company is currently not aware of any issues under review that could result in significant payments, accruals or material deviation from its position.

The Company is considered to be an exempted Cayman Islands company with no connection to any other taxable jurisdiction and is presently not subject to income taxes or income tax filing requirements in the Cayman Islands or the United States. Therefore, there was no tax provision for the three and six months ended June 30, 2022 and June 30, 2022

Recent Accounting Standards

In August 2020, the FASB issued Accounting Standard Update No. 2020-06, "Debt-Debt with Conversion and Other Options" (Subtopic 470-20) and "Derivatives and Hedging-Contracts in an Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity" ("ASU 2020-06"), which simplifies accounting for convertible instruments by removing major separation models required under current GAAP. ASU 2020-06 also removes certain settlement conditions that are required for equity-linked contracts to qualify for scope exception, and it simplifies the diluted earnings per share calculation in certain areas. The Company adopted ASU 2020-06 on January 1, 2021. Adoption of the ASU did not impact the Company's financial position, results of operations or cash flows.

The Company's management does not believe that there are any other recently issued, but not yet effective, accounting standards which if currently adopted would have a material effect on the accompanying unaudited condensed financial statements.

Note 3 — Initial Public Offering

Pursuant to the Initial Public Offering, the Company sold 34,500,000 Units, at a price of $10.00 per Unit. Each Unit consists of one share of Class A ordinary shares, par value $0.0001 per share and one-third of one redeemable warrant ("Public Warrant"). Each whole Public Warrant entitles the holder to purchase one share of Class A ordinary shares at a price of $11.50 per share.

Note 4 — Private Placement Warrants

Simultaneously with the closing of the Initial Public Offering, the Sponsor purchased an aggregate of 5,933,333 Private Placement Warrants at a price of $1.50 per Private Placement Warrant, for an aggregate price of $8,900,000. Each Private Placement Warrant is exercisable for one Class A ordinary share at a price of $11.50 per share, subject to adjustment (see Note 6). If the Company does not complete a Business Combination within the Combination Period, the proceeds from the sale of the Private Placement Warrants held in the Trust Account will be used to fund the redemption of the Public Shares (subject to the requirements of applicable law) and the Private Placement Warrants will expire worthless. The initial fair value of the Private Placement Warrants was recorded as a liability of $6,230,000 with the excess of cash received over initial fair value of the warrants of $2,670,000 recorded as additional paid-in capital.

Note 5 — Related Party Transactions

Founder Shares

On January 12, 2021, the Company issued 7,187,500 Founder Shares to the Sponsor for an aggregate purchase price of $25,000. In February 2021, the Sponsor transferred 20,000 Class B ordinary shares to each of Sarah Brown, Juliette Hickman, Lindsay Pattison and Zachary Werner (the “Investor Directors”), resulting in the Sponsor holding 7,107,500 Class B ordinary shares. On March 15, 2021, the Company effected a dividend of 0.2 per share of Class B ordinary shares for each share of Class B ordinary shares resulting in 8,625,000 shares of Class B ordinary shares being issued and outstanding, of which 8,545,000 are held by the Sponsor.

The Sponsor has agreed, subject to limited exceptions, not to transfer, assign or sell any of its Class B ordinary shares or Class A ordinary shares received upon conversion thereof until the earlier of: (A) one year after the completion of a Business Combination and (B) subsequent to a Business Combination, (x) if the last reported sale price of the Class A ordinary shares equals or exceeds $12.00 per share (as adjusted for share sub-divisions, share dividends, rights issuances, consolidations, reorganizations, recapitalizations and the like) for any 20 trading days within any 30-trading day period commencing at least 150 days after a Business Combination, or (y) the date on which the Company completes a liquidation, merger, amalgamation, share exchange, reorganization or other similar transaction that results in all of the Company’s shareholders having the right to exchange their ordinary shares for cash, securities or other property.

Related Party Loans

On January 12, 2021, the Sponsor agreed to loan the Company up to $300,000 to be used for the payment of costs related to the Initial Public Offering pursuant to a promissory note (the “Sponsor Promissory Note”). The Sponsor Promissory Note was non-interest bearing, unsecured and due upon the earlier of June 30, 2021 and the closing of the Initial Public Offering. The Company had no borrowings under the Sponsor Promissory Note at the closing of the Initial Public Offering. Borrowings under the Sponsor Promissory Note are no longer available.

Due to Related Party

As of June 30, 2022 and December 31, 2021, the balance of $155,043 and $95,000 represents the amount accrued for the administrative support services provided (defined below) by the Sponsor, respectively.

Administrative Support Agreement

Commencing on the date of the Initial Public Offering, the Company has agreed to pay the Sponsor a total of $10,000 per month for office space and administrative support services. Upon completion of the initial Business Combination or the Company’s liquidation, the Company will cease paying these monthly fees. For the three and six months ended June 30, 2022 and 2021, the Company incurred $30,000 and $60,000 in such fees. As of June 30, 2022 and December 31, 2021, the Company had an outstanding unpaid balance amounting to $155,043 and $95,000, respectively.

Working Capital Loans

In order to finance transaction costs in connection with a Business Combination, the Sponsor or an affiliate of the Sponsor, or certain of the Company’s officers and directors may, but are not obligated to, loan the Company funds as may be required. Such Working Capital Loans would be evidenced by promissory notes. The notes may be repaid upon completion of a Business Combination, without interest, or, at the lender’s discretion, up to $1,500,000 of notes may be converted upon completion of a Business Combination into warrants at a price of $1.50 per warrant. Such warrants would be identical to the Private Placement Warrants. In the event that a Business Combination does not close, the Company may use a portion of proceeds held outside of the Trust Account to repay the Working Capital Loans, but no proceeds held in the Trust Account would be used for such repayment. On August 18, 2021, the Company issued the Working Capital Promissory Note to the Sponsor for an aggregate amount of up to $1,500,000, up to $1,500,000 of such note may be convertible into warrants, at a price of $1.50 per warrant, at the option of the lender (the “Working Capital Promissory Note”). The Working Capital Promissory Note is non-interest bearing and is due and payable in full on the earlier of (i) the date by which we have to complete a Business Combination and (ii) the effective date of a Business Combination. On October 28, 2021, the Company drew down the entire available balance of the Working Capital Promissory Note and the Sponsor deposited $1,500,000 in the Company’s operating bank account. As of June 30, 2022 and December 31, 2021, the Company had an aggregate principal amount of $1,500,000 in outstanding borrowings under the Working Capital Loans, consisting solely of the Working Capital Promissory Note.

On May 20, 2022, the Company entered into a Promissory Note (the "Working Capital Loan") with its Sponsor. Pursuant to the Working Capital Loan, the Sponsor has agreed to loan to the Company up to $600,000 to be used for working capital purposes. The loans will not bear any interest, and will be repayable by the Company to the Sponsor upon the earlier of (i) the date by which the Company has to complete a Business Combination pursuant to its Amended and Restated Memorandum and Articles of Association (as may be amended from time to time) and (ii) the effective date of a Business Combination (such earlier date of (i) and (ii), the "Maturity Date").

The conversion feature included in the Working Capital Promissory Note is considered an embedded derivate and is remeasured at the end of each reporting period. The value of the conversion features was considered de minimis both as of June 30, 2022 and December 31, 2021.

Forward Purchase Agreement

The Company entered into two separate forward purchase agreements as follows. The Sponsor and Dynamo Master Fund (a member of the Sponsor) entered into the Sponsor Forward Purchase Agreement, dated as of February 22, 2021, with the Company that will provide for the purchase of up to an aggregate of 13,000,000 units, with each unit consisting of one Class A ordinary share and one-third of one redeemable warrant, for an aggregate purchase price of $130,000,000, or $10.00 per unit, in a private placement to close substantially concurrently with the closing of our initial Business Combination. The Sponsor Forward Purchase Agreement provides that the applicable forward purchase investors may, in their sole discretion, increase the amount of capital committed under the Sponsor Forward Purchase Agreement up to an amount not to exceed $160,000,000. Beauty Ventures entered into the Beauty Forward Purchase Agreement, dated as of March 1, 2021, with the Company that provides for the purchase of an aggregate of up to 17,300,000 units, with each unit consisting of one Class A ordinary share and one-third of one redeemable warrant, for an aggregate purchase price of up to $173,000,000 (subject to the below), or $10.00 per unit, in a private placement to close substantially concurrently with the closing of the initial Business Combination. To the extent that the amounts available from the Trust Account and other financing (including the Sponsor Forward Purchase Agreement) are sufficient for the cash requirements in connection with our initial Business Combination, the Sponsor may, in its sole discretion, as the managing member of Beauty Ventures, reduce its purchase obligation, up to the full amount, under the Beauty Forward Purchase Agreement. Members of the Sponsor or their affiliates will receive a performance fee allocation when the return on the securities underlying the Beauty Forward Purchase Agreement exceeds certain benchmark returns. The obligations under the Forward Purchase Agreements will not depend on whether any Class A ordinary shares are redeemed by our public shareholders. The forward purchase shares and the forward purchase warrants included in the units being sold in the Initial Public Offering, respectively, will be identical to the Public Shares and public warrants included in the units sold in the Initial Public Offering, respectively, except that the holders thereof will have certain registration rights, as described herein. On October 20, 2021, the Company received (i) an allocation notice from the Sponsor and Dynamo Master Fund committing to purchase 16,000,000 units, with each unit consisting of one Class A ordinary share and one-third of one redeemable warrant, for an aggregate purchase price of $160,000,000, or $10.00 per unit and (ii) an allocation notice from Beauty Ventures committing to purchase 17,300,000 units, with each unit consisting of one Class A ordinary share and one-third of one redeemable warrant, for an aggregate purchase price of $173,000,000, or $10.00 per unit. On December 20, 2021, the Sponsor and Burwell Mountain Trust (a member of the Sponsor) entered into an Assignment and Assumption Agreement. The Assignment and Assumption Agreement provides for the assignment by the Sponsor and assumption by Burwell Mountain Trust of all of the Sponsor's rights and benefits as purchaser under the Sponsor Forward Purchase Agreement, including the right to purchase the Forward Purchase Securities subscribed for by the Sponsor.

Note 6 — Commitments & Contingencies

Registration Rights

The holders of the Founder Shares, Private Placement Warrants and any warrants that may be issued upon conversion of Working Capital Loans (and any Class A ordinary shares issuable upon the exercise of the Private Placement Warrants or warrants issued upon conversion of the Working Capital Loans and upon conversion of the Founder Shares) are entitled to registration rights pursuant to a registration rights agreement to be signed prior to or on the effective date of the Initial Public Offering requiring the Company to register such securities for resale. The holders of these securities will be entitled to make up to three demands, excluding short form demands, that the Company register such securities. In addition, the holders have certain "piggy-back" registration rights with respect to registration statements filed subsequent to the completion of a Business Combination. The Company will bore the expenses incurred in connection with the filing of any such registration statements.

Underwriters Agreement

On March 18, 2021, pursuant to the consummation of the Initial Public Offering, the Company paid a fixed underwriting discount of $0.20 per Unit, or $6,900,000 in the aggregate. Additionally, a deferred underwriting discount of $0.35 per Unit, or $12,075,000 in the aggregate, will be payable to the underwriters from the amounts held in the Trust Account solely in the event that the Company completes an initial Business Combination, subject to the terms of the underwriting agreement.

Note 7 — Class A Ordinary Shares Subject to Possible Redemption

The Company's Class A ordinary shares feature certain redemption rights that are considered to be outside of the Company's control and subject to the occurrence of uncertain future events. Accordingly, as of June 30, 2022 and December 31, 2021, 34,500,000 shares of Class A ordinary shares subject to possible redemption are presented at redemption value as temporary equity, outside of the shareholders' deficit section of the Company's condensed balance sheets. The value of these redeemable shares was calculated as the gross proceeds from the sale of Waldencast's public units reduced by the proceeds allocable to the Public Warrants, issuance costs related to Waldencast's public units and the accretion of the carrying value to the redemption value. Upon the consummation of the Initial Public Offering, the Company recorded $31,410,398 in accretion.

Note 8 — Shareholders' Deficit

Preference Shares — The Company is authorized to issue a total of 5,000,000 preference shares at par value of $0.0001 each. At June 30, 2022 and December 31, 2021, there were no preference shares issued or outstanding.

Class A Ordinary Shares — The Company is authorized to issue a total of 500,000,000 Class A ordinary shares at par value of $0.0001 each. At June 30, 2022 and December 31, 2021, there were no shares issued and outstanding (excluding 34,500,000 shares subject to possible redemption).

Class B Ordinary Shares — The Company is authorized to issue a total of 50,000,000 shares of Class B ordinary shares at par value of $0.0001 each. At June 30, 2022 and December 31, 2021, there were 8,625,000 Class B ordinary shares issued or outstanding.

Only holders of the Class B ordinary shares will have the right to vote on the election of directors prior to the Business Combination. Holders of Class A ordinary shares and holders of Class B ordinary shares will vote together as a single class on all matters submitted to a vote of the Company's shareholders except as otherwise required by law.

The Class B ordinary shares will automatically convert into Class A ordinary shares at the time of the completion of the Business Combination, or earlier at the option of the holder, on a one-for-one basis, subject to adjustment. In the case that additional Class A ordinary shares, or equity-linked securities, are issued or deemed issued in excess of the amounts issued in the Initial Public Offering and related to the closing of a Business Combination, the ratio at which Founder Shares will convert into Class A ordinary shares will be adjusted (subject to waiver by holders of a majority of the Class B ordinary shares) so that the number of Class A ordinary shares issuable upon conversion of all Founder Shares will equal, in the aggregate, on an as-converted basis, 20% of the sum of the ordinary shares issued and outstanding upon completion of the Initial Public Offering plus the number of Class A ordinary shares and equity-linked securities issued or deemed issued in connection with a Business Combination, excluding any Class A ordinary shares or equity-linked securities issued, or to be issued, to any seller in a Business Combination.

Note 9 — Warrants

Public Warrants may only be exercised for a whole number of shares. No fractional warrants will be issued upon separation of the Units and only whole warrants will trade. The Public Warrants will become exercisable on the later of (a) 30 days after the completion of a Business Combination and (b) 12 months from the closing of the Initial Public Offering. The Public Warrants will expire five years after the completion of a Business Combination or earlier upon redemption or liquidation.

The Company will not be obligated to deliver any Class A ordinary shares pursuant to the exercise of a Public Warrant and will have no obligation to settle such Public Warrant exercise unless a registration statement under the Securities Act with respect to the Class A ordinary shares underlying the Public Warrants is then effective and a prospectus relating thereto is current, subject to the Company satisfying its obligations with respect to registration. No Public Warrant will be exercisable, and the Company will not be obligated to issue any shares to holders seeking to exercise their warrants, unless the issuance of the shares upon such exercise is registered or qualified under the securities laws of the state of the exercising holder, or an exemption is available.

The Company has agreed that as soon as practicable, but in no event later than 15 business days, after the closing of the Company's Business Combination, the Company will use its commercially reasonable efforts to file with the SEC a registration statement for the registration, under the Securities Act, of the Class A ordinary shares issuable upon exercise of the warrants. The Company will use its commercially reasonable efforts to cause the same to become effective and to maintain the effectiveness of such registration statement, and a current prospectus relating thereto, until the expiration or redemption of the warrants in accordance with the provisions of the warrant agreement. If a registration statement covering the Class A ordinary shares issuable upon exercise of the warrants is not effective by the 60th business day after the closing of a Business Combination, warrant holders may, until such time as there is an effective registration statement and during any period when the Company will have failed to maintain an effective registration statement, exercise warrants on a "cashless basis" in accordance with Section 3(a)(9) of the Securities Act or another exemption. Notwithstanding the above, if the Class A ordinary shares are at the time of any exercise of a warrant not listed on a national securities exchange such that they satisfy the definition of a "covered security" under Section 18(b)(1) of the Securities Act, the Company may, at its option, require holders of public warrants who exercise their warrants to do so on a "cashless basis" in accordance with Section 3(a)(9) of the Securities Act and, in the event the Company so elects, the Company will not be required to file or maintain in effect a registration statement, and in the event the Company does not so elect, it will use its commercially reasonable efforts to register or qualify the shares under applicable blue sky laws to the extent an exemption is not available.

Once the warrants become exercisable, the Company may redeem the Public Warrants for redemption:

- in whole and not in part;
- at a price of $0.01 per Public Warrant;
- upon not less than 30 days' prior written notice of redemption to each warrant holder; and
- if, and only if, the reported last sale price of the Class A ordinary shares for any 20 trading days within a 30-trading day period ending on the third trading day prior to the date on which the Company sends the notice of redemption the warrant holders (the "Reference Value") equals or exceeds $18.00 per share (as adjusted).

Once the Public Warrants become exercisable, the Company may redeem the Public Warrants:

- in whole and not in part;
- at $0.10 per warrant upon a minimum of 30 days' prior written notice of redemption provided that holders will be able to exercise their warrants on a cashless basis prior to redemption and receive that number of shares determined by reference to the table below, based on the redemption date and the "fair market value" of the Class A ordinary shares;
- if, and only if, the Reference Value equals or exceeds $10.00 per share (as adjusted); and
- if the Reference Value is less than $18.00 per share (as adjusted), the Private Placement Warrants must also be concurrently called for redemption on the same terms as the outstanding Public Warrants, as described above.

If and when the warrants become redeemable by the Company, the Company may exercise its redemption right even if it is unable to register or qualify the underlying securities for sale under all applicable state securities laws.

The exercise price and number of ordinary shares issuable upon exercise of the Public Warrants may be adjusted in certain circumstances including in the event of a share dividend, extraordinary dividend or recapitalization, reorganization, merger or consolidation. However, except as described below, the Public Warrants will not be adjusted for issuances of ordinary shares at a price below its exercise price. Additionally, in no event will the Company be required to net cash settle the Public Warrants. If the Company is unable to complete a Business Combination within the Combination Period and the Company liquidates the funds held in the Trust Account, holders of Public Warrants will not receive any of such funds with respect to their Public Warrants, nor will they receive any distribution from the Company's assets held outside of the Trust Account with respect to such Public Warrants. Accordingly, the Public Warrants may expire worthless.

In addition, if (x) the Company issues additional Class A ordinary shares or equity-linked securities for capital raising purposes in connection with the closing of a Business Combination at an issue price or effective issue price of less than $9.20 per Class A ordinary share (with such issue price or effective issue price to be determined in good faith by the Company's board of directors and, in the case of any such issuance to the Sponsor or its affiliates, without taking into account any Founder Shares held by the Sponsor or such affiliates, as applicable, prior to such issuance) (the "Newly Issued Price"), (y) the aggregate gross proceeds from such issuances represent more than 60% of the total equity proceeds, and interest thereon, available for the funding of a Business Combination, and (z) the volume weighted average trading price of the Class A ordinary shares during the 20 trading day period starting on the trading day prior to the day on which the Company consummates a Business Combination (such price, the "Market Value") is below $9.20 per share, then the exercise price of the warrants will be adjusted (to the nearest cent) to be equal to 115% of the higher of the Market Value and the Newly Issued Price, and the $10.00 and $18.00 per share redemption trigger prices will be adjusted (to the nearest cent) to be equal to 100% and 180% of the higher of the Market Value and the Newly Issued Price, respectively.

The Private Placement Warrants will be identical to the Public Warrants underlying the Units being sold in the Initial Public Offering, except that the Private Placement Warrants and the Class A ordinary shares issuable upon the exercise of the Private Placement Warrants will not be transferable, assignable or salable until 30 days after the completion of a Business Combination, subject to certain limited exceptions. Additionally, the Private Placement Warrants will be exercisable on a cashless basis and be non-redeemable, except as described above, so long as they are held by the initial purchasers or their permitted transferees, the Private Placement Warrants will be redeemable by the Company and exercisable by such holders on the same basis as Public Warrants.

Note 10 — Fair Value Measurements

Fair value is defined as the price that would be received for sale of an asset or paid for transfer of a liability, in an orderly transaction between market participants at the measurement date. GAAP establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). These tiers include:

- Level 1, defined as observable inputs such as quoted prices (unadjusted) for identical instruments in active markets;
- Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable such as quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active; and
- Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, such as valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The following table presents information about the Company's assets that are measured at fair value on a recurring basis at June 30, 2022 and December 31, 2021 and indicates the fair value hierarchy of the valuation inputs the Company utilized to determine such fair value:

Description	June 30, 2022	Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets:				
Marketable Securities held in Trust Account	$ 345,312,792	$ 345,312,792	$ —	$ —
Liabilities:				
Forward purchase agreement liabilities	(7,992,000)	—	—	(7,992,000)
Warrant liabilities	$ (12,552,000)	$ (8,280,000)	$ —	$ (4,272,000)

Description	December 31, 2021	Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets:				
Marketable Securities held in Trust Account	$ 345,052,047	$ 345,052,047	$ —	$ —
Liabilities:				
Forward purchase agreement liabilities	(13,320,000)	—	—	(13,320,000)
Warrant liabilities	$ (21,153,666)	$ (13,915,000)	$ —	$ (7,238,666)

The Company utilizes a Monte Carlo simulation model to value its private warrants at each reporting period, with changes in fair value recognized in the unaudited condensed statements of operations. The estimated fair value of the warrant liabilities is determined using Level 3 inputs. Inherent in a binomial options pricing model are assumptions related to expected share-price volatility, expected life, risk-free interest rate and dividend yield. The Company estimates the volatility of its ordinary shares based on historical volatility that matches the expected remaining life of the warrants. The risk-free interest rate is based on the U.S. Treasury zero-coupon yield curve on the grant date for a maturity similar to the expected remaining life of the warrants. The expected life of the warrants is assumed to be equivalent to their remaining contractual term. The dividend rate is based on the historical rate, which the Company anticipates to remain at zero.

In connection with the consummation of the Business Combination, the Company waived those certain provisions as contemplated by the Letter Agreement, dated as of March 15, 2021, by and among the Company, its officers and directors, the Sponsor, and certain members of the Sponsor (as amended, the "Letter Agreement"), and certain other agreements related thereto (collectively, the "Waiver"), with respect to any securities held by an Insider (as defined in the Letter Agreement) as of the closing the Business Combination (the "Lock-Up Securities") that would disallow a pledge by such Insider of the Lock-up Securities in a transaction for the purpose of financing such Insider's payment obligations owed in connection with the closing of the Obagi and Milk Business Combinations ..

On July 25, 2022, the Company entered into that certain Waiver and Agreement by and between the Company and Burwell (the "Waiver and Agreement") to permit a pledge by Burwell of its Lock-Up Securities to be used as a portion of the collateral under a loan to finance Burwell's payment obligations under the Sponsor Forward Purchase Agreement in connection with the closing of the Obagi and Milk Business Combinations. Pursuant to the terms of the Waiver and Agreement, in the event of a foreclosure, any such lenders or a collateral agents will be required to execute a joinder to the Letter Agreement pursuant to which they will be bound by the transfer restrictions of the Lock-Up Securities (including the foreclosure of or other exercise of remedies under any such loan documentation) in the Letter Agreement for the duration of such agreement. The Company also agreed to provide any such lender or collateral agent with customary registration rights in the event of default, foreclosure or other exercise of remedies following the respective Lock-Up Periods (as defined in the Letter Agreement).

As described in Note 1, the Company completed the Obagi and Milk Business Combinations on July 27, 2022.

The aforementioned warrant liabilities are not subject to qualified hedge accounting.

For the six months ended June 30, 2022 and 2021, there were no transfers between Levels 1, 2 or 3.

The following table provides quantitative information regarding Level 3 fair value measurements for private warrants and forward purchase agreements:

	At June 30, 2022	At December 31, 2021
Starting share price	$ 10.00	$ 10.00
Strike price	$ 11.50	$ 11.50
Term (in years)	5.08	5.50
Volatility	8.50%	19.0%
Risk-free rate	3.01%	1.31%
Dividend yield	0.0%	0.0%

The following table presents the changes in the fair value of warrant liabilities:

	Public	Private Placement	Warrant Liabilities
Fair value as of December 31, 2020	$ —	$ —	$ —
Initial measurement on March 18, 2021	11,960,000	6,230,000	18,190,000
Change in fair value of warrant liabilities	1,955,000	1,008,666	2,963,666
Fair value as of December 31, 2021	**$ 13,915,000**	**$ 7,238,666**	**$ 21,153,666**
Change in fair value	(2,875,000)	(1,483,333)	(4,358,333)
Fair value as of March 31, 2022	**$ 11,040,000**	**$ 5,755,333**	**$ 16,795,333**
Change in fair value	(2,760,000)	(1,483,333)	(4,243,333)
Fair value as of June 30, 2022	**$ 8,280,000**	**$ 4,272,000**	**$ 12,552,000**

Prior to their transfer to Level 1 inputs, the estimated fair value of warrant liabilities is determined using Level 3 inputs. Inherent in a binomial options pricing model are assumptions related to expected share-price volatility, expected life, risk-free interest rate and dividend yield. The Company estimates the volatility of its ordinary shares based on historical volatility that matches the expected remaining life of the warrants. The risk-free interest rate is based on the U.S. Treasury zero-coupon yield curve on the grant date for a maturity similar to the expected remaining life of the warrants. The expected life of the warrants is assumed to be equivalent to their remaining contractual term. The dividend rate is based on the historical rate, which the Company anticipates to remain at zero.

The Company has initially classified the FPA as a liability. This financial instrument is subject to re-measurement at each balance sheet date. With each such re-measurement, the FPA asset or liability will be adjusted to fair value, with the change in fair value recognized in the Company's condensed statements of operations. As such, the Company recorded a $11,655,000 of derivative liabilities related to the FPA as of March 18, 2021. At December 31, 2021, the re-measurement of the derivative associated with the FPA resulted in the following change in the derivative liabilities – forward purchase agreement.

	FPA Liabilities
Derivative liability – forward purchase agreement at March 18, 2021	**$ 11,655,000**
Change in fair value of derivative liability – forward purchase agreement	1,665,000
Derivative liability – forward purchase agreement at December 31, 2021	**$ 13,320,000**
Change in fair value of derivative liability – forward purchase agreement	(2,664,000)
Derivative liability – forward purchase agreement at March 31, 2022	**$ 10,656,000**
Change in fair value of derivative liability – forward purchase agreement	(2,664,000)
Derivative liability – forward purchase agreement at June 30, 2022	**$ 7,992,000**

The following table presents information about the assumptions used to value the Company's FPA liabilities classified as Level 3 in the fair value hierarchy that are measured at fair value on a recurring basis.

	At June 30, 2022	At December 31, 2021
Starting share price	$ 10.00	$ 10.00
Strike price	$ 11.50	$ 11.50
Term (in years)	5.08	5.50
Volatility	8.50%	19.0%
Risk-free rate	3.01%	1.31%
Dividend yield	0.0%	0.0%

Note 11 — Subsequent Events

The Company evaluated subsequent events and transactions that occurred after the balance sheet date through the date that the unaudited condensed financial statements were issued. Based upon this review, the Company did not identify any subsequent events that would have required adjustment or disclosure in the unaudited condensed financial statements.

On July 15, 2022, the Company entered into a Promissory Note with its Sponsor pursuant to which the Sponsor has agreed to loan the Company up to $450,000 to be used for working capital purposes. The loan will not bear any interest and will be repayable upon the earlier of the date by which the Company has to complete a merger, share exchange, asset acquisition, share purchase, reorganization or similar business combination with one or more businesses pursuant to its Amended and Restated Memorandum and Articles of Association or the effective date of a Business Combination.

In connection with the consummation of the Business Combination, the Company waived those certain provisions as contemplated by the Letter Agreement, dated as of March 15, 2021, by and among the Company, its officers and directors, the Sponsor, and certain members of the Sponsor (as amended, the "Letter Agreement"), and certain other agreements related thereto (collectively, the "Waiver"), with respect to any securities held by an Insider (as defined in the Letter Agreement) as of the closing the Business Combination (the "Lock-Up Securities") that would disallow a pledge by such Insider of the Lock-up Securities in a transaction for the purpose of financing such Insider's payment obligations owed in connection with the closing of the Obagi and Milk Business Combinations ..

On July 25, 2022, the Company entered into that certain Waiver and Agreement by and between the Company and Burwell (the "Waiver and Agreement") to permit a pledge by Burwell of its Lock-Up Securities to be used as a portion of the collateral under a loan to finance Burwell's payment obligations under the Sponsor Forward Purchase Agreement in connection with the closing of the Obagi and Milk Business Combinations. Pursuant to the terms of the Waiver and Agreement, in the event of a foreclosure, any such lenders or a collateral agents will be required to execute a joinder to the Letter Agreement pursuant to which they will be bound by the transfer restrictions of the Lock-Up Securities (including the foreclosure of or other exercise of remedies under any such loan documentation) in the Letter Agreement for the duration of such agreement. The Company also agreed to provide any such lender or collateral agent with customary registration rights in the event of default, foreclosure or other exercise of remedies following the respective Lock-Up Periods (as defined in the Letter Agreement).

As described in Note 1, the Company completed the Obagi and Milk Business Combinations on July 27, 2022.

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

The following discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements and the notes thereto contained elsewhere herein. Certain information contained in the discussion and analysis set forth below includes forward-looking statements that involve risks and uncertainties.

Special Note Regarding Forward-Looking Statements

The following discussion includes "forward-looking statements" within the meaning of Section 27A of the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that are not historical facts, and involve risks and uncertainties that could cause actual results to differ materially from those expected and projected. All statements, other than statements of historical fact included in this discussion including, without limitation, statements in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" regarding our financial position, business strategy and the plans and objectives of management for future operations, are forward-looking statements. Words such as "expect," "believe," "anticipate," "intend," "estimate," "seek" and variations and similar words and expressions are intended to identify such forward-looking statements. Such forward-looking statements relate to future events or future performance, but reflect management's current beliefs, based on information currently available. A number of factors could cause actual events, performance or results to differ materially from the events, performance and results discussed in the forward-looking statements. Factors that might cause or contribute to such a discrepancy include, but are not limited to, those described in the Risk Factor section of our definitive proxy statement/final prospectus dated July 7, 2022, and filed by us with the SEC on July 7, 2022 and in our other filings with the SEC. Our filings with the SEC can be accessed on the EDGAR section of the SEC's website at www.sec.gov. Except as expressly required by applicable securities law, we disclaim any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

Overview

We were a blank check company incorporated in the Cayman Islands on December 8, 2020 formed for the purpose of effecting a merger, share exchange, asset acquisition, share purchase, reorganization or similar Business Combination. We effectuated a Business Combination using cash derived from the proceeds of the Initial Public Offering and the sale of the Private Placement Warrants, our shares, debt or a combination of cash, shares and debt.

We completed our initial public offering Initial Public Offering on March 18, 2021 and completed the Obagi and Milk Business Combinations on July 27, 2022 as described below.

Recent Developments

On July 27, 2022, subsequent to the fiscal quarter ended June 30, 2022, the fiscal quarter to which the accompanying financial statements relate, the Company consummated the Obagi and Milk Business Combinations with (i) Obagi and Merger Sub pursuant to the Obagi Merger Agreement, by and among the Company, Obagi and Merger Sub; and (ii), Milk, Holdco Purchaser, Waldencast LP, the Milk Members, and the Equityholder Representative, pursuant to the Milk Equity Purchase Agreement by and among the Company, Holdco Purchaser, Waldencast LP, Milk, the Milk Members and the Equityholder Representative.

Upon the consummation of the Obagi and Milk Business Combinations: (i) Merger Sub merged with and into Obagi and the separate corporate existence of Merger Sub ceased, with Obagi surviving as an indirect subsidiary of the Company; (ii) as a result of the Merger, among other things, each outstanding Obagi Common Stock as of immediately prior to the Obagi Merger Effective Time (other than in respect of Excluded Shares (as defined in the Obagi Merger Agreement)) were cancelled and converted into the right to receive (a) an amount in cash equal to the quotient obtained by dividing (1) the Obagi Cash Consideration (as defined in the Obagi Merger Agreement) by (2) the number of Aggregate Fully Diluted Company Common Shares (as defined in the Obagi Merger Agreement), and (b) a number of Waldencast plc Class A ordinary shares equal to the quotient obtained by dividing (1) the Obagi Stock Consideration (as defined in the Obagi Merger Agreement) by (2) the number of Aggregate Fully Diluted Company Common Shares; (iii) the Purchasers acquired from the Milk Members and the Milk Members sold to the Purchasers all of the issued and outstanding membership units of Milk in exchange for the Milk Cash Consideration (as defined in the Milk Equity Purchase Agreement), and the Milk Equity Consideration (as defined in the Milk Equity Purchase Agreement), which consist of partnership units of Waldencast LP exchangeable for Waldencast plc Class A ordinary shares, and the Waldencast plc Non-Economic ordinary shares; and (iv) as a result of the Milk Transaction, among other things, (a) Holdco Purchaser purchased from the Milk Members a percentage of the outstanding membership units in exchange for (1) the Milk Cash Consideration and (3) a number of Waldencast plc Non-Economic ordinary shares equal to the Milk Equity Consideration and (b) Waldencast LP purchased from the Milk Members the remainder of the outstanding membership units in exchange for the Milk Equity Consideration.

Immediately following consummation of the Obagi and Milk Business Combinations, (i) Holdco Purchaser contributed its equity interest in (a) Milk to Waldencast LP in exchange for limited partnership units in Waldencast LP and (b) Holdco 2 in exchange for limited partnership units in Waldencast LP. The combined company is organized in an "Up-C" structure, in which the equity interests of Obagi and Milk are held by Waldencast LP. The Company in turn holds its interests in Obagi and Milk through Waldencast LP and Holdco Purchaser.

Prior to the consummation of the Obagi and Milk Business Combinations, following the approval of the Company's shareholders, and in accordance with the Cayman Act, the Jersey Companies Law and the Company's amended and restated memorandum and articles of association, the Company effected a deregistration under the Cayman Act and a domestication under Part 18C of the Jersey Companies Law (by means of filing a memorandum and articles of association with the Registrar of Companies in Jersey), pursuant to which the Company's jurisdiction of incorporation was changed from the Cayman Islands to Jersey. Upon the effective time of the Domestication, the Company was renamed "Waldencast plc."

In connection with the Domestication, (i) each of the then issued and outstanding Class A ordinary shares, par value $0.0001 per share, of the Company, was converted automatically, on a one-for-one basis, into a Waldencast plc Class A ordinary share, (ii) each of the then issued and outstanding Class B ordinary shares, par value $0.0001 per share, of the Company, was converted automatically, on a one-for-one basis, into a Waldencast plc Class A ordinary share, (iii) each then issued and outstanding warrant of the Company was converted automatically into a Waldencast plc Warrant, pursuant to the Warrant Agreement, dated March 15, 2021, between the Company and Continental Stock Transfer & Trust Company, as warrant agent, and (iv) each then issued and outstanding unit of the Company was cancelled and the holders thereof were entitled to one Waldencast plc Class A ordinary share and one-third of one Waldencast plc Warrant.

As previously disclosed, in connection with the Company's Initial Public Offering; (i) on February 22, 2021, the Company, the Sponsor and Dynamo Master Fund (a member of the Sponsor) entered into the Sponsor Forward Purchase Agreement, which was subsequently amended by the assignment and assumption agreement entered into by and between the Sponsor and Burwell on December 20, 2021, under which the Sponsor assigned, and Burwell assumed, all of the Sponsor's rights and benefits under the Sponsor Forward Purchase Agreement, pursuant to which, Burwell and Dynamo Master Fund committed to subscribe for and purchase 16,000,000 Waldencast plc Class A ordinary shares and 5,333,333 Waldencast plc Warrants for an aggregate commitment amount of the Sponsor FPA Investment; and (ii) the Company and Beauty Ventures LLC ("Beauty Ventures" and, together with Dynamo Master Fund and Burwell, the "Forward Purchasers") entered into a Forward Purchase Agreement on March 1, 2021 ("the Third-Party Forward Purchase Agreement" and, together with the Sponsor Forward Purchase Agreement, the "Forward Purchase Agreements"), pursuant to which Beauty Ventures committed to subscribe for and purchase up to 17,300,000 Waldencast plc Class A ordinary shares and up to 5,766,666 Waldencast plc Warrants for an aggregate commitment amount of $173,000,000 (together with the Sponsor FPA Investment, the "FPA Investments"). The FPA Investments were consummated substantially concurrently with the consummation of the Obagi and Milk Business Combinations.

As previously disclosed, on November 14, 2021, concurrently with the execution of the Transaction Agreements, the Company entered into the Initial Subscription Agreements, executed on or prior to November 14, 2021, pursuant to which the Initial PIPE Investorsagreed to purchase, in the aggregate, the Initial PIPE Investment, consisting of 10,500,000 Waldencast plc Class A ordinary shares at $10.00 per share for an aggregate commitment amount of $105.0 million. The Transaction Agreements provided that Waldencast could enter into additional subscription agreements with investors to participate in the purchase of shares of Waldencast plc after November 15, 2021 but prior to the Closing Date. On June 14, 2022, Waldencast entered into the June Subsequent Subscription Agreements with the June Subsequent PIPE Investors on the same terms as the Initial PIPE Investors, pursuant to which the June Subsequent PIPE Investors collectively subscribed for the June Subsequent PIPE Investment, consisting of 800,000 shares of Waldencast plc Class A ordinary shares for an aggregate purchase price equal to $8.0 million. On July 15, 2022, Waldencast entered into the July Subsequent Subscription Agreements the July Subsequent PIPE Investors on the same terms as the Initial PIPE Investors and the June Subsequent PIPE Investors. Pursuant to, and on the terms and subject to the conditions of the applicable July Subsequent Subscription Agreement, the July Subsequent PIPE Investors collectively subscribed for 500,000 shares of Waldencast plc Class A ordinary shares for an aggregate purchase price equal to $5,000,000 (the "July Subsequent PIPE Investment" and together with the Initial PIPE Investment and the June Subsequent PIPE Investment, the "PIPE Investment").

Results of Operations

We have neither engaged in any operations nor generated any operating revenues to date. Our only activities through June 30, 2022 were organizational activities and those necessary to prepare for the Initial Public Offering, the search for a prospective initial Business Combination, and the negotiation and execution of the proposed Obagi and Milk Business Combinations. We did not generate any operating revenues until after the completion of the Obagi and Milk Business Combinations. Following the consummation of the Initial Public Offering, the Company generated non-operating income in the form of interest income on cash and cash equivalents from the net proceeds derived from the Initial Public Offering and the sale of the Private Placement Warrants. We expect that we will incur increased expenses as a result of being a public company (for legal, financial reporting, accounting and auditing compliance).

For the three months ended June 30, 2022, we had a net income of $2,767,058, which consisted of a non-cash change in fair value of warrant derivative liabilities and Forward Purchase Agreement (as defined below) liabilities of $4,243,333 and $2,664,000, respectively, and interest income from operating bank account of $126, and interest income on marketable securities held in the Trust Account of $257,125, offset by operating costs of $4,397,526.

For the six months ended June 30, 2022, we had a net income of $5,789,973, which consisted of a non-cash change in fair value of warrant derivative liabilities and Forward Purchase Agreement (as defined below) liabilities of $8,601,666 and $5,328,000, respectively, and interest income from operating bank account of 565, and interest income on marketable securities held in the Trust Account of $260,745, offset by operating costs of $8,401,003.

For the three months ended June 30, 2021, we had a net loss of $1,551,508, which included a loss from operations of $201,567, a loss from the change in fair value of warrant liabilities and Forward Purchase Agreement liabilities of $697,334 and 666,000, respectively, offset by interest income from operating bank account of $311 and interest income on marketable securities held in the Trust Account of $13,082.

For the six months ended June 30, 2021, we had a net loss of $2,735,465, which included a loss from operations of $319,082, offering cost expense allocated to warrants of $719,201, a loss from the change in fair value of warrant liabilities and Forward Purchase Agreement liabilities of $1,046,000 and $666,000, respectively, offset by interest income from operating bank account of $442 and interest income on marketable securities held in the Trust Account of $14,376.

Liquidity and Capital Resources

On March 18, 2021, we consummated the Initial Public Offering of 34,500,000 Units at $10.00 per Unit, generating gross proceeds of $345,000,000, which is discussed in Note 3 to the unaudited condensed financial statements. Simultaneously with the closing of our Initial Public Offering, we consummated the sale of 5,933,333 Private Placement Warrants, at a price of $1.50 per Private Placement Warrant, which is discussed in Note 4 to the unaudited condensed financial statements.

Following the Initial Public Offering and the sale of the Private Placement Warrants, a total of $345,000,000 was placed in the Trust Account. We incurred $20,169,599 in transaction costs, including $6,900,000 of underwriting fees, $12,075,000 of deferred underwriting fees and $1,194,599 of other costs.

As of June 30, 2022, cash used in operating activities was $2,004,041. Net income of $5,265,534 was affected by non-cash changes in the deferred legal fees of $6,139,534, offset by the fair value of warrant derivative liabilities, and Forward Purchase Agreement liabilities of $8,601,666 and $5,328,000, respectively, and interest earned on marketable securities held in the Trust Account of $260,745. Changes in current assets and liabilities provided $781,302 of cash for operating activities.

As of June 30, 2022, we had marketable securities held in the Trust Account of $345,312,792. We intend to use substantially all of the funds held in the Trust Account, including any amounts representing interest earned on the Trust Account, which interest shall be net of taxes payable and excluding deferred underwriting commissions, to complete our Business Combination. We may withdraw interest from the Trust Account to pay taxes, if any. Through June 30, 2022, we did not withdraw any interest earned on the Trust Account to pay our taxes. To the extent that our share capital or debt is used, in whole or in part, as consideration to complete a Business Combination (including the proposed Obagi and Milk Business Combinations), the remaining proceeds held in the Trust Account will be used as working capital to finance the operations of the target business or businesses, make other acquisitions and pursue our growth strategies.

As of June 30, 2022, we had cash in an operating bank account, outside of the Trust Account, with $99,727 available for working capital needs. As of June 30, 2022, the Company had a working capital deficit of $811,657. All remaining funds held in the Trust Account were generally unavailable for the Company's use, prior to an initial Business Combination, and were restricted for use either in a Business Combination, to redeem Class A ordinary shares or with respect to the interest earned, to be withdrawn for the payment of taxes. As of June 30, 2022, none of the amount in the Trust Account was withdrawn as described above.

On October 28, 2021, we drew down the entire balance of the Working Capital Promissory Note initially available, and the Sponsor deposited $1,500,000 in the Company's operating bank account. In addition, the Company issued working capital promissory notes to the Sponsor on (i) May 20, 2022, for up to $600,000 ("May Working Capital Note") and (ii) July 15, 2022, for up to $450,000 ("July Working Capital Note" and, together with May Working Capital Note, the "Non-Convertible Working Capital Notes"), in each case, for working capital purposes. As of July 27, 2022, the Company had a total aggregate principal amount of $1,050,000 in outstanding borrowings under the Non-Convertible Working Capital Notes. In connection with the closing of Business Combination, the aggregate outstanding balance under the Non-Convertible Working Capital Notes of $1,050,000 was repaid to the Sponsor. Borrowings under the Non-Convertible Working Capital Notes are no longer available.

As of July 27, 2022, substantial doubt about the Company's ability to continue as going concern was alleviated due to closing of the Obagi and Milk Business Combinations.

Off-Balance Sheet Arrangements

We have no obligations, assets or liabilities, which would be considered off-balance sheet arrangements as of June 30, 2022 and December 31, 2021. We do not participate in transactions that create relationships with unconsolidated entities or financial partnerships, often referred to as variable interest entities, which would have been established for the purpose of facilitating off-balance sheet arrangements. We have not entered into any off-balance sheet financing arrangements, established any special purpose entities, guaranteed any debt or commitments of other entities, or purchased any non-financial assets.

Contractual Obligations

We do not have any long-term debt, capital lease obligations, operating lease obligations or long-term liabilities, other than an agreement to pay the Sponsor a monthly fee of $10,000 for office space administrative and support services provided to us. We began incurring these fees on March 15, 2021 and will continue to incur these fees monthly until the earlier of the completion of a Business Combination or the liquidation.

The underwriter is entitled to a deferred fee of $0.35 per Unit, or $12,075,000 in the aggregate. The deferred fee will become payable to the underwriters from the amounts held in the Trust Account solely in the event that we complete a Business Combination, subject to the terms of the underwriting agreement. We ceased paying these quarterly fees and periodic cost reimbursements following the consummation of the Obagi and Milk Business Combinations.

Critical Accounting Policies

This management's discussion and analysis of our financial condition and results of operations is based on our unaudited condensed financial statements, which have been prepared in accordance with GAAP. The preparation of our unaudited condensed financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities in our unaudited condensed financial statements. On an ongoing basis, we evaluate our estimates and judgments, including those related to fair value of financial instruments and accrued expenses. We base our estimates on historical experience, known trends and events and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We have identified the following as our critical accounting policies:

Class A Ordinary Shares Subject to Possible Redemption

We account for our ordinary shares subject to possible redemption in accordance with the guidance in ASC Topic 480, "Distinguishing Liabilities from Equity." Ordinary shares subject to mandatory redemption are classified as a liability instrument and are measured at fair value. Conditionally redeemable ordinary shares (including ordinary shares that features redemption rights that are either within the control of the holder or subject to redemption upon the occurrence of uncertain events not solely within our control) are classified as temporary equity. At all other times, ordinary shares are classified as a component of shareholders' deficit. Our ordinary shares feature certain redemption rights that are considered to be outside of our control and subject to occurrence of uncertain future events. As of June 30, 2022 and December 31, 2021, 34,500,000 shares of Class A ordinary shares subject to possible redemption are presented at redemption value as temporary equity, outside of the shareholders' deficit section of our balance sheets.

Warrant Liabilities and Forward Purchase Agreements

We account for the warrants issued in connection with our Initial Public Offering in accordance with ASC 815-40, "Derivatives and Hedging—Contracts in Entity's Own Equity" ("ASC 815"), under which the warrants do not meet the criteria for equity classification and must be recorded as liabilities. The warrants meet the definition of a derivative as contemplated in ASC 815, and therefore the warrants are measured at fair value at inception and at each reporting date in accordance with ASC 820, "Fair Value Measurement," with changes in fair value recognized in the unaudited condensed statements of operations in the period of change.

We account for the Forward Purchase Agreements in accordance with ASC 815-40 as a derivative liability. These liabilities are subject to re-measurement at each balance sheet date, with changes in fair value recognized in the unaudited condensed statements of operations.

Conversion Feature of Working Capital Promissory Note

On August 18, 2021, we issued the Working Capital Promissory Note to the Sponsor. The Working Capital Promissory Note was issued in order to finance certain transaction costs in connection with the Business Combination. At the lender's discretion, it may elect to convert up to $1,500,000 of the unpaid principal balance of the Working Capital Promissory Note into warrants, at a price of $1.50 per warrant, with each whole warrant exercisable for one of our Class A ordinary shares upon the consummation of an initial Business Combination. This embedded conversion feature is subject to remeasurement at each balance sheet date until exercised, and any change in fair value is recognized in the Company's unaudited condensed statements of operations. The value of the conversion features was considered de minimis both as of June 30, 2022, and December 31, 2021.

Net Income (Loss) Per Ordinary Shares

Net income (loss) per share is computed by dividing net income (loss) by the weighted-average number of shares of ordinary shares outstanding during the period.

Our unaudited condensed statements of operations include a presentation of net income (loss) per share for ordinary shares subject to possible redemption and apply the two-class method in calculating net loss per share. Basic and diluted net income (loss) per ordinary share for Class A redeemable ordinary shares is calculated by dividing the allocable interest income earned on the Trust Account, net of applicable franchise and income taxes, by the weighted average number of Class A ordinary shares subject to possible redemption outstanding since original issuance. Basic and diluted net income (loss) per share for Class A and Class B non-redeemable ordinary shares is calculated by dividing the net income (loss), adjusted for income (loss) attributable to Class A redeemable ordinary shares, by the weighted average number of Class A and Class B non-redeemable ordinary shares outstanding for the period. Class B non-redeemable ordinary shares include the Founder Shares as these shares do not have any redemption features and do not participate in the income earned on the Trust Account.

Recent Accounting Pronouncements

In August 2020, the FASB issued Accounting Standard Update No. 2020-06, "Debt-Debt with Conversion and Other Options" (Subtopic 470-20) and "Derivatives and Hedging-Contracts in an Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity" ("ASU 2020-06"), which simplifies accounting for convertible instruments by removing major separation models required under current GAAP. ASU 2020-06 also removes certain settlement conditions that are required for equity-linked contracts to qualify for scope exception, and it simplifies the diluted earnings per share calculation in certain areas. The Company adopted ASU 2020-06 on January 1, 2021. Adoption of the ASU did not impact the Company's financial position, results of operations or cash flows.

We do not believe that any other recently issued, but not yet effective, accounting pronouncements, which, if currently adopted, would have a material impact on our unaudited condensed financial statements.

JOBS Act

On April 5, 2012, the JOBS Act was signed into law. The JOBS Act contains provisions that, among other things, relax certain reporting requirements for qualifying public companies. We qualify as an "emerging growth company" under the JOBS Act and are allowed to comply with new or revised accounting pronouncements based on the effective date for private (not publicly traded) companies. We elected to delay the adoption of new or revised accounting standards, and as a result, we may not comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. As a result, our unaudited condensed financial statements may not be comparable to companies that comply with new or revised accounting pronouncements as of public company effective dates.

As an "emerging growth company", we are not required to, among other things, (i) provide an auditor's attestation report on our system of internal controls over financial reporting pursuant to Section 404, (ii) provide all of the compensation disclosure that may be required of non-emerging growth public companies under the Dodd-Frank Wall Street Reform and Consumer Protection Act, (iii) comply with any requirement that may be adopted by the PCAOB regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements (auditor discussion and analysis), and (iv) disclose certain executive compensation related items such as the correlation between executive compensation and performance and comparisons of the CEO's compensation to median employee compensation. These exemptions will apply for a period of five years following the completion of our Initial Public Offering or until we are no longer an "emerging growth company," whichever is earlier.

Item 3. Quantitative and Qualitative Disclosure About Market Risk.

Not required for smaller reporting companies.

Item 4. Controls And Procedures.

Disclosure Controls and Procedures

Evaluation of Disclosure 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 company reports filed or submitted under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer (who serves as our Principal Executive Officer and Principal Financial and Accounting Officer), to allow timely decisions regarding required disclosure.

As required by Rules 13a-15 and 15d-15 under the Exchange Act, our Chief Executive Officer carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2022. Based upon this evaluation, our Chief Executive Officer concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were not effective due to the material weakness which resulted in errors related to the Company's accounting for complex financial instruments, such as the accounting classification of our Public Warrants and Private Placement Warrants, as well as of a portion of Class A ordinary shares subject to possible redemption previously included in shareholders' deficit.

In light of this material weakness, we performed additional analysis as deemed necessary to ensure that our unaudited condensed financial statements were prepared in accordance with GAAP. We continue to enhance our processes and procedures to identify and appropriately apply applicable accounting requirements to better evaluate and understand the nuances of the complex accounting standards that apply to our unaudited condensed financial statements. Our plans for enhancement include providing enhanced access to accounting literature, research materials and documents and increased communication among our personnel and third-party professionals with whom we consult regarding complex accounting applications. The elements of our remediation plan can only be accomplished over time, and we can offer no assurance that these initiatives will ultimately have the intended effects.

Except for the material weakness described above, there was no change in our internal control over financial reporting that occurred during the quarter ended June 30, 2022, other than the circumstances described above that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company has received three letters from three putative shareholders of the Company alleging that the Registration Statement on Form F-4 filed on February 4, 2022 with the Securities and Exchange Commission contains disclosure deficiencies and demanding that the Company's board of directors cause the dissemination of additional disclosures in an amendment to the Registration Statement with respect to certain enumerated items.[1]

ITEM 1A. RISK FACTORS

As a result of the consummation of the Obagi and Milk Business Combinations on July 27, 2022, the risk factors previously described in our Annual Report on Form 10-K filed with the SEC on March 31, 2022 no longer apply. For risk factors relating to the Company's business following the Obagi and Milk Business Combinations, please refer to the section entitled "Risk Factors" in our definitive proxy statement/final prospectus dated July 7, 2022, and filed by us with the SEC on July 7, 2022. Any of those factors could result in a significant or material adverse effect on our results of operations or financial condition. Additional risk factors not presently known to us or that we currently deem immaterial may also impair our business or results of operations. We may disclose changes to such factors or disclose additional factors from time to time in our future filings with the SEC.

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

Unregistered Sales

On January 12, 2021, the Company issued 7,187,500 Founder Shares to the Sponsor for an aggregate purchase price of $25,000. In February 2021, the Sponsor transferred 20,000 Waldencast Class B ordinary shares to each of the Investor Directors, resulting in the Sponsor holding 7,107,500 Waldencast Class B ordinary shares. On March 15, 2021, the Company effected a dividend of 0.2 of a share of Class B ordinary shares for each share of Class B ordinary shares, resulting in 8,625,000 shares of Class B ordinary shares being issued and outstanding, of which 8,545,000 are held by the Sponsor. The Sponsor has agreed, subject to limited exceptions, not to transfer, assign or sell any of its Class B ordinary shares or Class A ordinary shares received upon conversion thereof until the earlier of: (A) one year after the completion of a Business Combination and (B) subsequent to a Business Combination, (x) if the last reported sale price of the Class A ordinary shares equals or exceeds $12.00 per share (as adjusted for share sub-divisions, share dividends, rights issuances, consolidations, reorganizations, recapitalizations and the like) for any 20 trading days within any 30-trading day period commencing at least 150 days after a Business Combination, or (y) the date on which the Company completes a liquidation, merger, amalgamation, share exchange, reorganization or other similar transaction that results in all of the Company's shareholders having the right to exchange their ordinary shares for cash, securities or other property.

Simultaneously with the closing of the Initial Public Offering, our Sponsor purchased an aggregate of 5,933,333 Private Placement Warrants at a price of $1.50 per Private Placement Warrant, for an aggregate price of $8,900,000. Each Private Placement Warrant is exercisable for one Class A ordinary share at a price of $11.50 per share, subject to adjustment.

These issuance were made pursuant to the exemption from registration contained in Section 4(a)(2) of the Securities Act. No underwriting discounts or commissions were paid with respect to such sales.

[1] Note to Draft: Skadden Litigation to confirm.

Use of Proceeds

On March 18, 2021, the Company consummated its Initial Public Offering of 34,500,000 Units at $10.00 per Unit, generating gross proceeds to the Company of $345,000,000. Credit Suisse Securities (USA) LLC and J.P. Morgan Securities LLC are acting as joint book-running managers for the offering. The securities sold in the Initial Public Offering were registered under the Securities Act on a registration statement on Form S-1 (No. 333-253370 and 333-254317). The SEC declared the registration statements effective on March 16, 2021.

Simultaneously with the closing of the Initial Public Offering, our Sponsor purchased an aggregate of 5,933,333 Private Placement Warrants at a price of $1.50 per Private Placement Warrant, for an aggregate price of $8,900,000. Each Private Placement Warrant is exercisable for one Class A ordinary share at a price of $11.50 per share, subject to adjustment.

In connection with the Initial Public Offering, we incurred offering costs of approximately $20,169,599 (including deferred underwriting commissions of approximately $12,075,000 million). Other incurred offering costs consisted principally of preparation fees related to the Initial Public Offering. After deducting the underwriting discounts and commissions (excluding the deferred portion, which amount will be payable upon consummation of the initial Business Combination, if consummated) and the Initial Public Offering expenses, $345 million of the net proceeds from our Initial Public Offering and certain of the proceeds from the private placement of the Private Placement Warrants (or $10.00 per Unit sold in the Initial Public Offering) was placed in the Trust Account. The net proceeds of the Initial Public Offering and certain proceeds from the sale of the Private Placement Warrants are held in the Trust Account and invested as described elsewhere in this Quarterly Report.

We used substantially all of the funds held in the Trust Account to complete the Obagi and Milk Business Combinations. Funds held in the Trust Account were also used to fund the redemption of our Class A ordinary shares.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 5. OTHER INFORMATION

None.

OBAGI GLOBAL HOLDINGS LIMITED

TABLE OF CONTENTS

OBAGI GLOBAL HOLDINGS LIMITED
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(In thousands of U.S. dollars, except share and per share data)

	As of	
	June 30, 2022	**December 31, 2021**
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 6,742	$ 12,794
Restricted cash	650	650
Accounts and note receivable, net	77,665	63,367
Inventories	27,586	19,339
Prepaid expenses	8,086	7,944
Other current assets	374	335
Total current assets	**121,103**	**104,429**
Property and equipment, net	3,777	3,584
Intangible assets, net	73,069	79,574
Goodwill	44,489	44,489
Other assets	1,274	1,497
TOTAL ASSETS	$ 243,712	$ 233,573
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 18,323	$ 11,375
Current portion of long-term debt, net	22,603	15,382
Other current liabilities	14,417	12,983
Total current liabilities	**55,343**	39,740
Long-term debt, net	100,764	103,423
Deferred income tax liabilities	548	548
Other liabilities	619	572
Total liabilities	**157,274**	**144,283**
COMMITMENTS AND CONTINGENCIES (Note 15)		
SHAREHOLDER'S EQUITY:		
Common stock, 25,000,000 shares authorized; $0.50 par value; 8,000,002 shares issued and outstanding as of June 30, 2022 and December 31, 2021	4,000	4,000
Additional paid-in capital	100,113	100,113
Accumulated deficit	(17,713)	(14,798)
Accumulated other comprehensive income (loss)	38	(25)
Total shareholder's equity	**86,438**	89,290
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$ 243,712	$ 233,573

See accompanying notes to condensed consolidated financial statements.

OBAGI GLOBAL HOLDINGS LIMITED
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME (UNAUDITED)
(In thousands of U.S. dollars, except share and per share data)

	Six months ended June 30,	
	2022	**2021**
Net revenue	$ 106,440	$ 94,204
Cost of goods sold (exclusive of depreciation and amortization shown separately below)	24,701	23,463
Selling, general and administrative	68,418	45,698
Research and development	3,262	2,534
Depreciation and amortization	7,369	6,936
Total operating expenses	**103,750**	**78,631**
Operating income	**2,690**	**15,573**
Interest expense	5,719	5,041
Loss on extinguishment of debt	-	2,317
Gain on PPP Loan forgiveness (Note 9)	-	(6,824)
Other (income) expense, net	(74)	145
(Loss) income before income taxes	**(2,955)**	**14,894**
Income tax (benefit) expense	(40)	1,948
Net (loss) income	**(2,915)**	**12,946**
Other comprehensive Income—Foreign currency translation adjustments, net of tax	63	1
Comprehensive (loss) income	$ (2,852)	$ 12,947
Net (loss) income per share of common stock — Basic and diluted	$ (0.36)	$ 1.62
Weighted average shares of common stock outstanding — Basic and diluted (Note 12)	8,000,002	8,000,002

See accompanying notes to condensed consolidated financial statements.

OBAGI GLOBAL HOLDINGS LIMITED
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY (UNAUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2022 AND 2021
(In thousands of U.S. dollars, except share data)

	Common Stock		Additional Paid-In	Accumulated	Accumulated Other Comprehensive	Total Shareholder's
	Shares	Amount	Capital	Deficit	Income (Loss)	Equity
BALANCE—January 1, 2021	**8,000,002**	**$ 4,000**	**$ 100,113**	**$ (12,728)**	**$ 5**	**$ 91,390**
Net income	-	-	-	12,946	-	12,946
Foreign currency translation adjustment	-	-	-	-	1	1
Dividends	-	-	-	(1,998)	-	(1,998)
BALANCE—June 30, 2021	**8,000,002**	**$ 4,000**	**$ 100,113**	**$ (1,780)**	**$ 6**	**$ 102,339**
BALANCE—January 1, 2022	**8,000,002**	**$ 4,000**	**$ 100,113**	**$ (14,798)**	**$ (25)**	**$ 89,290**
Net loss	-	-	-	(2,915)	-	(2,915)
Foreign currency translation adjustment	-	-	-	-	63	63
BALANCE—June 30, 2022	**8,000,002**	**$ 4,000**	**$ 100,113**	**$ (17,713)**	**$ 38**	**$ 86,438**

See accompanying notes to condensed consolidated financial statements.

OBAGI GLOBAL HOLDINGS LIMITED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In thousands of U.S. dollars)

	Six months ended June 30,	
	2022	**2021**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (2,915)	$ 12,946
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	7,369	6,936
Amortization of debt issuance costs	680	538
Loss on extinguishment of debt	-	2,317
Gain on PPP loan forgiveness	-	(6,824)
Loss on disposal of equipment	-	52
Changes in operating assets and liabilities:		
Accounts receivable	(14,298)	(14,276)
Inventories	(8,247)	3,809
Prepaid expenses	(142)	(3,564)
Other current assets and other assets	184	-
Accounts payable	7,134	5,625
Other current liabilities and other liabilities	1,481	2,969
Net cash (used in) provided by operating activities	**(8,754)**	**10,528**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditure on intangible assets	(261)	(363)
Capital expenditure on property and equipment	(920)	(507)
Net cash used in investing activities	**(1,181)**	**(870)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of dividends	-	(750)
Proceeds from term loan	-	110,000
Proceeds from revolving credit facility	6,000	20,000
Repayment of revolving credit facility	-	(44,000)
Repayment of term loan	(1,375)	(71,905)
Payment of debt issuance costs	(742)	(6,383)
Net cash provided by financing activities	**3,883**	**6,962**
CHANGE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	**(6,052)**	**16,620**
CASH, CASH EQUIVALENTS AND RESTRICTED CASH—Beginning of period	**13,444**	**8,572**
CASH, CASH EQUIVALENTS AND RESTRICTED CASH—End of period	**7,392**	**25,192**

See accompanying notes to condensed consolidated financial statements.

1. DESCRIPTION OF BUSINESS

Obagi Global Holdings Limited ("Obagi Global") is a holding company incorporated in the Cayman Islands that conducts all operations through its wholly owned subsidiaries (collectively the "Company" or "Obagi"). The Company is a global skincare company that develops, markets, and sells proprietary-topical aesthetic and therapeutic prescription-strength skincare systems and related products primarily in the physician-dispensed market. Obagi provides cosmetic, over-the-counter ("OTC") and prescription products designed to prevent or improve the most common and visible skin disorders in adult skin, including premature aging, photo damage, hyperpigmentation (irregular or patchy discoloration of the skin), acne, sun damage, facial redness, and soft tissue deficits, such as fine lines and wrinkles. The Company is headquartered in Long Beach, California.

On July 15, 2021, ZhongHua Finance Acquisition Fund I, L.P., the Company's sole shareholder, transferred its shares to its affiliate, Cedarwalk Skincare Ltd. ("Cedarwalk"), which is now the sole shareholder of the Company. This transfer between affiliates did not result in any change of control.

Business Combination

On November 15, 2021, Waldencast Acquisition Corp. ("Waldencast") (NASDAQ: WALD), a special purpose acquisition company, entered into an Agreement and Plan of Merger (the "Merger Agreement") with the Company and Obagi Merger Sub, Inc., indirect wholly owned subsidiaries of Waldencast ("Merger Sub"). On July 27, 2022 the merger was completed and the Merger Sub merged with and into the Company (excluding its operations in the China Region, as defined below), the separate corporate existence of Merger Sub ceased to exist, with the Company surviving as an indirect wholly owned subsidiary of Waldencast. Concurrently with the Merger Agreement, Waldencast entered into an Equity Purchase Agreement with Milk Makeup LLC ("Milk") (together, the transactions contemplated in the Merger Agreement and Equity Purchase Agreement, the "Business Combination") and acquired all of the issued and outstanding membership units of Milk. Following the Business Combination, the combined company is organized in an "Up-C" structure, in which the equity interests of the Company and Milk are held by Waldencast LP. Waldencast plc's interests in the Company and Milk are held through its wholly owned subsidiaries, Holdco 1 and Waldencast LP.

Waldencast acquired the Company at an enterprise value of approximately $858,000 excluding 100% of the business of Obagi Hong Kong Limited and certain related entities and assets (the "Obagi China Business"), consisting of approximately $317,000 in cash, and $246,000 in Class A ordinary shares of the post-combination entity, Waldencast plc (as defined in the Plan of Domestication).

Immediately prior to the closing of the Business Combination, the Company carved out and distributed the Note Receivable (as defined below) and its operations in the People's Republic of China, inclusive of the Hong Kong Special Administrative Region, the Macau Special Administrative Region, and Taiwan (the "China Region") to its shareholder, Cedarwalk.

In connection with the distribution, and at the time of the Business Combination, the Company entered into an Intellectual Property License Agreement (the "IP License Agreement") with the Obagi China Business. Under the IP License Agreement, the Company will exclusively license intellectual property relating to the Obagi brand to the Obagi China Business, and the Company retains the rights to such intellectual property to conduct the Obagi-branded business worldwide except for the China Region. The Obagi China Business will pay the Company a royalty of five and a half percent (5.5%) of gross sales of licensed products and services, less taxes and refunded returns.

In connection with the distribution, and at the time of the Business Combination, the Company entered into a Global Supply Services Agreement (the "Supply Agreement") with the Obagi China Business, pursuant to which the Company will supply, or cause to be supplied through certain CMOs (as defined in the Supply Agreement), products to the Obagi China Business and its affiliates, for the Obagi China Business's distribution and sale in the China Region. The term of the Supply Agreement is perpetual, subject to termination for material breach and failure to cure or termination in the event that the IP License Agreement is terminated.

In connection with the distribution, and at the time of the Business Combination, the Company entered into a Transition Services Agreement (the "Transition Services Agreement") with the Obagi China Business, for the provision of certain transition services to enable the Obagi China Business to conduct Obagi-branded business as a going concern in the China Region. The transition services will be provided for an initial term of up to twelve (12) months, with an option for the Obagi China Business to extend the service period for up to an additional twelve (12) months solely as to certain research and development services. Services will be charged at the reasonable, fully-loaded costs of providing the services, but such services will be provided at no charge for a certain period of time or up to a specified amount of services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation—These condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") and applicable rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the audited financial statements and accompanying notes for the years ended December 31, 2021 and 2020, included in Waldencast's definitive proxy statement/final prospectus dated July 7, 2022, and filed with the SEC on July 7, 2022. The consolidated balance sheet as of December 31, 2021, included herein, was derived from the audited financial statements of Obagi Global Holdings Limited as of that date.

The unaudited interim condensed consolidated financial statements, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the Company's financial position as of June 30, 2022, its results of operations, comprehensive (loss) income, shareholder's equity, and cash flows for the six months ended June 30, 2022 and 2021. The results of the six months ended June 30, 2022 and 2021 are not necessarily indicative of the results to be expected for the year ending December 31, 2022 or for any interim period or for any other future year.

There were no changes to the significant accounting policies or recent accounting pronouncements as described in the Company's financial statements for the fiscal year ended December 31, 2021, except as noted below.

Emerging Growth Company—Section 102(b)(1) of the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act") exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies (that is, those that have not had a registration statement declared effective under the Securities Act of 1933, as amended, or do not have a class of securities registered under the Exchange Act of 1934, as amended) are required to comply with the new or revised financial accounting standards. The JOBS Act provides that an emerging growth company can elect to opt out of the extended transition period and comply with the requirements that apply to non-emerging growth companies but any such election to opt out is irrevocable. The Company has elected not to opt out of such extended transition period, which means that when a standard is issued or revised, and it has different application dates for public or private companies, the Company, as an emerging growth company, can adopt the new or revised standard at the time private companies adopt the new or revised standard.

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

Concentrations of Credit Risk—Financial instruments that subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Company maintains its cash balances in accounts held by major banks and financial institutions located primarily in the United States and considers such risk to be minimal. Such bank deposits from time to time may be exposed to credit risk in excess of the Federal Deposit Insurance Corporation insurance limit.

The Company's accounts receivable primarily represent amounts due from wholesale distributors and group purchasing organizations located both inside and outside the U.S. The Company mitigates its credit risks by performing ongoing credit evaluations of its customers' financial conditions, requires customer advance payments in certain circumstances and has historically not had receipt of payment exceed 60 days. The Company generally does not require collateral.

As of June 30, 2022, four customers accounted for 37%, 31%, 12% and 12% of accounts receivable, respectively. As of December 31, 2021, three customers accounted for 35%, 33% and 13% of accounts receivable, respectively.

During the six months ended June 30, 2022 and 2021, three vendors and two vendors, respectively, exceeded 10% of inventory purchases. In the six months ended June 30, 2022, the Company purchased approximately 31%, 13%, and 12% of inventory, from the three vendors. In the six months ended June 30, 2021, the Company purchased approximately 59% and 12% of inventory, respectively, from the two vendors. As of June 30, 2022, two vendors accounted for 19%, and 20%, respectively, of accounts payable. As of December 31, 2021, one vendor accounted for 40% of accounts payable.

Restricted Cash—The Company's restricted cash represents funds that are not accessible for general purpose cash needs due to contractual limitations. As of June 30, 2022 and December 31, 2021, the Company had restricted cash of $650. The restricted cash balance represents cash in a savings account held by a major bank located in the United States and provides collateral for corporate credit cards obtained by the Company for its employees. The Company is required to hold the restricted cash in the bank's savings account until August 2022. As of June 30, 2022, the Company's cash, cash equivalents and restricted cash balance of $7,392 shown on the condensed consolidated statements of cash flows consisted of $650 restricted cash and $6,742 in cash and cash equivalents. As of December 31, 2021, the Company's cash, cash equivalents and restricted cash balance of $13,444 shown on the condensed consolidated statements of cash flows consisted of $650 restricted cash and $12,794 cash and cash equivalents.

Segments—The Company operates as a single operating and reportable segment. Operating segments are defined as components of an enterprise for which separate discrete financial information is evaluated regularly by the chief operating decision maker ("CODM") in deciding how to allocate resources and assess the Company's financial and operational performance. The Company has determined that its Chief Executive Officer is the CODM. To date, the Company's CODM has made such decisions and assessed performance at the Company-level.

Recently Issued Accounting Standards, Not Yet Adopted—

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, *Leases* (Topic 842) and since that date has issued subsequent amendments to the initial guidance intended to clarify certain aspects of the guidance and to provide certain practical expedients entities can elect upon adoption. ASU 2016-02 amends the guidance for lease accounting to require lease assets and liabilities to be recognized on the balance sheet, along with additional disclosures regarding key leasing arrangements. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, and early adoption is permitted. Entities must adopt the standard using a modified retrospective transition and apply the guidance to the earliest comparative period presented, with certain practical expedients that entities may elect to apply. In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers* (Topic 606) and *Leases* (Topic 842), which defers the effective date for one year for entities in the "all other" category and public not-for-profit entities that have not yet issued their financial statements reflecting the adoption of Leases. Topic 842 is effective for the Company for the annual period ending December 31, 2022, and interim periods within the annual period ending December 31, 2023, with earlier adoption permitted. The Company will adopt Topic 842 during the annual period ending December 31, 2022 using the modified retrospective method and as a result will not restate prior periods. The Company intends to elect the practical expedients provided in the new ASUs that (i) allow historical lease classification of existing leases, (ii) allow the Company to not reassess whether any expired or existing contracts contain leases, and (iii) allow the Company to not reassess initial direct costs for any existing leases. The Company is currently evaluating its lease agreements and summarizing key contract terms and financial information associated with each lease agreement in order to assess the impact the adoption of ASU 2016-02 will have on its consolidated financial statements. Based on the Company's current lease portfolio, the Company preliminarily expects Topic 842 to have a material impact on its consolidated balance sheet primarily related to the recognition of operating lease assets and liabilities. The Company does not expect the adoption to have a material impact on the Company's consolidated statement of operations or on its consolidated statement of cash flows.

In February 2016, the FASB issued ASU No. 2016-13, *Financial Statements—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This ASU adds an impairment model known as current expected credit loss that is based on expected losses rather than incurred losses. It recognizes an allowance as its estimate of expected credit losses, which may result in more timely recognition of such losses. In 2019, the FASB issued ASU 2019-10, *Financial Instruments—Credit Losses* (Topic 326), *Derivatives and Hedging* (Topic 815), and *Leases* (Topic 842), which defers the effective date for entities in the "all other" category and public not-for-profit entities that have not yet issued their financial statements reflecting the adoption of Credit Losses. The amendments in this ASU are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, and early adoption is permitted. This guidance is effective for the Company for the annual period beginning on January 1, 2023, and interim periods within the annual period beginning on January 1, 2023. The Company's adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes—Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* ("ASU 2019-12"). ASU 2019-12 simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. ASU 2019-12 is effective for the Company for annual period beginning on January 1, 2022, and interim periods within the annual period beginning on January 1, 2023. The amendments do not create new accounting requirements. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This ASU provides relief that, if elected, will require less accounting analysis and less accounting recognition for modifications related to reference rate reform. This update provides optional guidance for a limited period of time to ease the potential burden in accounting for reference rate reform on financial reporting. The amendments in the update apply only to contracts, hedging relationships, and other transactions that reference the London Inter-Bank Offered Rate ("LIBOR") or another reference rate expected to be discontinued because of reference rate reform. The amendments in this ASU were effective upon issuance and may be applied through December 31, 2022. The Company is implementing a transition plan to modify its debt with interest rates that are influenced by LIBOR. The Company is continuing to assess ASU 2020-04 and its impact on the Company's transition away from LIBOR for its debt.

3. REVENUE

The Company disaggregates its revenue from contracts with customers by sales channel, as well as by revenue source and geographic region, based on the location of the end customer, as it believes it best depicts how the nature, amount, timing and uncertainty of its revenue and cash flows are affected by economic factors. Total revenue based on the disaggregation criteria was as follows (in thousands):

	Six months ended June 30, 2022	Six months ended June 30, 2021
Revenue by Sales Channel		
Medical	$ 85,354	$ 91,186
Clinical	20,477	2,330
Other	609	688
Total	$ 106,440	$ 94,204
Revenue by Geographic Region		
North America	$ 46,615	$ 46,008
Asia Pacific	50,275	36,041
Rest of the World	7,086	8,926
Net product sales	$ 103,976	$ 90,975
Asia Pacific Royalties	2,464	3,229
Total	$ 106,440	$ 94,204

For the six months ended June 30, 2022, the countries that accounted for more than 10% of the Company's total revenue were the United States and Vietnam, with net product sales amounting to $46,365 and $40,864, respectively. For the six months ended June 30, 2021, the countries that accounted for more than 10% of the Company's total revenue were the United States, Vietnam, and China, with net product sales amounting to $46,008, $22,529, and 9,872 respectively.

For the six months ended June 30, 2022, two customers accounted for 32% and 31%, respectively, of the Company's total revenue. For the six months ended June 30, 2021, two customers accounted for 40% and 22%, respectively, of the Company's total revenue.

Services Provided by the Customer

Consideration payable to a customer for distinct goods or services is treated as a purchase for an amount up to the fair value of those distinct goods or services. The Company recognizes consideration payable to its customers as an operating expense for distinct services which include marketing, technology support, program management, and regulatory compliance. When consideration payable for the distinct services exceeds the fair value of services provided by the customer, the Company records those excess amounts as a reduction of the transaction price in the arrangement. These services are provided by certain customers that are distributors. Consideration payable to a customer for non-distinct services, mainly traditional distribution services such as packing and shipping, is recorded as a reduction to the transaction price. In cases where the Company cannot reasonably estimate the fair value of the goods or services received from the customer, it will recognize the consideration payable as a reduction of the transaction price.

The expenses recognized relating to distinct services provided by customers are as follows (in thousands):

	Six months ended June 30,	
	2022	2021
Selling, general and administrative	$ 16,383	$ 10,481
Research and development	823	704
Total	$ 17,206	$ 11,185

4. ACCOUNTS AND NOTE RECEIVABLE, NET

As of June 30, 2022, accounts receivable, net consisted of accounts receivable of $75,227, less allowance for doubtful accounts of $62. As of December 31, 2021, accounts receivable, net consisted of accounts receivable of $60,929, less allowance for doubtful accounts of $62.

During the six months ended June 30, 2022 and 2021, there were no changes to the Company's allowance for doubtful accounts. The Company did not have any write-offs.

On July 30, 2021, and as amended on December 31, 2021 and April 30, 2022, Obagi Cosmeceuticals LLC, a wholly owned subsidiary of the Company, entered into a non-recourse, uncollateralized short-term promissory note, not in the ordinary course of business, lending a third party $2,500 (the "Note Receivable"). This Note Receivable matures on December 31, 2022 and carries an interest rate of 1.00% from July 30, 2021 to September 29, 2021 and 8.00% from September 30, 2021 through maturity. The outstanding principal and accrued interest are due upon maturity. In connection with the Business Combination described in Note 1, on July 27, 2022 the Note Receivable was carved out and distributed to the Company's shareholder, Cedarwalk.

5. INVENTORIES

The components of inventories were as follows (in thousands):

	June 30, 2022	December 31, 2021
Work in process	$ 1,420	$ 1,619
Finished goods	26,166	17,720
Total	$ 27,586	$ 19,339

6. PROPERTY AND EQUIPMENT—NET

Property and equipment, net consisted of the following (in thousands):

	June 30, 2022	December 31, 2021
Computer software and website development costs	$ 4,576	$ 4,334
Other property and equipment	647	83
Total property and equipment	5,223	4,417
Less: accumulated depreciation	(1,446)	(833)
Property and equipment, net	$ 3,777	$ 3,584

Depreciation expense for property and equipment for the six months ended June 30, 2022 and 2021 was $613 and $268, respectively. Depreciation expense during these periods pertain to property and equipment utilized as part of the Company's selling, general and administrative activities and therefore has not been allocated to cost of goods sold.

7. INTANGIBLE ASSETS, NET

Intangible assets, net consisted of the following as of June 30, 2022 (in thousands):

	Weighted Average Useful Lives (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trademarks	10	$ 46,216	$ (20,176)	$ 26,040
Customer lists	10	39,370	(18,373)	20,997
Supply agreement	10	25,570	(11,933)	13,637
Developed technology	10	22,863	(10,759)	12,104
Patents	20	309	(18)	291
Total		$ 134,328	$ (61,259)	$ 73,069

Intangible assets, net consisted of the following as of December 31, 2021 (in thousands):

	Weighted Average Useful Lives (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trademarks	10	$ 46,004	$ (17,842)	$ 28,162
Customer lists	10	39,370	(16,404)	22,966
Supply agreement	10	25,570	(10,654)	14,916
Developed technology	10	22,863	(9,592)	13,271
Patents	20	270	(11)	259
Total		$ 134,077	$ (54,503)	$ 79,574

No impairment loss was recognized for the six months ended June 30, 2022 and 2021. Amortization expense for the six months ended June 30, 2022 and 2021 was $6,756 and $6,668, respectively. Expected amortization for each of the years between 2022 through 2026, and thereafter are as follows (in thousands):

Years Ending December 31,	
2022 (remaining 6 months)	$ 6,764
2023	13,531
2024	13,368
2025	13,325
2026	13,325
Thereafter	12,756
	$ 73,069

8. OTHER CURRENT LIABILITIES

The major components of other current liabilities consisted of the following (in thousands):

	As of	
	June 30, 2022	December 31, 2021
Accrued salaries and related expenses	$ 6,623	$ 6,741
Accrued marketing expenses	4,031	2,963
Accrued distribution fees	2,930	1,926
Other	833	1,353
Total	$ 14,417	$ 12,983

9. DEBT

Current and long-term obligations consisted of the following (in thousands):

	Maturity Date	June 30, 2022	December 31, 2021
2021 Term Loan	March 2026	$ 107,800	$ 109,175
2021 Revolving Credit Facility	March 2026	21,000	15,000
Unamortized debt issuance costs		(5,433)	(5,370)
Net carrying amount		123,367	118,805
Less: Current portion of long-term debt		(22,603)	(15,382)
Total long-term portion		$ 100,764	$ 103,423

2021 Credit Agreement

On March 16, 2021, and as amended on June 10, 2022, the Company replaced the 2018 Credit Agreement (described below) for a new financing agreement with a syndicate of lenders, including TCW Asset Management Company LLC as administrative agent for the lenders (the “2021 Credit Agreement”). The 2021 Credit Agreement included a term loan of $110,000 (the “2021 Term Loan”) and a revolving credit facility with borrowing capacity of up to $40,000 (“2021 Revolving Credit Facility”). Both the 2021 Term Loan and the 2021 Revolving Credit Facility mature on March 16, 2026. The 2021 Term Loan and 2021 Revolving Credit Facility bear interest at the LIBOR plus an applicable margin, as determined by the Company’s leverage ratios, and are subject to LIBOR succession provisions. If LIBOR becomes unavailable, the parties will establish an alternate index rate that gives due consideration to the then prevailing market convention for determining a rate of interest for leveraged syndicated loans in the United States. In connection with the issuance of the 2021 Credit Agreement, the Company incurred $6,383 of debt issuance costs. The 2021 Credit Agreement is secured by the assets of the Company.

As of June 30, 2022, the Company had unpaid principal of $107,800 and unamortized debt issuance costs of $3,984 on the 2021 Term Loan. The interest rate on the term loan was 8.50% and the accrued interest was $0 as of June 30, 2022. The current portion of the 2021 Term Loan and 2021 Revolving Credit Facility is $4,125 and $21,000, respectively. The current portion of the unamortized debt issuance costs on the 2021 Term Loan and 2021 Revolving Credit Facility is $1,073 and $1,449, respectively. The outstanding balance under the 2021 Credit Agreement was settled upon the completion of the Business Combination, which occurred on July 27, 2022.

2018 Credit Agreement

On December 13, 2018, and as amended on December 23, 2019 and November 9, 2020, the Company entered into a credit agreement (the "2018 Credit Agreement") with a syndicate of banks, including Wells Fargo Bank, National Association as administrative agent for the banks (the "Syndicate of Banks"). The 2018 Credit Agreement included a term loan of $90,000 (the "2018 Term Loan") and a revolving credit facility with borrowing capacity of up to $35,000 ("2018 Revolving Credit Facility"). Both the 2018 Term Loan and the 2018 Revolving Credit Facility were due to mature on December 13, 2023. In connection with the issuance of the 2018 Credit Agreement, the Company incurred $2,914 of debt issuance costs. The 2018 Credit Agreement was secured by the assets of the Company. Both the Term Loan and the Revolving Credit Facility carried an interest rate of LIBOR plus applicable margin, as determined by the Company's leverage ratios, and were subject to LIBOR succession provisions. On December 23, 2019 the 2018 Credit Agreement was amended to revise the definition of consolidated earnings before interest, taxes, depreciation, and amortization ("Consolidated EBITDA") to allow for certain additional adjustments, in relation to the debt covenants.

The Company recorded a loss on extinguishment of the 2018 Credit Agreement of $2,317 to loss on extinguishment of debt in the accompanying condensed consolidated statement of operations and comprehensive (loss) income during the six months ended June 30, 2021, which consisted of expensing unamortized debt issuance costs.

PPP Loan

On May 11, 2020, the Company received loan proceeds in the amount of $6,750 under the Paycheck Protection Program ("PPP") from MUFG Union Bank (the "PPP Loan"). The PPP, established as part of the Coronavirus aid, Relief and Economic Security Act ("CARES Act"), provided for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The PPP Loan accrued interest at a rate of 1%. The PPP Loan and accrued interest were forgivable after eight or twenty-four weeks as long as the borrower used the proceeds for eligible purposes, including payroll, benefits, rent and utilities and maintains its payroll levels. The Company used the proceeds for purposes consistent with the PPP, and in 2021, received approval from MUFG Union Bank and the Small Business Administration for forgiveness of the full amount of its PPP Loan, inclusive of accrued interest of $74. The Company recognized a gain on PPP Loan forgiveness of $6,824 in the second quarter of 2021.

Scheduled Debt Maturities

Scheduled maturities under the Company's 2021 Credit Agreement (excluding unamortized debt issuance costs of $5,433) as of June 30, 2022 are as follows (in thousands):

Year Ending December 31,		
2022 (remaining 6 months)	$	22,375
2023		5,500
2024		5,500
2025		5,500
2026		89,925
Total unpaid principal	$	128,800

10. STOCK BASED COMPENSATION

On January 26, 2021, the Company established a Stock Incentive Plan (the "Stock Plan"), under which stock options, stock awards, and restricted stock units ("Restricted Stock") of the Company may be granted to eligible employees, directors, and consultants. Under the Stock Plan, the Company is authorized to issue a maximum number of 1,500,000 shares of common stock. Incentive stock options must have an exercise price at or above the fair market value of the stock on the date of the grant. Stock options and Restricted Stock granted by the Company have service-based and performance-based vesting conditions.

The options vest over five years, with 25% of options vesting in four equal quarterly installments at the end of each three-month period through the first anniversary of the grant, and the remaining 75% vesting in a series of five equal annual installments over the five-year period measured from the grant date. The Restricted Stock vests in five equal annual installments at the end of each year, over the five-year period from the grant date. Award holders have a ten-year period to exercise the options before they expire. Notwithstanding achievement of the service-based condition, the options and Restricted Stock do not vest or become exercisable until a qualifying transaction is consummated prior to the expiration date. A qualifying transaction consists of either a change in control event or an underwritten initial public offering by the Company of its equity securities on a U.S. or foreign exchange.

The weighted average fair value per share of the Restricted Stock granted during the six months ended June 30, 2022 was $63.59. The weighted average fair value per share of the awards granted during the six months ended June 30, 2021 was $15.55 and $38.86 for stock options and Restricted Stock, respectively. The unrecognized compensation cost was $12,442 and $9,523 for stock options and Restricted Stock, respectively, as of June 30, 2022 and $12,442 and $9,411 for stock options and Restricted Stock, respectively, as of December 31, 2021. Immediately prior to the consummation of the Business Combination, the qualifying transaction event became "probable" and previously unrecognized stock-based compensation expense was recognized at the time of close based on the requisite service period through that date.

Stock option activity for the six months ended June 30, 2022 was as follows:

	Number of Common Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (in thousands)
Outstanding as of January 1, 2022	800,000	$ 41.10	9.1	$ 16,456
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	-	-	-	-
Vested	-	-	-	-
Outstanding as of June 30, 2022	800,000	$ 41.10	8.6	$ 21,672

Stock option activity for the six months ended June 30, 2021 was as follows:

	Number of Common Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (in thousands)
Outstanding as of January 1, 2021	-	$ -	-	$ -
Granted	800,000	41.10	9.6	-
Exercised	-	-	-	-
Forfeited	-	-	-	-
Vested	-	-	-	-
Outstanding as of June 30, 2021	800,000	$ 41.10	9.6	$ (1,936)

Restricted Stock activity for the six months ended June 30, 2022 was as follows:

	Shares	Weighted Average Grant Date Fair Value per Share
Outstanding as of January 1, 2022	243,307	$ 38.68
Granted	1,754	$ 63.59
Exercised	-	-
Forfeited	-	-
Vested	-	-
Outstanding as of June 30, 2022	245,061	$ 38.86

Restricted Stock activity for the six months ended June 30, 2021 was as follows:

	Shares	Weighted Average Grant Date Fair Value per Share
Outstanding as of January 1, 2021	-	-
Granted	243,307	$ 38.68
Exercised	-	-
Forfeited	-	-
Vested	-	-
Outstanding as of June 30, 2021	243,307	$ 38.68

11. SHAREHOLDER'S EQUITY

The Company's equity structure consists of a single class of common stock. On December 2, 2020 the Company amended and restated its Memorandum and Articles of Association, authorizing 25,000,000 shares at $0.50 par value each. Each share of common stock is entitled to one vote. The Company did not hold any shares as treasury shares as of the periods presented in the accompanying condensed consolidated financial statements.

The Company may, at the discretion of its Directors, declare dividends and distributions out of the funds of the Company lawfully available therefor. Payments of dividends and distributions are limited to realized or unrealized profits of the Company. The Company did not pay any dividends in the six months ended June 30, 2022. For the six months ended June 30, 2021, the Company, through its wholly owned subsidiary, paid $1,998 (approximately $0.25 per share) in dividends to its shareholder.

12. NET (LOSS) INCOME PER SHARE

The following table sets forth the computation of basic and diluted net (loss) income using the treasury stock method for the six months ended June 30, 2022 and 2021 (in thousands, except for share and per share amounts):

	Six Months Ended June 30,	
	2022	2021
Net (loss) income	$ (2,915)	$ 12,946
Weighted-average number of shares outstanding – basic and diluted	8,000,002	8,000,002
Net (loss) income per share – basic and diluted	$ (0.36)	$ 1.62

The following table represents potential shares of common stock outstanding that were excluded from the computation of diluted net (loss) income per share of common stock as they are issuable contingent on the occurrence of a qualifying event, and for the periods presented, the necessary conditions have not been satisfied (see Note 10):

	Six Months Ended June 30,	
	2022	2021
Stock options	800,000	800,000
Restricted Stock	245,061	243,307
Total	1,045,061	1,043,307

13. INCOME TAX (BENEFIT) EXPENSE

Income taxes are determined using an estimated annual effective tax rate applied against income, and then adjusted for the tax impacts of certain significant and discrete items. The table below sets forth information related to the Company's income tax (benefit) expense:

	Six Months Ended June 30,		
	2022	2021	Change
Income tax (benefit) expense	$ (40)	$ 1,948	$ (1,988)
Effective tax rate	1.4%	13.1%	(11.7)%

The Company, domiciled in the Cayman Islands, is subject to taxation in the U.S. and various states jurisdictions. ASC Topic 740, *Income Taxes* ("ASC 740") indicates that the federal statutory income tax rate of a foreign reporting entity be used when preparing the rate reconciliation disclosure. As such, the Company and its wholly owned subsidiaries use the statutory income tax rate in the Cayman Islands, which is 0%. The decrease in the effective tax rate for the six months ended June 30, 2022 when compared to the six months ended June 30, 2021, was primarily attributable to the change in pre-tax earnings and the change in valuation allowance recorded during the comparable periods. The Company's future effective tax rate may vary from the statutory tax rate due to the mix of earnings in tax jurisdictions with different statutory tax rates or due to changes in valuation allowance.

The Company files income tax returns in the U.S. federal jurisdiction and in various state and foreign jurisdictions. The Company remains subject to examination for federal and state income tax purposes for the tax years ending 2017 and forward. The Company does not anticipate a significant change in its uncertain tax benefits over the next 12 months. Management believes it is more likely than not that all significant tax positions taken to date would be sustained by the relevant taxing authorities.

14. RELATED PARTY TRANSACTIONS

There were no related party transactions during the six months ended June 30, 2022 and 2021.

15. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

From time to time, the Company may be a party to litigation and subject to claims incidental to its business. Although the results of litigation and claims cannot be predicted with certainty, the Company currently believes that the final outcome of these matters will not have a material adverse effect on its business. Regardless of the outcome, litigation can have an adverse impact on the Company because of judgment, defense and settlement costs, diversion of management resources, and other factors. At each reporting period, the Company evaluates whether or not a potential loss amount or a potential range of loss is probable and reasonably estimable, requiring recognition of a loss accrual, or whether the potential loss is reasonably possible, requiring potential disclosure. Legal fees are expensed as incurred.

Operating Lease Obligations

The Company leases office space under four non-cancelable operating leases expiring between September 2023 and October 2032. Rent expense related to operating leases was $796 and $534 for the six months ended June 30, 2022 and 2021, respectively.

As of June 30, 2022, future minimum lease payments under all noncancelable operating leases with an initial lease term in excess of one year were as follows (in thousands):

Year Ending December 31		
2022 (remaining 6 months)	$	811
2023		2,075
2024		1,968
2025		2,012
2026		1,377
Thereafter		5,386
	$	13,629

16. SUBSEQUENT EVENTS

The Company has evaluated all subsequent events through August 11, 2022, the date these condensed consolidated financial statements were issued.

On July 27, 2022 the Company carved out and distributed the Note Receivable and its operations in the China Region to its shareholder, Cedarwalk, and completed the Business Combination with Waldencast as discussed in Note 1. Upon the completion of the Business Combination the outstanding balance of the 2021 Credit Agreement inclusive of accrued interest was settled.

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

The following discussion and analysis of the financial condition and results of operations of Obagi Global Holdings Limited (collectively with its subsidiaries) ("Obagi"), should be read together with its respective audited financial statements as of December 31, 2021 and 2020, and for the years ended December 31, 2021, 2020 and 2019, as well as unaudited condensed interim consolidated financial statements as of June 30, 2022, and December 31, 2021 and for the six months ended June 30, 2022 and 2021, in each case together with related notes thereto, included elsewhere in this filing or in Waldencast's definitive proxy statement/final prospectus dated July 7, 2022, and filed with the SEC on July 7, 2022, as applicable. The discussion and analysis should also be read together with the sections entitled "Information About Obagi" and "Unaudited Pro Forma Condensed Combined Financial Information." Except where the context otherwise requires, the terms "we," "us" and "our" in this discussion and analysis refer to Obagi prior to the Business Combination and to Obagi following the consummation of the Business Combination. The following discussion contains forward-looking statements that reflect future plans, estimates, beliefs and expected performance. The forward-looking statements are dependent upon events, risks and uncertainties that may be outside of Obagi's control. Our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ materially from those projected in the forward-looking statements include, but are not limited to, those discussed in the sections entitled "Risk Factors" and "Cautionary Statement Regarding Forward-Looking Statements" included elsewhere in this filing or in Waldencast's definitive proxy statement/final prospectus dated July 7, 2022, and filed with the SEC on July 7, 2022. Certain amounts may not foot due to rounding.

Overview

We are a global skincare company that develops, markets, and sells innovative skin health products in more than 60 countries around the world. With a 33-year legacy, today we exist to create the future of skin health so that every face is cared for everywhere. With our unique position rooted in the aesthetic physician community, we offer transformative solutions at various stages of the skincare journey to help consumers greet the future with confidence. Our product portfolio is designed to prevent or improve common, visible skin concerns such as fine lines and wrinkles, elasticity, photodamage, hyperpigmentation, acne, oxidative stress, environmental damage, and hydration.

Our product portfolio today includes more than 200 cosmetic, OTC and prescription products sold through three distinct brands—Obagi Medical, Obagi Clinical and Obagi Professional—as well as the Skintrinsiq device.

In the United States, we sell our Obagi Medical systems and related products through our direct sales force to dermatologists, plastic surgeons and other physicians who are focused on aesthetic and therapeutic skincare, including physicians on site at medical spas. The medical professionals we sell to then dispense our products in-office directly to their patients, a distribution method commonly referred to as the "physician-dispensed" channel. We sell our Obagi Clinical products through retail channels, our Obagi Professional line will be sold to licensed aestheticians and spas, and the Skintrinsiq device is sold through the physician-dispensed channel as well as to aestheticians and spas.

Internationally we sell our products through distribution partners across Central America, Europe, the Middle East, and Asia. We also advance our development objectives through product and license agreements with third parties. These agreements may include patent and technology licenses, product licenses and new product collaboration agreements. We compete in Japan through a strategic licensing agreement with a Japanese pharmaceutical manufacturer and distributor that sells a series of OTC and cosmetic products under the Obagi brand name in the Japanese skincare retail channels.

Recent Events

Impact of COVID-19 Pandemic

In March 2020, the World Health Organization declared the novel strain of COVID-19, a global pandemic and recommended containment and mitigation measures worldwide. COVID-19 has disrupted everyday life and markets worldwide, leading to significant business and supply-chain disruption, as well as broad-based changes in supply and demand. While the quarantine, social distancing and other regulatory measures instituted or recommended in response to COVID-19 are expected to be temporary, the duration of the business disruptions, and related financial impact, cannot be estimated at this time.

The direct impact of COVID-19 on our business, beyond disruptions to normal business operations, resulted from the closure of physician customers' practices for several weeks, which greatly diminished demand for our products. Although some of these customers have now established websites to be able to provide products to their patients through online sales, any re-implementation of similar restrictions could have a material impact on our future net revenue.

In addition, the COVID-19 pandemic caused us to modify our business practices, including accelerating the launch of a redesigned website to enable us to sell our own products online, creating an e-commerce platform to enable our physician customers to sell Obagi products online to their patients, designing a "Door-Step Delivery Program" for our customers' patients, and investing in our "Helping Hands" program to provide free hand sanitizer to healthcare professionals. To help ensure the health and safety of our employees, we also created COVID-19 response teams to provide support to employees to address new challenges as a result of COVID-19 and transitioned to a hybrid work environment where employees are in the office on a part-time basis. We may take further actions as may be required by Governmental Authorities or as we determine is in the best interests of our employees, customers and their patients, any of which may require unanticipated investments in management time and money.

While the impact of COVID-19 on our manufacturing and supply chains, sales and marketing, and commercial and clinical trial operations has not been material to date, the impact of COVID-19 over the long-term is uncertain and cannot be predicted with confidence.

The extent of the continued impact of the COVID-19 pandemic on our operational and financial performance will depend on various future developments, including the duration and spread of outbreaks, the timing and nature of actions taken to respond to COVID-19, and the resulting economic consequences and the impact on our customers, consumers and employees, all of which is uncertain at this time.

Indebtedness

In December 2018, we entered into a credit agreement (the "2018 Credit Agreement") with a syndicate of lenders including Wells Fargo Bank, National Association as administrative agent for the lenders. The 2018 Credit Agreement included a term loan of $90.0 million (the "2018 Term Loan") and a revolving credit facility with borrowing capacity of up to $35.0 million (the "2018 Revolving Credit Facility"). In March 2020, we increased the 2018 Revolving Credit Facility by an additional $10.0 million, to $45.0 million, to help us manage our capital needs in response to COVID-19.

In March 2021, we replaced the 2018 Credit Agreement for a new financing agreement with a syndicate of lenders, including TCW Asset Management Company LLC as administrative agent for the lenders (the "2021 Credit Agreement"). The 2021 Credit Agreement included a term loan of $110.0 million (the "2021 Term Loan") and a revolving credit facility with borrowing capacity of up to $40.0 million (the "2021 Revolving Credit Facility").

We also received a loan from the Paycheck Protection Program ("PPP") in May 2020 in the amount of $6.8 million (the "PPP Loan"). The PPP was established as part of the CARES Act and provided for loans to qualifying businesses for amounts up to 2.5 times the average monthly payroll expenses of the qualifying business. We were able to utilize the full amount to protect our employees as part of our initiatives to respond to COVID-19. We used the proceeds for purposes consistent with the PPP, and in June 2021, the full amount of the PPP Loan was forgiven, inclusive of accrued interest of $0.1 million. We recognized a gain on forgiveness of the PPP Loan of $6.8 million in the second quarter of 2021.

Business Combination

In accounting for the Business Combination Agreement, Waldencast was deemed to be the accounting acquirer and will continue as the SEC registrant. We were the accounting acquiree, however we were considered the predecessor entity for purposes of financial reporting. Accordingly, our financial statements for previous periods will be disclosed in Waldencast's future periodic reports filed with the SEC. Under the acquisition method of accounting, Waldencast's assets and liabilities retained their carrying values and the assets and liabilities associated with us and Milk was recorded at their fair values measured as of the acquisition date, which created a new basis of accounting. The excess of the purchase price over the estimated fair values of the net assets acquired was recorded as goodwill. The fair value measurement period will remain open upon the consummation of the Business Combination while Waldencast awaits further information and analysis to determine the acquisition date fair values of certain acquired assets and assumed liabilities. Consequently, our basis of accounting, including our assets and liabilities and results of operations for periods after the consummation of the Business Combination will not be comparable to those reflected in the audited consolidated financial statements included in Waldencast's definitive proxy statement/final prospectus dated July 7, 2022, and filed with the SEC on July 7, 2022, under the section *"Unaudited Pro Forma Condensed Combined Financial Information."*

Immediately prior to the closing of the Business Combination, we carved out and distributed 100% of the Obagi China Business to our shareholder, Cedarwalk, pursuant to the Obagi China Distribution. Following the Obagi China Distribution, the Obagi China Business will continue to be held by Cedarwalk, which also owns approximately 19.2% of the fully diluted Waldencast plc Class A ordinary shares as of the closing of the Business Combination. In connection with the Obagi China Distribution, Obagi Hong Kong Limited entered into the Supply Agreement and the IP License Agreement with us, under which it will pay us royalties based on its sales of Obagi branded products in the China Region. Following the close of the Business Combination our future results will not be comparable to the historical financial results of Obagi, which include the operating results of the Obagi China Business. Please refer to *"Unaudited Pro Forma Condensed Combined Financial Information"* for the depiction of the impact on our historical financial statements of disposing of the Obagi China Business and combining with Waldencast and Milk.

Non-GAAP Financial Measures

In addition to our results of operations and measures of performance determined in accordance with GAAP, we believe that certain non-GAAP financial measures are useful in evaluating and comparing our financial and operational performance over multiple periods, identifying trends affecting our business, formulating business plans, and making strategic decisions.

Adjusted gross profit and Adjusted EBITDA are key performance measures that our management uses to assess our financial performance and for internal planning and forecasting purposes. We believe these non-GAAP measures are also useful to investors and other interested parties in evaluating our operating performance, as they are similar to measures reported by our public competitors.

Adjusted gross profit and Adjusted EBITDA are not intended to be substitutes for any GAAP financial measures and, as calculated, may not be comparable to other similarly titled measures of performance of other companies in other industries or within the same industry.

Adjusted gross profit reflects GAAP net revenue less cost of goods sold (exclusive of depreciation and amortization expense). Adjusted gross profit is reconciled to GAAP gross profit, which is not presented on the consolidated statements of operations and comprehensive (loss) income but represents the most comparable GAAP metric. GAAP gross profit reflects GAAP net revenue less cost of goods sold (exclusive of depreciation and amortization expense) and less certain intangible asset amortization expense pertaining to cost of goods sold.

We define and calculate Adjusted EBITDA as GAAP net income (loss) before interest income or expense, income tax expense, depreciation and amortization, and further adjusted for the following items: one-time restructuring and transaction-related costs as described in the reconciliation below.

Adjusted gross profit and Adjusted EBITDA exclude certain expenses that are required in accordance with GAAP because they are non-core to our regular business, such as transaction-related costs; non-cash expenses, such as depreciation and amortization; or other expenses that are not related to our underlying business performance, such as interest expense. There are limitations to non-GAAP financial measures because they exclude charges and credits that are required to be included in GAAP financial presentation. The items excluded from GAAP financial measures such as net income/loss to arrive at non-GAAP financial measures are significant components for understanding and assessing our financial performance. Non-GAAP financial measures should be considered together with, and not alternatives to, financial measures prepared in accordance with GAAP.

Adjusted Gross Profit

The table below presents our Adjusted gross profit reconciled to GAAP gross profit, as explained above.

	Six Months Ended June 30,	
(in thousands)	**2022**	**2021**
Net revenue	$ 106,440	$ 94,204
Cost of goods sold (exclusive of depreciation and amortization expense)	24,701	23,463
Amortization expense (1)	2,446	2,446
Gross profit	$ 79,293	$ 68,295
Add: Amortization expense (1)	2,446	2,446
Adjusted gross profit	$ 81,739	$ 70,741

(in thousands)	Year Ended December 31, 2021	2020	2019
Net revenue	$ 206,069	$ 84,145	$ 117,085
Cost of goods sold (exclusive of depreciation and amortization expense)	48,708	19,969	26,687
Amortization expense (1)	4,889	4,890	4,871
Gross profit	$ 152,472	$ 59,286	$ 85,527
Add: Amortization expense (1)	4,889	4,890	4,871
Adjusted gross profit	$ 157,361	$ 64,176	$ 90,398

(1) Includes supply agreement and developed technology intangible asset amortization expense that pertains to cost of goods sold.

Adjusted EBITDA

The table below presents our Adjusted EBITDA reconciled to our net (loss) income, the closest GAAP measure for the periods indicated:

(in thousands)	Six Months Ended June 30, 2022	2021
Net (loss) income	$ (2,915)	$ 12,946
Adjusted for:		
Interest expense	5,719	5,041
Income tax (benefit) expense	(40)	1,948
Depreciation and amortization	7,369	6,936
Restructuring cost(1)(2)	289	-
Transaction related costs(1) (3)	4,555	-
Loss on extinguishment of debt	-	2,317
Adjusted EBITDA	$ 14,977	$ 29,188

(in thousands)	Year ended December 31, 2021	2020	2019
Net (loss) income	$ (70)	$ (9,171)	$ 5,820
Adjusted for:			
Interest expense	11,156	6,281	6,834
Income tax expense (benefit)	11,301	(5,094)	(1,589)
Depreciation and amortization	14,053	13,426	12,940
Restructuring cost(1)(2)	1,972	-	-
Transaction related costs(1) (3)	5,244	-	-
Loss on extinguishment of debt	2,317	-	-
Gain on PPP Loan forgiveness	(6,824)	-	-
Adjusted EBITDA	$ 39,149	$ 5,442	$ 24,005

(1) We did not incur any non-core restructuring or transaction costs; therefore, no adjustments were made for these amounts for the six months ended June 30, 2021 or the years ended December 31, 2020 and 2019.

(2) Includes certain one-time costs incurred to realign the company's organizational structure to support new strategies and relocate corporate headquarters.

(3) Includes mainly advisory, consulting, accounting and legal expenses in connection with the Business Combination (see "Business Combination" section within).

Components of Results of Operations

Net Revenue

Net revenue is generated primarily from two sources: (1) product sales and (2) royalties.

Net Product Sales

We generate product sales revenue from sales of our products to distributors and directly to retailers. We recognize revenue for product sales at a point in time, when transfer of control has passed to the customer, based on the terms of the sale. In the United States, we sell the majority our products to healthcare professionals through an authorized wholesale distributor, Boxout Health. Under this model, we sell the products to Boxout Health, which then sells the products through to our physician customers when they order them. We recognize revenue for product sales to our U.S. physician customers upon transfer of control to Boxout. As a result, Boxout Health accounted for approximately 34.0%, 54.0%, and 61.0% of our net revenue during the years ended December 31, 2021, 2020, and 2019, respectively. For the six months ended June 30, 2022 and 2021, sales to Boxout accounted for 32.2% and 40.4% of our net revenue, respectively. Product sales revenue is recognized net of provisions for estimated discounts and allowances, chargebacks, distribution fees, returns, and rebates. Chargebacks are a result of promotional product discounts that we provide to physicians on sales from Boxout. When Boxout reports the chargebacks to us, we reimburse Boxout for the discounts taken. Product sales revenue primarily includes revenue from our two sales channels: Obagi Medical and Obagi Clinical. In addition, in July 2021 we launched our Skintrinsiq device.

Royalties

We also generate royalty revenue from the sale of products in Japan through a strategic licensing agreement with a Japanese pharmaceutical manufacturer and distributor that sells a series of OTC and cosmetic products under the Obagi brand name in the Japanese retail skincare channels. Revenue for royalty income is recognized in the period that corresponds to the related Rohto net sales and is presented within the Obagi Medical sales channel. Our royalty revenue from skin health systems and products in Japan was approximately $5.7 million, or 2.8% of our net revenue, $5.9 million, or 7.0% of our net revenue, and $6.3 million, or 5.4% of our net revenue, for the years ended December 31, 2021, 2020, and 2019, respectively. For the six months ended June 30, 2022 and 2021, our royalty revenue from skin health systems and products in Japan was approximately $2.5 million, or 2.3% of our net revenue, and $3.2 million, or 3.4% of our net revenue, respectively.

Cost of Goods Sold (exclusive of depreciation and amortization shown separately below)

Cost of goods sold consists primarily of expenses related to inventory, including when inventory is sold or written down. We expect that cost of revenue will increase in absolute dollars as our revenue grows and will vary from period-to-period as a percentage of revenue.

Selling, General, and Administrative

Selling, general and administrative costs include expenses we incur in our normal course of business relating to salaries, bonuses and benefits, marketing, office supplies, computer and technology, rent and utilities, insurance, legal and professional fees, city, state and property taxes, and advertising expenses. We expect that selling, general and administrative expenses will increase in absolute dollars as we continue to invest in building and maintaining our customer base, growing our business, enhancing our brand awareness, hiring additional personnel and upgrading and expanding our systems, processes, and controls to support the growth in our business, as well as due to the increased compliance and reporting requirements we will have as a public company.

In connection with the Business Combination, we expect to incur incremental ongoing and one-time expenses. Our incremental ongoing costs include additional selling, general and administrative expenses including legal, consulting, regulatory, accounting, insurance, investor relations and other expenses. The Sarbanes-Oxley Act, as well as rules adopted by the SEC and national securities exchanges, require public companies to implement specified corporate governance practices that are not currently applicable to us as a private company. These additional rules and regulations will increase our legal, regulatory, financial and insurance compliance costs. We expect any one-time expenses incurred in connection with the Business Combination to include professional fees, consulting fees and certain filing and listing fees.

Research and Development

Substantially all research and development expenses are related to new product development and design improvements in current products.

Research and development costs primarily consist of employee-related costs, including salaries, bonuses, and benefits. We plan to continue to invest in personnel to support our research and development efforts. As a result, we expect that research and development expenses will increase in absolute dollars for the foreseeable future as we continue to invest to support these activities.

Depreciation and Amortization

Depreciation and amortization expenses are related to our equipment and intangible assets. Cost of goods sold is presented on the consolidated statements of operations and comprehensive (loss) income exclusive of depreciation and amortization expense.

Results of Operations

Comparison of Six Months Ended June 30, 2022 to Six Months Ended June 30, 2021

The following tables summarize our consolidated statements of operations data, in dollars and as a percentage of total revenue, for the six months ended June 30, 2022 and 2021.

	Six Months Ended June 30,		Six Months Ended June 30, 2022 vs 2021	
(in thousands, except percentages)	**2022**	**2021**	**$ Change**	**% Change**
Net revenue	$ 106,440	94,204	12,236	13.0%
Cost of goods sold (exclusive of depreciation and amortization expense)	24,701	23,463	1,238	5.3%
Selling, general and administrative	68,418	45,698	22,720	49.7%
Research and development	3,262	2,534	728	28.7%
Depreciation and amortization	7,369	6,936	433	6.2%
Total operating expenses	103,750	78,631	25,119	31.9%
Operating income	2,690	15,573	(12,883)	(82.7)%
Interest expense	5,719	5,041	678	13.4%
Loss on extinguishment of debt	-	2,317	(2,317)	(100.0)%
Gain on PPP loan forgiveness	-	(6,824)	6,824	(100.0)%
Other (income) expense, net	(74)	145	(220)	(150.7)%
(Loss) Income before income taxes	(2,955)	14,894	(17,849)	(119.8)%
Income tax (benefit) expense	(40)	1,948	(1,988)	(102.1)%
Net (loss) income	(2,915)	12,946	(15,861)	(122.5)%

Net Revenue

The following tables provide our revenue by sales channel, as well as by revenue source and geographic region (based on the location of the end customer), for the periods presented.

(in thousands, except percentages)	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021	Six Months Ended June 30, 2022 vs 2021 $ Change	Six Months Ended June 30, 2022 vs 2021 % Change
Sales Channel				
Medical	$ 85,354	$ 91,186	$ (5,832)	(6.4)%
as a percentage of total revenue	*91.2%*	*96.8%*		
Clinical	$ 20,477	$ 2,330	$ 18,147	778.8%
as a percentage of total revenue	*8.2%*	*2.5%*		
Other	$ 609	$ 688	$ (79)	(11.5)%
as a percentage of total revenue	*0.6%*	*0.7%*		
Total	$ 106,440	$ 94,204	$ 12,236	13.0%

(in thousands, except percentages)	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021	Six Months Ended June 30, 2022 vs 2021 $ Change	Six Months Ended June 30, 2022 vs 2021 % Change
Source and Region				
North America	$ 46,615	$ 46,008	$ 607	1.3%
as a percentage of total revenue	*43.8%*	*48.8%*		
Asia Pacific	$ 50,275	$ 36,041	$ 14,234	39.5%
as a percentage of total revenue	*47.2%*	*38.3%*		
Rest of the World	$ 7,086	$ 8,926	$ (1,840)	(20.6)%
as a percentage of total revenue	*6.7%*	*9.5%*		
Net Product Sales	$ 103,976	$ 90,975	$ 13,001	14.3%
as a percentage of total revenue	*97.7%*	*96.6%*		
Asia Pacific Royalties	$ 2,464	$ 3,229	$ (765)	(23.7)%
as a percentage of total revenue	*2.3%*	*3.4%*		
Total	$ 106,440	$ 94,204	$ 12,236	13.0%

Net revenue increased by $12.2 million, or 13.0%, for the six months ended June 30, 2022, compared to the same period in 2021, primarily related to an increase in net product sales of $13.0 million.

The increase in net product sales was primarily attributable to a $14.2 million increase in our Asia Pacific region resulting from the addition of new customer accounts, expansion into new territories and increased international distributor sales online, in-store and through physicians' offices in existing territories, including increases of $18.1 million in the Clinical channel, partially offset by a $5.8 million decrease in the Medical channel due to product mix.

The increase in product sales in our Asia Pacific region are partially offset by a $1.8 million decrease in product sales in our Rest of the World region, driven by: (1) a $0.7 million decrease in sales in the United Kingdom during the six months ended June 30, 2022 compared to the same period in 2021 as a result of increased sales in 2021 from increased business coming out of COVID-19 restrictions that were in place throughout 2020; (2) a $0.6 million decrease in sales as a result of international sanctions on Russia and the war in Ukraine; and (3) a $0.5 million decrease in sales in Guatemala and Costa Rica as a result of COVID-19 business closures.

Royalty revenue decreased by $0.8 million, or 23.7%, for the six months ended June 30, 2022 compared to the same period in 2021 due to a general decrease in consumer spending in Japan during the first half of 2022, resulting from the impacts of a COVID-19 outbreak in Japan during the same period.

Cost of Goods Sold (exclusive of depreciation and amortization)

	Six Months Ended June 30,		Six Months Ended June 30, 2022 vs 2021	
(in thousands, except percentages)	**2022**	**2021**	**$ Change**	**% Change**
Cost of goods sold (exclusive of depreciation and amortization)	$ 24,701	$ 23,463	$ 1,238	5.3%
as a percentage of total revenue	23.2%	24.9%		

Cost of goods sold (exclusive of depreciation and amortization) for the six months ended June 30, 2022 increased by $1.2 million, or 5.3%, compared to same period in 2021. The increase was primarily driven by increased sales associated with the partial economic recovery from COVID-19 that increased the cost of goods sold by $0.8 million and increased freight costs by $0.4 million. The increase in costs of goods sold was partially offset by favorable lower cost product mixes for the six months ended June 30, 2022, $0.6 million cost saving measures within specific product mixes, an increase of $0.3 million in product returns, and overall favorable exchange rate fluctuations.

Selling, General and Administrative

	Six Months Ended June 30,		Six Months Ended June 30, 2022 vs 2021	
(in thousands, except percentages)	**2022**	**2021**	**$ Change**	**% Change**
Selling, general and administrative	$ 68,418	$ 45,698	$ 22,720	49.7%
as a percentage of total revenue	64.3%	48.5%		

Selling, general and administrative expenses increased by $22.7 million, or 49.7%, for the six months ended June 30, 2022 compared to the same period in 2021, which was attributable to an increase of $16.3 million in selling expenses and $6.4 million in general and administrative expense.

The increase in selling expenses was primarily driven by (a) a $6.6 million increase in additional fees paid and promotional products provided to distributors; (b) a $3.6 million increase in marketing, advertising, and promotions primarily related to increased marketing in China, new product launches, and website development; and (c) a $2.1 million increase in travel and entertainment expenses from resumed sales meetings and conferences following a partial economic recovery from COVID-19.

The increase in general and administrative expenses was primarily driven by a $4.5 million increase in fees resulting from the Business Combination and a $0.7 million increase in wages and salaries and employee benefits due to general increases in salaries and wages as the economy partially recovered.

Research and Development

	Six Months Ended June 30,		Six Months Ended June 30, 2022 vs 2021	
(in thousands, except percentages)	**2022**	**2021**	**$ Change**	**% Change**
Research and development	$ 3,262	$ 2,534	$ 728	28.7%
as a percentage of total revenue	3.1%	2.7%		

Research and development expenses increased by $0.7 million, or 28.8%, for the six months ended June 30, 2022 compared to the same period in 2021, primarily due to an increase in regulatory compliance spending and product development costs.

Depreciation and Amortization

	Six Months Ended June 30,		Six Months Ended June 30, 2022 vs 2021	
(in thousands, except percentages)	**2022**	**2021**	**$ Change**	**% Change**
Depreciation and amortization	$ 7,369	$ 6,936	$ 433	6.2%
as a percentage of total revenue	6.9%	7.4%		

Depreciation and amortization expenses remained relatively consistent for the six months ended June 30, 2022 when compared to the same period in 2021.

Interest Expense

	Six Months Ended June 30,		Six Months Ended June 30, 2022 vs 2021	
(in thousands, except percentages)	**2022**	**2021**	**$ Change**	**% Change**
Interest expense	$ 5,719	$ 5,041	$ 678	13.4%
as a percentage of total revenue	5.4%	5.4%		

Interest expense increased by $0.7 million, or 13.5%, for the six months ended June 30, 2022 compared to the same period in 2021. The increase was primarily due to refinancing of our debt in March 2021 at higher interest rates.

Loss on Extinguishment of Debt

	Six Months Ended June 30,		Six Months Ended June 30, 2022 vs 2021	
(in thousands, except percentages)	**2022**	**2021**	**$ Change**	**% Change**
Loss on extinguishment of debt	$ -	$ 2,317	$ (2,317)	(100.0)%
as a percentage of total revenue	-	2.5%		

The loss on extinguishment of debt for the six months ended June 30, 2021 is primarily related to the write-off of previously deferred financing costs due to the refinancing of our debt in March 2021.

Gain on PPP Loan Forgiveness

	Six Months Ended June 30,		Six Months Ended June 30, 2022 vs. 2021	
(in thousands, except percentages)	**2022**	**2021**	**$ Change**	**% Change**
Gain on PPP Loan forgiveness	$ -	$ (6,824)	$ 6,824	(100.0)%
as a percentage of total revenue	-	*(7.2)%*		

For the six months ended June 30, 2021, we recognized a gain of $6.8 million associated with the forgiveness of the PPP Loan borrowed in 2020.

Income Tax (Benefit) Expense

	Six Months Ended June 30,		Six Months Ended June 30, 2022 vs 2021	
(in thousands, except percentages)	**2022**	**2021**	**$ Change**	**% Change**
Income tax (benefit) expense	$ (40)	$ 1,948	$ (1,988)	(102.1)%
Effective tax rate				

For the six months ended June 30, 2022, an income tax benefit of $0.04 million was recognized, with a corresponding effective tax rate of 1.4%, compared to an income tax expenses of $1.9 million, with a corresponding effective tax rate of 13.1% recognized for the six months ended June 30, 2021. The decrease in the effective tax rate for the six months ended June 30, 2022 when compared to the six months ended June 30, 2021 is primarily attributable to the change in valuation allowance and the change in pre-tax earnings during the comparable periods.

Comparison of the Years Ended December 31, 2021 and 2020

The following tables summarize our consolidated statements of operations data, in dollars and as a percentage of total revenue, for the fiscal year ended December 31, 2021 and 2020.

	Year Ended December 31,		2021 vs. 2020	
(in thousands, except percentages)	**2021**	**2020**	**$ Change**	**% Change**
Net revenue	$ 206,069	$ 84,145	$ 121,924	144.9%
Cost of goods sold (exclusive of depreciation and amortization expense)	48,708	19,969	28,739	143.9%
Selling, general and administrative	118,243	54,794	63,449	115.8%
Research and development	6,991	3,929	3,062	77.9%
Depreciation and amortization	14,053	13,426	627	4.7%
Total operating expenses	187,995	92,118	95,877	104.3%
Operating income (loss)	18,074	(7,973)	26,047	(326.7%)
Interest expense	11,156	6,281	4,875	77.6%
Loss on extinguishment of debt	2,317	-	2,317	100%
Gain on PPP Loan forgiveness (Note 8)	(6,824)	-	(6,824)	(100)%
Other expense – net	194	11	183	n.m.
Income (loss) before income taxes	11,231	(14,265)	25,496	(178.7)%
Income tax expense (benefit)	11,301	(5,094)	16,395	(321.8)%
Net (loss) income	(70)	(9,171)	9,101	(99.2)%

n.m. = not meaningful

Net Revenue

The following tables provide our revenue by sales channel, as well as by revenue source and geographic region (based on the location of the end customer), for the periods presented.

	Year Ended December 31,		2021 vs 2020	
(in thousands, except percentages)	**2021**	**2020**	**$ Change**	**% Change**
Sales Channel				
Medical	$ 198,592	$ 82,532	$ 116,060	140.6%
as a percentage of total revenue	*96.4%*	*98.1%*		
Clinical	$ 6,268	$ 1,613	$ 4,655	288.6%
as a percentage of total revenue	*3.0%*	*1.9%*		
Other	$ 1,209	$ -	$ 1,209	100.0%
as a percentage of total revenue	*0.6%*	-		
Total	$ 206,069	$ 84,145	$ 121,924	144.9%

(in thousands, except percentages)	Year Ended December 31, 2021	Year Ended December 31, 2020	2021 vs 2020 $ Change	2021 vs 2020 % Change
Source and Region				
North America	$ 92,771	$ 55,389	$ 37,382	67.5%
as a percentage of total revenue	*45.1%*	*65.8%*		
Asia Pacific	$ 91,908	$ 16,696	$ 75,212	450.5%
as a percentage of total revenue	*44.6%*	*19.8%*		
Rest of the World	$ 15,678	$ 6,156	$ 9,522	154.7%
as a percentage of total revenue	*7.6%*	*7.3%*		
Net Product Sales	$ 200,357	$ 78,241	$ 122,116	156.1%
as a percentage of total revenue	*97.2%*	*93.0%*		
Asia Pacific Royalties	$ 5,712	$ 5,904	$ (192)	(3.3)%
as a percentage of total revenue	*2.8%*	*7.0%*		
Total	$ 206,069	$ 84,145	$ 121,924	144.9%

Net revenue increased by $121.9 million, or 144.9%, for the year ended December 31, 2021, compared to the same period in 2020, primarily due to increased product sales of $122.1 million. The increase in product sales was primarily attributable to a $131.0 million increase resulting from the impact of partial economic recovery from COVID-19, sales of a newly launched skincare device, and increased wholesale and international distributor revenue, primarily in our North America and Asia Pacific regions, including $125.0 million, $4.6 million, and $1.4 million increases to our Medical, Clinical, and Other sales channels, respectively. A further increase of $3.6 million was a result of increased online sales as we continued to develop our website capabilities, and which primarily impacted our Medical sales channel. These increases were partially offset by $12.8 million in additional sales discounts and allowances, distribution service fees, and sales returns impacting the Medical sales channel due to the increase in sales volumes resulting from the economic recovery from COVID-19.

Royalty revenue remained relatively consistent for the year ended December 31, 2021 compared to the same period in 2020.

Cost of Goods Sold (exclusive of depreciation and amortization)

(in thousands, except percentages)	Year Ended December 31, 2021	Year Ended December 31, 2020	2021 vs. 2020 $ Change	2021 vs. 2020 % Change
Cost of goods sold (exclusive of depreciation and amortization)	$ 48,708	$ 19,969	$ 28,739	143.9%
as a percentage of total revenue	*23.6%*	*23.7%*		

Cost of goods sold (exclusive of depreciation and amortization) for the year ended December 31, 2021 increased by $28.7 million, or 143.9%, compared to same period in 2020, which was primarily driven by increased sales associated with the partial economic recovery from COVID-19 that increased the cost of goods sold by $29.3 million and increased freight costs by $0.9 million. The increase in costs of goods sold was partially offset by a decrease of $1.5 million for a favorable product pricing arrangement for a specific product with one of our vendors and an increase of $0.6 million in product returns.

Selling, General and Administrative

	Year Ended December 31,		2021 vs. 2020	
(in thousands, except percentages)	**2021**	**2020**	**$ Change**	**% Change**
Selling, general and administrative	$ 118,243	$ 54,794	$ 63,449	115.8%
as a percentage of total revenue	*57.4%*	*65.1%*		

Selling, general and administrative expenses increased by $63.4 million or 115.8% for the year ended December 31, 2021 compared to the same period in 2020, which was attributable to an increase of $55.2 million in selling expenses and $8.2 million in general and administrative expense.

The increase in selling expenses was primarily driven by (a) a $35.6 million increase in additional fees paid to distributors; (b) a $0.7 million increase in credit card fees from increased sales volume; (c) an $11.0 million increase in marketing, advertising, and promotions primarily related to increased marketing in China, new product launches, and website development, partially offset by a $1.3 million decrease in celebrity endorsements; (d) a $4.7 million increase in salaries and wages due to increased headcount for new product marketing initiatives, increased commissions as sales increased, and providing more employee rewards; and (e) a $1.4 million increase due to additional border taxes resulting from increased sales in China.

The increase in general and administrative expenses was primarily driven by a $5.2 million increase in fees resulting from the Business Combination, a $2.3 million increase in wages and salaries and employees benefits due to general increases in salaries and wages as the economy partially recovered, and a $0.5 million increase in consulting fees.

Research and Development

	Year Ended December 31,		2021 vs. 2020	
(in thousands, except percentages)	**2021**	**2020**	**$ Change**	**% Change**
Research and development	$ 6,991	$ 3,929	$ 3,062	77.9%
as a percentage of total revenue	*3.4%*	*4.7%*		

Research and development expenses increased by $3.1 million or 77.9% for the year ended December 31, 2021 compared to the same period in 2020 primarily due to a $2.1 million increase in regulatory compliance spending in fiscal year 2021 and a $0.5 million increase related to product development.

Depreciation and Amortization

	Year Ended December 31,		2021 vs. 2020	
(in thousands, except percentages)	**2021**	**2020**	**$ Change**	**% Change**
Depreciation and amortization	$ 14,053	$ 13,426	$ 627	4.7%
as a percentage of total revenue	*6.8%*	*16.0%*		

Depreciation and amortization expenses remained relatively consistent for the year ended December 31, 2021 when compared to the same period in 2020.

Interest Expense

	Year Ended December 31,		2021 vs. 2020	
(in thousands, except percentages)	**2021**	**2020**	**$ Change**	**% Change**
Interest expense	$ 11,156	$ 6,281	$ 4,875	77.6%
as a percentage of total revenue	*5.4%*	*7.5%*		

Interest expense increased by $4.9 million or 77.6% for the year ended December 31, 2021 compared to 2020. The increase was primarily due to refinancing of our debt in March 2021 at higher interest rates as well as additional borrowings incurred from the bank in the latter half of the 2020 fiscal year.

Loss on Extinguishment of Debt

	Year Ended December 31,		2021 vs. 2020	
(in thousands, except percentages)	**2021**	**2020**	**$ Change**	**% Change**
Loss on extinguishment of debt	$ 2,317	$ -	$ 2,317	100.0%
as a percentage of total revenue	*1.1%*	-		

The loss on extinguishment of debt for the year ended December 31, 2021 is primarily related to the write-off of previously deferred financing costs due to the refinancing of our debt in March 2021.

Gain on PPP Loan Forgiveness

(in thousands, except percentages)	Year Ended December 31, 2021	Year Ended December 31, 2020	2021 vs. 2020 $ Change	2021 vs. 2020 % Change
Gain on PPP Loan forgiveness	$ (6,824)	$ -	$ (6,824)	(100.0)%
as a percentage of total revenue	*3.3%*	-		

For the year ended December 31, 2021, we recognized a gain of $6.8 million associated with the forgiveness of the PPP Loan borrowed in 2020.

Income Tax Expense (Benefit)

(in thousands, except percentages)	Year Ended December 31, 2021	Year Ended December 31, 2020	2021 vs. 2020 $ Change	2021 vs. 2020 % Change
Income tax expense (benefit)	$ 11,301	$ (5,094)	$ 16,395	(321.8%)
Effective tax rate	*100.6%*	*35.6%*		

For the year ended December 31, 2021, income tax expense of $11.3 million was recognized, with a corresponding effective tax rate of 100.6%, compared to an income tax benefit of $5.1 million recognized for the year ended December 31, 2020, with a corresponding effective tax rate of 35.6%. The increase in the effective tax rate for the year ended December 31, 2021 when compared to the year ended December 31, 2020 was primarily attributable to the valuation allowance of $14.3 million recognized to account for the portion of the deferred tax asset that is more likely than not to be realized due to a cumulative loss incurred in our U.S. subsidiary over the three-year period ended December 31, 2021 (see Note 13 to our consolidated financial statements included in Waldencast's definitive proxy statement/final prospectus dated July 7, 2022, and filed with the SEC on July 7, 2022 for more information). This was partially offset by the change in the mix of pre-tax earnings in tax jurisdictions with different statutory tax rates during the comparable periods as well as the nontaxable gain on the PPP Loan forgiveness.

Comparison of the Years Ended December 31, 2020 and 2019

The following tables summarize our consolidated statements of operations data, in dollars and as a percentage of total revenue, for the fiscal year ended December 31, 2020 and 2019.

(in thousands, except percentages)	Year Ended December 31, 2020	Year Ended December 31, 2019	2020 vs. 2019 $ Change	2020 vs. 2019 % Change
Net revenue	$ 84,145	$ 117,085	$ (32,940)	(28.1)%
Cost of goods sold (exclusive of depreciation and amortization expense)	19,969	26,687	(6,718)	(25.2)%
Selling, general and administrative	54,794	62,762	(7,968)	(12.7)%
Research and development	3,929	3,484	445	12.8%
Depreciation and amortization	13,426	12,940	486	3.8%
Total operating expenses	92,118	105,873	(13,755)	(13.0)%
Operating income (loss)	(7,973)	11,212	(19,185)	(171.1)%
Interest expense	6,281	6,834	(553)	(8.1)%
Other expense – net	11	147	(136)	n.m.
(Loss) income before income taxes	(14,265)	4,231	(18,496)	(437.2)%
Income tax benefit	(5,094)	(1,589)	(3,505)	220.6%
Net (loss) income	(9,171)	5,820	(14,991)	(257.6)%

n.m. = not meaningful

Net Revenue

The following tables provide our revenue by sales channel, as well as by revenue source and geographic region (based on the location of the end customer), for the periods presented.

	Year Ended December 31,		2020 vs 2019	
(in thousands, except percentages)	**2020**	**2019**	**$ Change**	**% Change**
Sales Channel				
Medical	$ 82,532	$ 114,585	$ (32,053)	(28.0)%
as a percentage of total revenue	*98.1%*	*97.9%*		
Clinical	$ 1,613	$ 2,500	$ (887)	(35.5)%
as a percentage of total revenue	*1.9%*	*2.1%*		
Total	$ 84,145	$ 117,085	$ (32,940)	(28.1)%

	Year Ended December 31,		2020 vs 2019	
(in thousands, except percentages)	**2020**	**2019**	**$ Change**	**% Change**
Source and Region				
North America	$ 55,389	$ 85,025	$ (29,636)	(34.9)%
as a percentage of total revenue	*65.8%*	*72.6%*		
Asia Pacific	$ 16,696	$ 20,496	$ (3,800)	(18.5)%
as a percentage of total revenue	*19.8%*	*17.5%*		
Rest of the World	$ 6,156	$ 5,225	$ 931	17.8%
as a percentage of total revenue	*7.3%*	*4.5%*		
Net Product Sales	$ 78,241	$ 110,746	$ (32,505)	(29.4)%
as a percentage of total revenue	*93.0%*	*94.6%*		
Asia Pacific Royalties	$ 5,904	$ 6,339	$ (435)	(6.9)%
as a percentage of total revenue	*7.0%*	*5.4%*		
Total	$ 84,145	$ 117,085	$ (32,940)	(28.1)%

Net revenue decreased by $32.9 million, or 28.1%, for the year ended December 31, 2020, compared to the same period in 2019, due primarily to a decrease of $40.5 million in product sales, including $38.3 million and $2.2 million decreases in the Medical and Clinical sales channels, respectively. The decrease in product sales was primarily attributable to the effects of COVID-19 in our North America and Asia Pacific geographic regions, which impacted all product categories as a result of the closure of physician offices as well as lower demand for skincare products. The decrease in product sales also reduced the number of physician chargebacks by $5.3 million, impacting the Medical sales channel. This decrease was partially offset by (a) $3.0 million in the Medical sales channel from the discontinuance of prompt pay discounts for certain customers and rebates for international distributors; (b) an increase in net revenue of $0.9 million in the Medical sales channel primarily due to increased market share in Europe, which was slightly offset by decreased market share in Africa and South America; and (c) by an increase of $0.7 million in the Medical sales channel for a favorable product pricing arrangement as a result of dual sourced products.

Royalty revenue remained relatively consistent for the year ended December 31, 2020 when compared to the same period in 2019.

Cost of Goods Sold (exclusive of depreciation and amortization)

	Year Ended December 31,		2020 vs. 2019	
(in thousands, except percentages)	**2020**	**2019**	**$ Change**	**% Change**
Cost of goods sold (exclusive of depreciation and amortization)	$ 19,969	$ 26,687	$ (6,718)	(25.2)%
as a percentage of total revenue	*23.7%*	*22.8%*		

Cost of goods sold for the year ended December 31, 2020 decreased by $6.7 million, or 25.2%, compared to same period in 2019 due to the decline in sales caused primarily by the impact of COVID-19. Additionally, freight and storage costs decreased by $1.0 million and $0.2 million, respectively, as a result of bringing in less inventory and reduced warehouse activity resulting from the decline in sales activity caused by COVID-19.

Selling, General and Administrative

	Year Ended December 31,		2020 vs. 2019	
(in thousands, except percentages)	**2020**	**2019**	**$ Change**	**% Change**
Selling, general and administrative	$ 54,794	$ 62,762	$ (7,968)	(12.7)%
as a percentage of total revenue	*65.1%*	*53.6%*		

Selling, general and administrative expenses decreased by $8.0 million or 12.7% for the year ended December 31, 2020 compared to the same period in 2019, which was attributable to a decrease of $5.9 million in selling expenses and a decrease of $2.2 million in general and administrative expenses.

The decrease in selling expenses was primarily driven by (a) a $2.6 million decrease in other professional fees and expenses primarily from decreased distribution service fees resulting from reduced sales; (b) a $2.5 million decrease in travel and entertainment expenses from suspended travel and events because of COVID-19; (c) a $0.9 million decrease in salaries and wages due to reduced sales commissions as a result of the reduction in sales and a decrease in severance payouts; and (d) a $0.3 million decrease in employee benefits primarily due to decreased hiring costs because hiring was put on hold during COVID-19.

The decrease in general and administrative expenses was primarily due to (a) a $2.7 million decrease in legal services following the completion in 2019 of arbitration in connection with our claims that a company and its previous owners had violated the terms of a settlement agreement; (b) a $0.4 million decrease in travel and entertainment expenses due to suspended travel because of COVID-19, partially offset by a $1.1 million increase in salaries and wages resulting from promotions and increases in employee bonuses; a $0.3 million increase in employee benefits related to relocation and housing costs; (c) a $0.2 million increase in audit services for IPO readiness and tax advisory services; and (d) a $0.1 million increase in insurance premiums.

Research and Development

	Year Ended December 31,		2020 vs. 2019	
(in thousands, except percentages)	**2020**	**2019**	**$ Change**	**% Change**
Research and development	$ 3,929	$ 3,484	$ 445	12.8%
as a percentage of total revenue	*4.7%*	*3.0%*		

Research and development expenses remained relatively consistent for the year ended December 31, 2020 when compared to the same period in 2019.

Depreciation and Amortization

	Year Ended December 31,		2020 vs. 2019	
(in thousands, except percentages)	**2020**	**2019**	**$ Change**	**% Change**
Depreciation and amortization	$ 13,426	$ 12,940	$ 486	3.8%
as a percentage of total revenue	*16.0%*	*11.1%*		

Depreciation and amortization expenses remained relatively consistent for the year ended December 31, 2020 when compared to the same period in 2019.

Interest Expense

	Year Ended December 31,		2020 vs. 2019	
(in thousands, except percentages)	**2020**	**2019**	**$ Change**	**% Change**
Interest expense	$ 6,281	$ 6,834	$ (553)	(8.1)%
as a percentage of total revenue	*7.5%*	*5.8%*		

Interest expense remained relatively consistent for the year ended December 31, 2020 when compared to the same period in 2019.

Income Tax Benefit

	Year Ended December 31,		2020 vs. 2019	
(in thousands, except percentages)	**2020**	**2019**	**$ Change**	**% Change**
Income tax benefit	$ (5,094)	$ (1,589)	$ (3,505)	220.6%
Effective tax rate	*35.6%*	*(37.6)%*		

For the year ended December 31, 2020, an income tax benefit of $5.1 million was recognized, with a corresponding effective tax rate of 35.6%, compared to an income tax benefit of $1.6 million recognized for the year ended December 31, 2019, with a corresponding effective tax rate of 37.6%. The change was primarily due to a larger loss position in the U.S.-based operations in the year ended December 31, 2020.

Liquidity and Capital Resources

We measure liquidity in terms of our ability to fund the cash requirements of our business operations, including working capital needs, capital expenditures, contractual obligations, debt service, acquisitions, and other commitments with cash flows from operations and other sources of funding. Our principal sources of capital and liquidity are our borrowings from banks and cash flows from operations. In response to the loss in demand for our products and drop in revenue early on in the pandemic, we drew on our 2018 Revolving Credit Facility, and increased our borrowing capacity by $10.0 million. We also secured a $6.8 million PPP Loan, which was used in accordance with the program and for which forgiveness was obtained in the second quarter of 2021. Overall, these financing activities resulted in net cash inflow of approximately $16.3 million in 2020 (excluding $2.0 million of dividends to our shareholder). In March 2021, we were able to access additional credit by replacing the 2018 Credit Agreement with the 2021 Credit Agreement from a new syndicate of lenders. The 2021 Credit Agreement included a term loan of $110.0 million and a revolving credit facility with borrowing capacity of up to $40.0 million. Obagi recorded a loss on extinguishment of the 2018 Credit Agreement of $2.3 million to loss on extinguishment of debt in the accompanying condensed consolidated statement of operations and comprehensive (loss) income during the six months ended June 30, 2021, which consisted of expensing unamortized debt issuance costs. We do not anticipate the need for additional credit and are current with all scheduled payments on the term loan under the 2021 Credit Agreement.

We expect capital and operating expenditures to increase over the next several years as we expand our infrastructure, distribution channels and our commercialization, clinical trial, research and development and manufacturing activities. We believe that net cash provided by our operating activities and existing cash and cash equivalents, including access to credit facilities, will be sufficient to fund our operations for the foreseeable future. The outstanding balance under the 2021 Credit Agreement was settled upon the completion of the Business Combination, which occurred on July 27, 2022.

If our net cash provided by operating activities and existing cash and cash equivalents are not sufficient to fund our operations in the future, we may need to seek additional credit or raise additional funds, and we cannot be certain that such funds will be available to us on acceptable terms when needed, if at all. If we are required to seek additional credit, our ability to in-license new technologies, develop future products or expand our pipeline of products could all be negatively impacted, which would have an adverse effect on our ability to grow our business and remain competitive in our marketplace. Further, we may decide to raise additional proceeds by issuing equity securities or securities that are convertible into our equity. If we sell such securities, investors may be materially diluted as a result of such offerings. In addition, if we raise additional funds through collaboration, licensing or other similar arrangements, we may be required to relinquish potentially valuable rights to our future products or proprietary technologies, or grant licenses on terms that are not favorable to us. If we cannot raise funds on acceptable terms, we may not be able to expand our operations, develop new products, take advantage of future opportunities or respond to competitive pressures or unanticipated customer requirements.

As of June 30, 2022, we had cash and cash equivalents of $6.7 million.

2021 Credit Agreement

In March 2021, we replaced the 2018 Credit Agreement with the 2021 Credit Agreement with a new syndicate of lenders, including TCW Asset Management Company LLC as administrative agent for the lenders. The 2021 Credit Agreement includes the 2021 Term Loan of $110.0 million and the 2021 Revolving Credit Facility with borrowing capacity of up to $40.0 million.

Both the 2021 Term Loan and the 2021 Revolving Credit Facility mature in March 2026. The 2021 Credit Agreement interest rate is calculated based on London Inter-Bank Offered Rate (“LIBOR”) plus applicable margin, as determined by our leverage ratios, and are subject to LIBOR succession provisions. If LIBOR becomes unavailable, the parties will establish an alternate index rate that gives due consideration to the then prevailing market convention for determining a rate of interest for leveraged syndicated loans in the United States. In connection with the issuance of the 2021 Credit Agreement, we incurred $6.4 million of debt issuance costs.

Obagi Global is a holding company with no material operations of its own that conducts substantially all of its activities through its wholly owned subsidiaries. Obagi Global has no cash and, as a result, all expenditures and obligations of Obagi Global are allocated to and paid by its subsidiaries. Obagi Cosmeceuticals, LLC is the borrower under the 2021 Credit Agreement and the since extinguished 2018 Credit Agreement. The 2021 Credit Agreement limits Obagi Global and its wholly owned subsidiaries’ ability to declare dividends or make other distributions. Due to these restrictions, substantially all of the net assets of Obagi Global’s subsidiaries are restricted. These restrictions have not and are not reasonably likely to have an impact on the ability of Obagi Global to meet its cash obligations. See Note 18 to our audited consolidated financial statements included in Waldencast’s definitive proxy statement/final prospectus dated July 7, 2022, and filed with the SEC on July 7, 2022 for additional information.

As of June 30, 2022 and December 31, 2021, we had an unpaid principal amount of $107.8 million and 109.2 million, respectively, and unamortized debt issuance costs of $4.0 million and $3.9 million, respectively on the 2021 Term Loan. The interest rate on the 2021 Term Loan was 8.50% and there is no accrued interest as of June 30, 2022 or December 31, 2021. The outstanding balance under the 2021 Credit Agreement was settled upon the completion of the Business Combination, which occurred on July 27, 2022.

As of June 30, 2022, the current portion of the 2021 Term Loan and 2021 Revolving Credit Facility was $4.1 million and $21.0 million, respectively. The current portion of the unamortized debt issuance costs on the 2021 Term Loan and 2021 Revolving Credit Facility was $1.1 million and $1.4 million, respectively. The interest rate on the outstanding balance is 8.50%.

As of December 31, 2021, the current portion of the 2021 Term Loan and 2021 Revolving Credit Facility was $2.8 million and $15.0 million, respectively. The current portion of the unamortized debt issuance costs on the 2021 Term Loan and 2021 Revolving Credit Facility was $0.9 million and $1.4 million, respectively. The interest rate on the outstanding balance was 8.50%.

The entire balance was settled upon the close of the business combination on July 27, 2022.

2018 Credit Agreement

In December 2018, we entered into the 2018 Credit Agreement with a syndicate of lenders, including Wells Fargo Bank, National Association as administrative agent for the lenders (the “Syndicate of Banks”). The 2018 Credit Agreement included the 2018 Term Loan of $90.0 million and the 2018 Revolving Credit Facility with borrowing capacity of up to $35.0 million. Both the 2018 Term Loan and the 2018 Revolving Credit Facility were due to mature in December 2023. In connection with the issuance of the 2018 Credit Agreement, we incurred $2.9 million of debt issuance costs. The 2018 Credit Agreement was secured by the assets of Obagi. Both the 2018 Term Loan and the 2018 Revolving Credit Facility carried an interest rate comprised of LIBOR plus applicable margin, as determined by the Company’s leverage ratios, and are subject to LIBOR succession provisions.

In December 2019, the 2018 Credit Agreement was amended to revise the definition of consolidated earnings before interest, taxes, depreciation, and amortization (“Consolidated EBITDA”) to allow for certain additional adjustments, in relation to the debt covenants.

In March 2020, an increase in the commitment on the 2018 Revolving Credit Facility was approved by the Syndicate of Banks for an additional $10.0 million, to $45.0 million.

In November 2020, the 2018 Credit Agreement was amended to waive the event of default, adjust the “Applicable Margin Rates”, and revise the maximum percentages allowed for the consolidated total leverage ratio (as defined in the 2018 Credit Agreement) as well as the minimum percentages allowed for the consolidated fixed charge coverage ratio (as defined in the 2018 Credit Agreement). In addition, the amendment revised the 2018 Credit Agreement to include minimum Consolidated EBITDA levels and minimum liquidity levels through the end of fiscal year 2021. Prior to this amendment, we had not satisfied our debt covenants, which would have represented a default under our 2018 Credit Agreement. However, subsequent to the amendment and as of the date of the financial statements, we were in compliance with all financial and non-financial debt and other contractual covenants.

As of December 31, 2020 and 2019, we had an unpaid principal amount of $71.6 million and $81.0 million, respectively, and unamortized debt issuance costs of $2.5 million and $2.3 million, respectively, on the 2018 Term Loan. The interest rate on the 2018 Term Loan was 5.50% and 5.30% as of December 31, 2020 and 2019, respectively.

As of December 31, 2020 and 2019, we had an outstanding balance of $39.0 million and $19.0 million on our 2018 Revolving Credit Facility, respectively. The 2018 Revolving Credit Facility had an interest rate of 5.50%.

PPP Loan

In May 2020, we received loan proceeds in the amount of $6.8 million under the PPP from MUFG Union Bank. The PPP Loan accrued interest at a rate of 1.00%. The loan and accrued interest were forgivable after eight or twenty-four weeks as long as the borrower used the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities and maintained its payroll levels. We used the proceeds for purposes consistent with the PPP. In June 2021, we received approval from the Small Business Administration and MUFG Union Bank for forgiveness of the full amount of the PPP Loan, inclusive of accrued interest of $0.1 million. We recognized a gain on forgiveness of the PPP Loan of $6.8 million in the second quarter of 2021.

Consolidated Cash Flow Data

Comparison of Six Months Ended June 30, 2022 to Six Months Ended June 30, 2021

	Six Months Ended June 30,		Six Months Ended June 30, 2022 vs 2021	
(in thousands, except percentages)	**2022**	**2021**	**$ Change**	**% Change**
Net cash (used in) provided by operating activities	$ (8,754)	$ 10,528	$ (19,282)	(183.1)%
Net cash used in investing activities	(1,181)	(870)	(311)	(35.7)%
Net cash provided by financing activities	3,883	6,962	(3,079)	44.2%

<u>*Cash Flows from Operating Activities*</u>

Net cash used in and provided by operating activities decreased by $19.3 million, or 183.1%, for the six months ended June 30, 2022 compared to the same period in 2021, primarily due to the following:

- Lower net income of $15.9 million, primarily resulting from the impact of higher selling, general and administrative expenses due to increased marketing activities following the COVID-19 recovery in existing territories and expansion into new territories, as well as transaction costs related to the Business Combination;

- An increase in inventory of $12.1 million to meet the higher forecasted sales in the Asia Pacific region for the remainder of fiscal year 2022; and

- Decrease in operating activities was partially offset by a $6.8 million PPP loan forgiveness which occurred in the six months ended June 30, 2021.

Cash Flows from Investing Activities

Net cash used in investing activities increased by $0.3 million, or 35.7%, for the six months ended June 30, 2022 compared to the same period in 2021, which was attributable primarily to investments in computer software and website development costs.

Cash Flows from Financing Activities

Net cash provided by financing activities decreased $3.1 million, or 44.2%, for the six months ended June 30, 2022 compared to the same period in 2021, primarily due to a $124.0 million decrease in cash borrowed related to the 2021 Credit Agreement, which consists of the 2021 Term Loan and the 2021 Revolving Credit Facility. This decrease was partially offset by $120.2 million of reduced principal payments as a result of the repayment of the 2018 Term Loan and 2018 Revolving Credit Facility and payments of debt issuance costs related to the 2021 Credit Agreement and dividend of 0.8 million paid in 2021.

Comparison of the Years Ended December 31, 2021 and 2020

	Year Ended December 31, 2021 vs. 2020			
(in thousands, except percentages)	**2021**	**2020**	**$ Change**	**% Change**
Net cash provided by (used in) operating activities	$ 5,070	$ (7,251)	$ 12,321	(169.9)%
Net cash used in investing activities	(5,360)	(1,887)	(3,473)	184.0%
Net cash provided by financing activities	5,162	14,319	(9,157)	(63.9)%

Cash Flows from Operating Activities

Net cash provided by and used in operating activities increased by $12.3 million, or 169.9%, for the year ended December 31, 2021 compared to the same period in 2020, primarily due to the following:

- Higher net income of $9.1 million resulting from the impact of higher revenues for the year ended December 31, 2021 due to the impact of partial economic recovery from COVID-19, sales of a newly launch skincare device, increased wholesale and international distributor revenue, and increased online sales;

- Higher cash flows from changes in accounts payable, deferred income taxes, and other liabilities of $33.6 million as a result of the timing of payments; and these higher cash flows are partially offset by an:

  - Increase in inventory of $6.9 million to meet the higher forecasted sales for the fiscal year 2021; and

  - Increase in accounts receivable of $22.8 million due to new customers in China, increased sales, and timing of the payments received from customers.

Cash Flows from Investing Activities

Net cash used in investing activities increased by $3.5 million, or 184.0%, for the year ended December 31, 2021 compared to the same period in 2020, which was attributable primarily to our non-recourse, uncollateralized short-term promissory note of $2.5 million issued to us by a third party (see Note 4 to our consolidated financial statements included in Waldencast's definitive proxy statement/final prospectus dated July 7, 2022, and filed with the SEC on July 7, 2022 for more information) as well as increases in capital expenditures to build out our online sales capabilities to increase sales and reduce the impact caused by the closure of businesses due to COVID-19.

Cash Flows from Financing Activities

Net cash provided by financing activities decreased by $9.2 million, or 63.9%, for the year ended December 31, 2021 compared to the same period in 2020, primarily due to (a) the increases in repayments of our 2018 Revolving Credit Facility of $35.0 million; (b) repayment of the 2018 Term Loan of $63.1 million; (c) payment of debt issuance costs of $5.4 million for the 2021 Credit Agreement; and (d) decreased borrowings from the 2018 Revolving Credit Facility of $9.0 million and the PPP Loan of $6.8 million as a result of partial recovery from COVID-19 as discussed above. We are able to generate significant cash from our operating activities. This was partially offset by the 2021 Credit Agreement, which includes term loan proceeds of $110.0 million.

Comparison of the Years Ended December 31, 2020 and 2019

	Year Ended December 31,		**2020 vs. 2019**	
(in thousands, except percentages)	**2020**	**2019**	**$ Change**	**% Change**
Net cash (used in) provided by operating activities	$ (7,251)	$ 3,776	$ (11,027)	(292.0)%
Net cash used in investing activities	(1,887)	(788)	(1,099)	(139.5)%
Net cash provided by (used in) financing activities	14,319	(6,814)	21,133	310.1%

Cash Flows from Operating Activities

Net cash used in and provided by operating activities increased by $11.0 million, or 292.0%, for the year ended December 31, 2020 compared to the same period in 2019, primarily due to significantly lower cash related operating results of $15.0 million resulting from the impact of lower net revenues during the first three quarters of fiscal 2020 due to COVID-19 as our customers' businesses were closed during the first half of 2020, and lower cash flows from changes in accounts payable, accrued expenses, and other liabilities of $11.7 million as a result of the timing of payments. This was partially offset by a decrease in inventory of $10.5 million resulting from lower sales because of the impact of COVID-19 on our business and decrease in accounts receivable due to the timing of payments received from the customers.

Cash Flows from Investing Activities

Net cash used in investing activities increased by $1.1 million, or 139.5%, for the year ended December 31, 2020 compared to the same period in 2019, which was attributable primarily to investments in our website to reduce the impact of COVID-19 by introducing online sales capabilities as well as investments in other equipment related to leasehold improvements and machinery.

Cash Flows from Financing Activities

Net cash provided by and used in financing activities increased $21.1 million, or 310.1%, for the year ended December 31, 2020 compared to the same period in 2019, primarily due to proceeds from the PPP Loan of $6.8 million and a decrease in payments to the 2018 Revolving Credit Facility of $34.0 million to meet our operational needs as a result of the impact of COVID-19. This was partially offset by the decrease in the borrowing from the 2018 Revolving Credit Facility of $18.0 million.

Critical accounting policies, significant judgments and use of estimates

The preparation of our audited annual and unaudited condensed interim consolidated financial statements and related notes requires us to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We based our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. We periodically review our estimates and make adjustments when facts and circumstances dictate. To the extent that there are material differences between these estimates and actual results, our financial condition or results of operations will be affected.

An accounting policy is considered to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact our audited consolidated financial statements. We believe that our critical accounting policies reflect the more significant estimates and assumptions used in the preparation of our audited consolidated financial statements. The critical accounting policies, judgments and estimates should be read in conjunction with our audited consolidated financial statements and the notes thereto and other disclosures, included in Waldencast's definitive proxy statement/final prospectus dated July 7, 2022, and filed with the SEC on July 7, 2022. For further information, see Note 2 to our audited consolidated financial statements included in Waldencast's definitive proxy statement/final prospectus dated July 7, 2022, and filed with the SEC on July 7, 2022.

We believe the following critical accounting policies, estimates and assumptions may have a material impact on reported financial condition and operating performance and may involve significant levels of judgment to account for highly uncertain matters or are susceptible to significant change:

Revenue Recognition

We recognize revenue upon transfer of control of promised products to customers in an amount that reflects the consideration we expect to receive in exchange for those products. Revenue is recognized net of any taxes collected from customers, which are subsequently remitted to Governmental Authorities. We primarily recognize revenue from net product sales and royalty income. For the majority of sales, we transfer control, invoice the customer, and recognize revenue either once the delivery of the product has occurred or once the product has been picked up from the warehouse by the buyer's shipping agent. We account for shipping and handling activities as a fulfillment activity instead of a performance obligation. As such, costs related to shipping and handling are included in selling, general and administrative expenses in the statements of operations and comprehensive loss (income). We recognize royalty revenue in connection with the Rohto licensing agreement at a point in time. Based on the licensing agreement, a customer contract with Rohto exists when Rohto sells licensed product to its customer.

Discounts, Allowances, Rebates, and Chargebacks

We offer discounts and other incentive allowances to customers. The transaction price of product sales includes estimates of these discounts and incentives as variable consideration. Product sales revenue is recognized net of provisions for estimated discounts and allowances, distribution fees, returns, and rebates. Provisions for discounts and allowances are estimated based on the most likely amount using contractual sales terms with customers and historical experience. Accruals for customer rebates are estimated based on the contractual terms and our current evaluation of our experience.

Services Provided by the Customer

Consideration payable to a customer for a distinct good or service is treated as a purchase for an amount up to the fair value of such distinct good or service. When consideration payable for distinct goods or services exceeds the fair value of services provided by the customer, we record those excess amounts as a reduction of the transaction price in the arrangement. Consideration payable to a customer for non-distinct services, such as distribution services including packing and shipping, customer service, returns processing and reporting, customer credit, invoicing, collection and chargeback services, is recorded as a reduction to the transaction price.

Goodwill

Goodwill is calculated as the excess of the cost of purchased businesses over the fair value of their underlying net assets. We assess goodwill at least annually as of September 30th for impairment, or more frequently, if certain events or circumstances warrant. We have only one goodwill reporting unit which we test for impairment at the reporting unit level. We identified our reporting unit by assessing whether the component of our reporting segment constitutes a business for which discrete financial information is available and management of the reporting unit regularly reviews the operating results of that component.

When quantitative impairment testing for goodwill is necessary, it is based upon the fair value of a reporting unit as compared to its carrying value. We make certain judgments and assumptions in allocating assets and liabilities to determine carrying values for our reporting units. The impairment loss recognized would be the difference between a reporting unit's carrying value and fair value in an amount not to exceed the carrying value of the reporting unit's goodwill.

Testing goodwill for impairment requires us to estimate fair values of reporting units using significant estimates and assumptions. The assumptions made will impact the outcome and ultimate results of the testing. We use industry accepted valuation models and set criteria that are reviewed and approved by various levels of management and, in certain instances, we engage independent third-party valuation specialists. To determine fair value of the reporting unit, we used a combination of the income and market approaches, when applicable. We believe the blended use of both models, when applicable, compensates for the inherent risk associated with either model if used on a stand-alone basis, and this combination is indicative of the factors a market participant would consider when performing a similar valuation.

Under the income approach, we determine fair value using a discounted cash flow method, projecting future cash flows of each reporting unit, as well as a terminal value, and discounting such cash flows at a rate of return that reflects the relative risk of the cash flows. Under the market approach, when applicable, we utilize information from comparable publicly traded companies with similar operating and investment characteristics as the reporting units, which creates valuation multiples that are applied to the operating performance of the reporting units being tested, to value the reporting unit.

The key estimates and factors used in these approaches include revenue growth rates and profit margins based on our internal forecasts, our specific weighted-average cost of capital used to discount future cash flows, and comparable market multiples for the industry segment, when applicable, as well as our historical operating trends. Certain future events and circumstances, including deterioration of market conditions, higher cost of capital, a decline in actual and expected consumer consumption and demands, could result in changes to these assumptions and judgments. A revision of these assumptions could cause the fair values of the reporting units to fall below their respective carrying values, resulting in a non-cash impairment charge. Such charge could have a material effect on the Consolidated Statements of Operations and Balance Sheets.

There were no impairment charges recorded on goodwill during the years ended December 31, 2021, 2020, and 2019 or during the six months ended June 30, 2022 and 2021. As of June 30, 2022, we did not consider reporting units to be at risk for impairment as we have determined the fair value of our reporting units significantly exceeds the carrying value.

Stock-based compensation

Stock-based compensation cost is measured at grant date, based on the fair value of the award, and is generally recognized on a straight-line basis over the requisite service period for all awards that vest. We estimate the fair value of employee stock-based payment awards subject to service and qualifying transaction conditions on the date of grant using the Black-Scholes valuation model. The Black-Scholes model requires the use of highly subjective and complex assumptions, including the option's expected term and the price volatility of the underlying stock.

We recognize compensation expense for awards with service and qualifying transaction conditions on a straight-line basis over the requisite service period, which is generally the award's vesting period. Compensation expense for employee stock-based awards whose vesting is subject to the fulfillment of both a service condition and the occurrence of a performance condition is recognized on a graded-vesting basis at the time the achievement of the performance condition becomes probable. Immediately prior to the consummation of the Business Combination, the qualifying transaction event became "probable" and previously unrecognized stock-based compensation expense was recognized at the time of close based on the requisite service period through that date.

Higher volatility and longer expected terms result in an increase to stock-based compensation determined at the date of grant. Future stock-based compensation cost and unrecognized stock-based compensation will increase to the extent that we grant additional equity awards to employees, or we assume unvested equity awards in connection with acquisitions. If there are any modifications or cancellations of the underlying unvested securities, we may be required to accelerate any remaining unearned stock-based compensation cost or incur incremental cost.

The expected stock price volatility for common stock was estimated by taking the average historic price volatility for industry peers based on daily price observations over a period equivalent to the expected term of the stock option grants. Industry peers consist of several public companies in our industry which are of similar size, complexity and stage of development. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury implied yield at the date of grant. The weighted-average expected term is determined based on the simplified method, which results in an expected term based on the midpoint between the vesting date and contractual term of an option. The simplified method was chosen because we have limited historical option exercise experience.

If factors change and we employ different assumptions, stock-based compensation cost on future awards may differ significantly. No stock-based compensation expense as been realized in current or prior periods.

Deferred Tax Assets (and Related Valuation Allowance)

We recognize net deferred tax assets to the extent that we believe these assets are more likely than not to be realized. In making such a determination, management considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. If we determine that deferred tax assets may be able to be recognized in the future in excess of their net recorded amount, the deferred tax asset valuation allowance would be adjusted, which would reduce the provision for income taxes. We record uncertain tax positions on the basis of a two-step process whereby (i) management determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (ii) for those tax positions that meet the more-likely-than-not recognition threshold, management recognizes the largest amount of tax benefit that is more than 50% likely to be realized upon ultimate settlement with the related tax authority.

This requires management to make judgments and estimates regarding: (i) the timing and amount of the reversal of taxable temporary differences; (ii) expected future taxable income; and (iii) the impact of tax planning strategies. Future changes to tax rates would also impact the amounts of deferred tax assets and liabilities and could adversely affect our financial statements. A valuation allowance of $14.8 million and $14.3 million has been recorded as of June 30, 2022 and December 31, 2021, respectively. No valuation allowance has been recorded as of December 31, 2020 and 2019.

The valuation allowance will be reduced at such time as management believes it is more-likely-than-not that the deferred tax assets will be realized. The exact timing and amount of a valuation allowance release are subject to change on the basis of the future level of profitability and changes in tax law. Release of the valuation allowance would result in the recognition of certain deferred tax assets and a decrease to income tax expense for the period the release is recorded.

Emerging Growth Company Accounting Election

Section 102(b)(1) of the JOBS Act exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies are required to comply with the new or revised financial accounting standards. The JOBS Act provides that a company can choose not to take advantage of the extended transition period and comply with the requirements that apply to non-emerging growth companies, and any such election to not take advantage of the extended transition period is irrevocable. We are an "emerging growth company" as defined in Section 2(a) of the Securities Act, and have irrevocably elected to take advantage of the benefits of this extended transition period, which means that when a standard is issued or revised and has different application dates for public or private companies, we, for so long as we remain an emerging growth company, may adopt the new or revised standard at the time private companies are required to adopt the new or revised standard.

Following the consummation of the Business Combination, we expect to remain an emerging growth company until the earlier of: (1) the last day of the fiscal year (a) following the fifth anniversary of the Closing of the Waldencast initial public offering, (b) in which we have total annual revenue of at least $1,070.0 million, or (c) in which we are deemed to be a large accelerated filer, which means the market value of our common equity that is held by non-affiliates is equal to or exceeds $700.0 million as of the end of the prior fiscal year's second fiscal quarter and our net sales for the year exceed $100.0 million; and (2) the date on which we have issued more than $1,000.0 million in non-convertible debt securities during the preceding, rolling three year period.

Recent Accounting Pronouncements

See Note 2 to our audited consolidated financial statements and our interim unaudited condensed consolidated financial statements included elsewhere in this filing and Waldencast's definitive proxy statement/final prospectus dated July 7, 2022, and filed with the SEC on July 7, 2022 for more information regarding recent accounting pronouncements.

Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks in the ordinary course of our business, which primarily relate to fluctuations in interest rates, foreign exchange and inflation.

Interest Rates

We have interest rate risk with respect to our indebtedness. As of June 30, 2022, we had an aggregate face value of $128.8 million of outstanding indebtedness all of which has variable interest rates. A one percent increase or decrease in the annual interest rate on our variable rate borrowings of $128.8 million would increase or decrease our annual cash interest expense by approximately $1.3 million.

Foreign Exchange Fluctuations

We transact business in multiple currencies worldwide, of which the most significant currency for the years ended December 31, 2021, 2020 and 2019, and for the six months ended June 30, 2022 and 2021 was the U.S. dollar. Our international revenue, as well as costs and expenses dominated in foreign currencies, expose us to the risk of fluctuations in foreign currency exchange rates against the U.S. dollar. As of June 30, 2022, the effect of a hypothetical 10% change in foreign currency exchange rates would not be material to our financial condition or results of operations. To date, we have not entered into any hedging arrangements with respect to foreign currency risk. As our international operations grow, we will continue to reassess our approach to manage our risk relating to fluctuations in currency rates.

Inflation

We do not believe that inflation has had a material effect on our business, financial condition, or results of operations; however, we continue to monitor the effects of the global macroeconomic environment, including increasing inflationary pressures. Generally, we have been able to introduce new products at higher prices, increase prices on select products and implement other operating efficiencies to sufficiently offset cost increases.

MILK MAKEUP LLC
TABLE OF CONTENTS

Milk Makeup LLC
Unaudited Condensed Statements of Income and Comprehensive Income

(In thousands)	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Net sales	$ 38,548	$ 26,580
Cost of goods sold (*exclusive of depreciation and amortization*)	13,365	11,297
Selling, general and administrative	18,815	12,415
Depreciation and amortization	1,169	937
Operating income	**5,199**	**1,931**
Interest expense (income), net	21	(25)
Other expense, net	217	(64)
Income before provision for income taxes	**4,961**	**2,020**
Income tax provision	-	-
Net income	**$ 4,961**	**$ 2,020**
Comprehensive income	**$ 4,961**	**$ 2,020**

The accompanying notes are an integral part of the unaudited condensed financial statements.

Milk Makeup LLC
Condensed Balance Sheets

(In thousands, except share data)	June 30, 2022 (Unaudited)	December 31, 2021 (Audited)
ASSETS		
Current assets		
Cash	$ 2,666	$ 4,417
Accounts receivable, net	6,390	1,802
Inventories	24,835	21,428
Prepaid expenses and other current assets	453	610
Prepaid supplier	387	1,051
Total current assets	**34,731**	**29,308**
Property, plant and equipment, net	5,938	4,970
Due from officers	780	774
Total assets	**$ 41,449**	**$ 35,052**
LIABILITIES, REDEEMABLE PREFERED UNITS, AND MEMBERS' EQUITY		
Current liabilities		
Accounts payable	$ 6,590	$ 6,477
Tenant allowance liability	161	132
Accrued expenses and other current liabilities	6,328	6,735
Line of credit	1,500	-
Total current liabilities	**14,579**	**13,344**
Warrant liabilities	148	121
Deferred rent – non-current	1,172	1,063
Tenant allowance liability – non-current	978	1,044
Total liabilities	**16,877**	**15,572**
COMMITMENTS AND CONTINGENCIES		
Redeemable Series A Preferred units, 3,843,750 units authorized, issued and outstanding as of June 30, 2022 and December 31, 2021	44,319	23,601
Redeemable Series B Preferred units, 2,272,727 units authorized, issued and outstanding as of June 30, 2022 and December 31, 2021	26,227	14,136
Redeemable Series C Preferred units, 3,515,352 units authorized, and 3,505,055 issued and June 30, 2022 and December 31, 2021	46,373	34,210
Redeemable Series D Preferred units, 1,904,208 units authorized as of June 30, 2022 and December 31, 2021, and 1,898,069 units issued and outstanding as of June 30, 2022 and December 31, 2021	30,237	27,335
Members' Equity:		
Common units, 24,069,500 units authorized as of June 30, 2022 and December 31, 2021, and 10,000,000 units issued and outstanding as of June 30, 2022 and December 31, 2021	-	-
Members' (deficit)	(122,584)	(79,802)
Total members' (deficit)	**(122,584)**	**(79,802)**
TOTAL LIABILITIES, REDEEMABLE PREFERRED UNITS, AND MEMBERS' EQUITY	**$ 41,449**	**$ 35,052**

The accompanying notes are an integral part of the unaudited condensed financial statements.

Milk Makeup LLC
Unaudited Condensed Statements of Redeemable Preferred Units and Members' Equity

(In thousands, except share and per share data)

	Redeemable Series A Preferred Units		Redeemable Series B Preferred Units		Redeemable Series C Preferred Units		Redeemable Series D Preferred Units		Common Units			
	Units	**Amount**	**Units**	**Amount**	**Units**	**Amount**	**Units**	**Amount**	**Units**	**Amount**	**Members' Equity**	**Total Members' Equity**
Balance as of December 31, 2021 (Audited)	**3,843,750**	**$ 23,601**	**2,272,727**	**$ 14,136**	**3,505,055**	**$ 34,210**	**1,898,069**	**$ 27,335**	**10,000,000**	**$ -**	**$ (79,802)**	**$ (79,802)**
Change in redemption value of Redeemable Preferred Units	-	20,718	-	12,091	-	12,163	-	2,902	-	-	(47,874)	(47,874)
Equity-based compensation expense	-	-	-	-	-	-	-	-	-	-	131	131
Net income	-	-	-	-	-	-	-	-	-	-	4,961	4,961
Balance as of June 30, 2022	**3,843,750**	**$ 44,319**	**2,272,727**	**$ 26,227**	**3,505,055**	**$ 46,373**	**1,898,069**	**$ 30,237**	**10,000,000**	**$ -**	**$ (122,584)**	**$ (122,584)**

	Redeemable Series A Preferred Units		Redeemable Series B Preferred Units		Redeemable Series C Preferred Units		Redeemable Series D Preferred Units		Common Units			
	Units	**Amount**	**Units**	**Amount**	**Units**	**Amount**	**Units**	**Amount**	**Units**	**Amount**	**Members' Equity**	**Total Members' Equity**
Balance as of December 31, 2020 (Audited)	**3,843,750**	**$ 15,375**	**2,272,727**	**$ 10,000**	**3,505,055**	**$ 21,276**	**1,898,069**	**$ 20,330**	**10,000,000**	**$ 12,647**	**$ (52,378)**	**$ (39,731)**
Change in redemption value of Redeemable Preferred Units	-	-	-	-	-	-	-	2,803	-	(2,803)	-	(2,803)
Equity-based compensation expense	-	-	-	-	-	-	-	-	-	-	6	6
Net income	-	-	--	-	-	-	-	-	-	-	2,020	2,020
Balance as of June 30, 2021	**3,843,750**	**$ 15,375**	**2,272,727**	**$ 10,000**	**3,505,055**	**$ 21,276**	**1,898,069**	**$ 23,133**	**10,000,000**	**$ 9,844**	**$ (50,352)**	**$ (40,508)**

The accompanying notes are an integral part of the unaudited condensed financial statements.

Milk Makeup LLC
Unaudited Condensed Statements of Cash Flows

	Six Months Ended June 30,	
(In thousands)	2022	2021
Cash flows from operating activities:		
Net income	$ 4,961	$ 2,020
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,169	937
Non-cash interest (income) expense	21	(7)
Loss (gain) on disposal of assets	24	(27)
Equity-based compensation	131	6
Change in operating assets and liabilities:		
Accounts receivable	(4,588)	(281)
Inventories	(3,407)	367
Prepaid expenses and other current assets	821	(98)
Accounts payable	(1,900)	121
Other assets and liabilities	1,165	(1,768)
Net cash (used in) provided by operating activities	**(1,603)**	**1,270**
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(148)	(38)
Net cash used in investing activities	**(148)**	**(38)**
Net (decrease) increase in cash	(1,751)	1,232
Cash at beginning of period	4,417	7,207
Cash at end of period	**$ 2,666**	**$ 8,439**
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 28	$ 5
Supplemental disclosures of non-cash investing and financing activities		
Purchases of property, plant and equipment in accounts payable	$ 2,013	$ 229

The accompanying notes are an integral part of the unaudited condensed financial statements.

1. DESCRIPTION OF BUSINESS

Milk Makeup LLC (the "Company") develops and sells cosmetics, skin care and other beauty products.

The Company was organized as a Limited Liability Company (LLC) under the provisions of the Delaware Limited Liability Company Act in 2014 and commenced operations in 2015. The term of the Company shall continue until terminated in accordance with the provisions of the law. Members' personal liability for debts is generally limited similar to stockholders' liability for corporate debts.

On November 15, 2021, Waldencast Acquisition Corp. ("Waldencast") (NASDAQ: WALD), a special purpose acquisition company ("SPAC"), entered into an Agreement and Plan of Merger (the "Obagi Merger Agreement") with Obagi Global Holdings Limited ("Obagi") and an Equity Purchase Agreement (the "Milk Equity Purchase Agreement") with the Company in transactions contemplated by the agreements (the "Business Combinations"). On July 27, 2022, the Business Combinations were completed resulting in the Company becoming a subsidiary of the combined company. Following the Business Combination, the combined company is organized in an "Up-C" structure, in which the equity interests of Obagi and the Company are held by Waldencast LP. Waldencast plc's interests in Obagi and the Company are held through its wholly owned subsidiaries, Holdco 1 and Waldencast LP.

Waldencast acquired the Company for total consideration of approximately $310.8 million, consisting of approximately $112.5 million in cash, and $184.0 million in equity consideration, and $14.3 million in fair value of roll-over equity awards.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The unaudited interim condensed financial statements are presented in U.S. dollars in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The unaudited interim condensed financial statements furnished reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. The results of operations of any interim period are not necessarily indicative of the results of operations to be expected for the full fiscal year. The unaudited interim condensed financial statements should be read in conjunction with the financial statements and accompanying footnotes included in the Company's annual financial statements for the fiscal year ended December 31, 2021 included in Waldencast's definitive proxy statement/final prospectus dated July 7, 2022, and filed with the SEC on July 7, 2022. The interim results for the six months ended June 30, 2022 are not necessarily indicative of the results to be expected for the year ending December 31, 2022, or for any future periods.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions in determining 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 include the allowance for doubtful accounts, the reserve for inventory obsolescence, and depreciation. As future events and their effects cannot be determined with precision, actual results could differ from those estimates and assumptions. Significant changes, if any, in those estimates and assumptions resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

Revenue Recognition

The Company generates revenue from the sale of cosmetics to retailers, including off-price retailers, and sales direct to consumer ("DTC") via the Company's website. The Company derived 95% and 94% of its gross revenue from sales to retailers, with the remainder attributed to DTC sales, during each of the six months ended June 30, 2022 and 2021.

The Company's revenue contracts represent a single performance obligation to sell its products to its customers. The Company recognizes revenue at a point in time upon transfer of control, including passage of title to the customer and transfer of risk of loss related to the products, in an amount that reflects the consideration the Company expects to be entitled to.

For sales to retailers, transfer of control generally passes upon the pickup of goods by the retailer from the Company's distribution center, unless the Company is responsible for shipping the goods, in which case transfer of control passes upon delivery to the retailer. For DTC sales, the Company charges credit cards in advance of shipment. Transfer of control passes upon delivery to the customer.

For sales to retailers, the Company collects cash generally in 15 to 45 days depending on the retailer. The Company has not experienced issues with collectability. For DTC sales, the Company collects cash in advance of shipment. Sales taxes imposed on DTC sales are recorded as a sales tax liability on the condensed Balance Sheet and do not impact revenue.

In measuring revenue and determining the consideration the Company is entitled to as part of a contract with a customer, the Company takes into account the related elements of variable consideration. Such elements of variable consideration include product returns and sales incentives, such as volume rebates and discounts, markdowns, margin adjustments and early-payment discounts. For the sale of goods with a right of return, the Company only recognizes revenue for the consideration it expects to be entitled to and records a sales return reserve based on prior history, known events, and projections on sales in the current period. The Company estimates sales incentives and other variable consideration using the most likely amount method and records a reserve when control of the related product is transferred to the customer. Under this method, certain forms of variable consideration are based on expected sell-through results, which requires subjective estimates. These estimates are supported by historical results as well as specific facts and circumstances related to the current period. A reserve for expected returns or sales incentives is presented as part of Accrued expenses and other current liabilities on the balance sheet. The reserve is trued up for actual results on an ongoing basis. The Company recorded a reserve for sales returns and damages of approximately $4,668 thousand and $4,726 thousand as of June 30, 2022 and December 31, 2021, respectively.

The Company's contract assets consist of accounts receivable, net. The Company's contract liabilities consist of cash collections from its customers prior to the delivery of products purchased for DTC sales. These contract liabilities are classified as deferred revenues and are included in the accompanying condensed balance sheet, accrued expenses and other current liabilities (reference note 4). Accounts receivable increased in the six months ended June 30, 2022 as significant amount of sales took place towards the end of the quarter. Accounts receivable decreased in 2021 primarily due to the Company's strong efforts in collecting past due balances.

	Accounts Receivable, Net		Contract Liabilities	
(In thousands)	**June 30, 2022**	**December 31, 2021**	**June 30, 2022**	**December 31, 2021**
Beginning of period	$ 1,802	$ 5,529	$ 274	$ 129
End of period	$ 6,390	$ 1,802	$ 83	$ 274

Income Taxes

The Company is treated as a partnership for U.S. federal income tax purposes and, as such, is not subject to any entity-level U.S. federal income tax. Instead, for U.S. federal income tax purposes, taxable income of the Company is allocated to the Company's unitholders. We are subject to certain state, local and foreign income taxes, none of which are material for the six months ended June 30, 2022.

During the six months ended June 30, 2022 and 2021, the Company did not have any unrecognized tax benefits related to uncertain tax positions. As of December 31, 2021, the Company is no longer subject to U.S. state, local, or foreign examinations by tax authorities for years before 2017.

Fair Value of Financial Instruments

The Company accounts for financial instruments in accordance with the Accounting Standards Codification ("ASC") 820 - Fair Value Measurements and Disclosures, which provides a framework for measuring fair value and expands required disclosure about fair value measurements of assets and liabilities. ASC 820 defines fair value as the price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company applies fair value accounting for all financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. The topic also establishes a hierarchy for grouping these assets and liabilities based upon the lowest level of input that is significant to the fair value measurement. The definition of each input is described below:

- Level 1: Inputs based on quoted market prices for identical assets or liabilities in active markets at the measurement date.

- Level 2: Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

- Level 3: Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. The inputs are unobservable in the market and significant to the instrument's valuation.

As of June 30, 2022 and December 31, 2021, cash consisted of commercial bank account balances, Paypal balances, cash clearing and petty cash balance. Other financial assets and liabilities including accounts receivable, accounts payable, accrued liabilities, and advances on credit facility are carried at cost which approximates fair value because of the short-term nature of these instruments.

Concentrations

Sales directly to Sephora accounts for approximately 74% and 63% of gross revenue and sales indirectly to Sephora through major retailer distribution arrangements accounts for approximately 17% and 16% of gross revenue during the six months ended June 30, 2022 and 2021, respectively. Accounts receivable related directly to Sephora amounted to approximately 69% and 27% of accounts receivable at June 30, 2022 and December 31, 2021, respectively. Accounts receivable related indirectly to Sephora amounted to approximately 23% and 60% of accounts receivable at June 30, 2022 and December 31, 2021, respectively.

Purchases of inventory from seven manufacturers accounted for approximately 65% and 79% of total inventory receipts during the six months ended June 30, 2022 and 2021, respectively. Accounts payable related to these same manufacturers amounted to approximately 43% and 24% of accounts payable as of June 30, 2022 and December 31, 2021, respectively. There are no other concentration risks in expenditures during the six months ended June 30, 2022 or in accounts payable as of June 30, 2022.

The Company imports a substantial portion of its purchases from suppliers in other countries. Although there are a number of suppliers who could provide the Company's products, a change in suppliers could cause a delay in purchasing and loss of sales, which could adversely affect operating results. These suppliers are subject to various political, economic, and other risks and uncertainties inherent in the countries in which they operate.

The Company maintains its cash in two commercial banks. The amounts held in these accounts may, at times, exceed federally insured limits. The Company believes there is no significant risk with respect to these deposits. The amount in excess as of June 30, 2022 and December 31, 2021 was approximately $2,166 and $3,917, respectively.

Equity Based Compensation

The Company measures and recognizes the cost of employee services received in exchange for an award of equity instruments. Equity-based compensation expenses are measured at the grant date, based on the fair value of the award, and recognized on a straight-line basis over the requisite service period. The Company has elected to account for its graded vesting options on a straight-line basis over the requisite service period for the entire award. Awards granted to non- employees are accounted for in accordance with the pronouncement addressing equity-based compensation issued to non-employees. The Company elected to account for forfeitures as they occur and to utilize the practical expedient to estimate the expected term of all awards.

Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases (ASC 842), which requires lessees to recognize a right-of-use asset and lease liability for all leases with terms of more than 12 months. Recognition, measurement and presentation of expenses will depend on classification as finance or operating lease. ASU 2016-02 will be effective for fiscal years beginning after December 15, 2020. On April 8, 2020, the FASB, pursuant to ASU 2020-05, voted to defer the effective date for ASC 842 for one year. For private companies, the leasing standard will be effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early adoption is permitted.

The Company adopted the new standard on January 1, 2022 in connection with the issuance of the annual financial statements for the year ended December 31, 2022 using the modified retrospective approach. Therefore, upon adoption, the Company will recognize and measure leases without revising comparative period information or disclosures.

The Company plans to implement the transition package of three practical expedients permitted within the standard, which allows companies not to reassess whether agreements contain leases, the classification of leases, and the capitalization of initial direct costs. The Company will make an accounting policy election to recognize lease expense for leases with a term of 12 months or less on a straight-line basis over the lease term and will not recognize any right-of-use assets or lease liabilities for those leases.

The Company expects the standard to result in a material increase in long-term assets and long-term liabilities related to operating leases currently not recorded on the balance sheet. The Company is currently completing its implementation efforts and is continuing to evaluate other possible impacts of the adoption of this standard on its financial statements and related disclosures.

No other new accounting pronouncement have been recently issued or newly effective which would have or be expected to have a material impact on the Company's unaudited condensed financial statements.

3. INVENTORIES

Inventory is comprised of the following:

(In thousands)	June 30, 2022	December 31, 2021
Components	$ 7,024	$ 6,149
Finished goods	18,163	15,619
Inventory, gross	25,187	21,768
Less: Inventory reserve	352	340
Total inventories	**$ 24,835**	**$ 21,428**

4. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

(In thousands)	June 30, 2022	December 31, 2021
Accrued sales returns and damages	$ 4,668	$ 4,726
Accrued bonuses	1,113	1,350
Accrued payroll and other non-income taxes	419	296
Deferred revenue	83	274
Others	45	89
Accrued expenses and other current liabilities	**$ 6,328**	**$ 6,735**

5. DEBT

Line of Credit

In February 2021, the Company amended its Loan and Security Agreement and previous amendments (the "Third Amendment") to revise the minimum EBITDA target for each reporting period under the financial covenant.

In April 2021, the Company amended its Loan and Security Agreement and previous amendments (the “Fourth Amendment”). The Fourth Amendment extended the maturity date through April 10, 2022. The Company may borrow advances under a revolving line based on inventory in an aggregate outstanding principal amount not to exceed the lesser of $8,000 thousand or the inventory borrowing base, as defined in the Fourth Amendment, and in each case inclusive of any amounts reserved under the Ancillary Services Sublimit. The Company may also borrow advances under a revolving line based on accounts receivable in an aggregate outstanding principal amount not to exceed the lesser of $5,000 thousand or the accounts receivable borrowing base, as defined in the Fourth Amendment. The Company may borrow advances in an aggregate outstanding amount, under both the inventory revolving line and the accounts receivable revolving line, not to exceed $8,000 thousand. Advances under the inventory revolving line of the Fourth Amendment bore interest at a variable annual rate equal to the greater of 0.50% above the Prime Rate then in effect or 6.00%. Advances under the accounts receivable revolving line of the Fourth Amendment bore interest at a variable annual rate equal to the greater of 0.25% above the Prime Rate then in effect or 5.50%. Prior to the Fourth Amendment, advances under the Loan and Security Agreement bore interest at a variable annual rate equal to the greater of 0.5% above the Prime Rate then in effect or 6.00%.

In November 2021, the Company amended its Loan and Security Agreement and previous amendments (the “Fifth Amendment”) to adjust the limit of amount that can be held in other bank accounts to $1,500 thousand. In March 2022, the Company amended its Loan and Security Agreement and previous amendments (the “Sixth Amendment”). The Sixth Amendment extended the maturity date through April 10, 2023. The Company may borrow advances under a revolving line based on inventory in an aggregate outstanding principal amount not to exceed the lesser of $15,000 thousand or the inventory borrowing base, as defined in the Sixth Amendment, and in each case inclusive of any amounts reserved under the Ancillary Services Sublimit. The Company may also borrow advances under a revolving line based on accounts receivable in an aggregate outstanding principal amount not to exceed the lesser of $8,000 thousand or the accounts receivable borrowing base, as defined in the Sixth Amendment. The Company may borrow advances in an aggregate outstanding amount, under both the inventory revolving line and the accounts receivable revolving line, not to exceed $15,000 thousand. Advances under the inventory revolving line of the Sixth Amendment bear interest at a variable annual rate equal to the greater of 0.50% above the Prime Rate then in effect or 5.25%. Advances under the accounts receivable revolving line of the Sixth Amendment bear interest at a variable annual rate equal to the greater of 0.25% above the Prime Rate then in effect or 4.50%.

As of June 30, 2022, the Company had outstanding borrowings under the line of credit of $1,500 thousand that did not incur any interest. As of December 31, 2021, the Company did not have any outstanding borrowings or incur any interest.

The line of credit is subject to certain financial and restrictive covenants, including but not limited to, minimum monthly EBITDA amounts, limitations on incurrence of indebtedness and liens, restrictions on affiliate transactions, restrictions on the sale or other disposition of collateral, and maintaining cash in other bank accounts. As of June 30, 2022, the Company was in full compliance with all covenants.

6. FAIR VALUE MEASUREMENTS

The Company records certain of its financial liabilities at fair value, which is defined as the price that would be paid to transfer a liability, in the principal or most advantageous market for the liability, in an orderly transaction between market participants at the measurement date. The accounting for fair value measurements must be applied to nonfinancial assets and nonfinancial liabilities that require initial measurement or remeasurement at fair value, which principally consist of intangible assets and long-lived assets for the purposes of calculating potential impairment. The Company is required to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

In 2019, the Company issued Warrant Agreements giving the lender the option to purchase Redeemable Series C and Series D preferred units. The Company measured and recorded the fair value of the warrant liabilities using the Black-Scholes model. The amount was recorded as a long-term liability on the balance sheet due to the underlying redemption feature. Warrant liabilities are valued using unobservable market inputs and, as such, are considered to be level 3 inputs.

The following table presents the Company’s hierarchy for its financial liabilities measured at fair value on a recurring basis as of June 30, 2022:

(In thousands)	Level 1	Level 2	Level 3		Total	
Liabilities:						
Warrant Liabilities	-	-	$	148	$	148
Total	**-**	**-**	**$**	**148**	**$**	**148**

The following table presents the Company’s hierarchy for its financial liabilities measured at fair value on a recurring basis as of December 31, 2021:

(In thousands)	Level 1	Level 2	Level 3		Total	
Liabilities:						
Warrant Liabilities	-	-	$	121	$	121
Total	**-**	**-**	**$**	**121**	**$**	**121**

The following table presents the changes in fair value of the Company’s financial liabilities measured on a recurring basis, classified as Level 3, during the six months ended June 30, 2022:

(In thousands)	Six months ended June 30, 2022	
Opening balance	**$**	**121**
Change in fair value		27
Ending balance	**$**	**148**

7. EQUITY BASED COMPENSATION EXPENSE

The Company’s Appreciation Rights Plan (“ARP”), Incentive Rights Plan (“IRP”), and Enterprise Management Incentive (“EMI”) options for its employees and officers provide for granting of appreciation rights awards, incentive awards, and options at the discretion of the Board of Directors. Appreciation rights awards, incentive awards, and options have no voting rights. The Company measures awards using fair values as determined by the Black-Scholes model.

The total number of units that may be awarded under the ARP and EMI are 2,371,856 and 161,607 common units, respectively. Under the ARP, no awards were granted during the six months ended June 30, 2022 and 99,000 units of awards were granted during the six months ended June 30, 2021. No awards were granted under the EMI during the six months ended June 30, 2022 and 2021.

The appreciation right and option awards granted to employees and non-employees were accounted for as equity-classified awards. The awards are issued as equity appreciation rights or options in accordance with the respective award letters and may be settled in cash or units at the sole option of the Company. During the six months ended June 30, 2022 and 2021, $131 thousand and $6 thousand of equity-based compensation costs were recognized, respectively.

No awards were either reserved or granted under the IRP as of June 30, 2022.

The following summarizes the Company’s ARP, EMI, and activity for the six months ended June 30, 2022:

(In thousands, except per share data)	Appreciation Rights and Options	Weighted Average Exercise Price		Aggregate Intrinsic Value		Weighted Average Remaining Contractual Term (Years)
Balance at December 31, 2021	2,332,335	$	4.65	$	168	8.10
Awards granted	-		-		-	-
Awards exercised	-		-		-	-
Awards forfeited	-		-		-	-
Balance at June 30, 2022	2,332,335	$	4.65	$	168	7.60
Exercisable at June 30, 2022	-	$	-	$	-	-

As of June 30, 2022, the total unrecognized compensation cost related to unvested awards was $403 thousand and the related weighted-average period over which it is expected to be recognized is approximately 3.6 years.

8. WARRANT LIABILITIES

In conjunction with the Loan and Security Agreement (see Note 5) signed in 2019, the Company issued Warrant Agreements (the "warrants") giving the lender the option to purchase 10,297 of Redeemable Series C Preferred Units and 6,139 of Redeemable Series D Preferred Units. The Company measured and recorded the fair value of the warrant liabilities using the Black-Scholes model. The fair value of the warrants amounted to approximately $148 thousand and $121 thousand as of June 30, 2022 and December 31, 2021, respectively, and was recorded as a long-term liability on the balance sheet due to the underlying redemption feature. In accordance with liability-classified award accounting, the Company remeasures the fair value of the warrant liabilities using the Black-Scholes model annually. Changes in fair value of the warrant liabilities are recorded in Interest expense, net.

Valuation Assumptions

The Company estimated the fair value of the warrants using the Black-Scholes model.

	Six months ended June 30, 2022	Year ended December 31, 2021
Expected term	7 years	8 years
Volatility	35.20%	50.00%
Risk-free interest rate	3.04%	1.44%
Distributions yield	0%	0%

Expected volatility: The volatility factor for the Company's warrants was estimated using publicly available trading data, which was used to estimate the Company's volatility, had the Company been public.

Expected distributions yield: The Company does not anticipate that distributions will be made in the near future.

Expected term: The Company's expected term represents the contractual term as stated in the warrant agreements.

Risk-Free Interest Rate: The Company bases the risk-free interest rate used in the Black-Scholes model on implied yield currently available on U.S. Treasury zero-coupon issues with an equivalent remaining term.

9. RELATED PARTY TRANSACTIONS

The Company receives certain administrative services from affiliated companies related through common ownership. Such amounts are management fee expenses and amounted to $60 thousand each for the six months ended June 30, 2022 and 2021.

The amounts due from officers are due and payable on July 30, 2026 or an earlier date (as defined) and July 31, 2029 or an earlier date (as defined), and bear interest rate of 1.90% per year. One officer loan bears interest at 1.7%.

The members of the company are committed to provide the necessary funding in the form of advances and capital contributions to fund the company's operations as needed.

10. COMMITMENTS & CONTINGENCIES

The Company is at times involved in various claims and legal actions. While the Company cannot predict any final outcomes relating thereto, management believes that the outcome of current claims and legal actions will not have a material adverse impact on the financial position of the Company or the results of its operations.

11. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through August 5, 2022, the date the financial statements were available to be issued.

On July 22, 2022, the Company granted 200,000 units under the Appreciation Rights Plan to an employee and were accounted for as equity-classified awards. These awards vest 25% upon the first anniversary date of the vesting commencement date and the remaining vest in equal monthly installments over the following three years, contingent upon continued employment or service.

On July 27, 2022, the Company completed the Business Combinations with Waldencast as discussed in Note 1.

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

The following discussion and analysis of the financial condition and results of operations of Milk should be read together with Milk's audited financial statements as of December 31, 2021 and 2020 and for the years ended December 31, 2021, December 31, 2020, and December 31, 2019 along with our unaudited financial statements as of and for the six months ended June 30, 2022 and 2021, in each case, together with related notes thereto, included elsewhere in this filing and in Waldencast's definitive proxy statement/final prospectus dated July 7, 2022, and filed with the SEC on July 7, 2022. The following discussion contains forward-looking statements that reflect future plans, estimates, beliefs and expected performance. The forward-looking statements are dependent upon events, risks and uncertainties that may be outside of our control. Our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ materially from those projected in the forward-looking statements include, but are not limited to, those discussed in the sections entitled "Risk Factors" and "Cautionary Statement Regarding Forward-Looking Statements" included elsewhere in this filing and in Waldencast's definitive proxy statement/final prospectus dated July 7, 2022, and filed with the SEC on July 7, 2022. Certain amounts may not foot due to rounding. Unless the context otherwise requires, all references in this section to "Milk", "we", "us", and "our" refer to Milk Makeup LLC and its subsidiaries prior to the consummation of the Business Combination, which will be the business of Milk Makeup LLC, a wholly owned subsidiary of Waldencast LP, and its subsidiaries following the consummation of the Business Combination.

Overview

We are a clean prestige makeup brand that develops and sells cruelty-free, paraben-free, and 100% vegan cosmetics, skincare and other beauty products. We generate revenue from the sale of cosmetics to retailers, including Sephora in North America, Europe, the Middle East and Australia and Cult Beauty and Selfridges in the UK, as well as direct to consumer sales via the Milk website.

Business Combination

On November 15, 2021, Waldencast entered into the Obagi Merger Agreement with Obagi and the Milk Equity Purchase Agreement with Milk in transactions contemplated by such agreements, pursuant to which each of Obagi and Milk will become a subsidiary of the combined company. On July 27, 2022, the Company completed the transaction with Waldencast and Obagi.

COVID-19 Pandemic

In the six months ended June 30, 2022, the business is recovering from the COVID-19 pandemic. Store traffic rebounded in the six months ended June 30, 2022 as COVID-19 restrictions were lifted. However, the business was impacted in the six months ended June 30, 2021 and years ended December 31, 2021 and 2020 by the COVID-19 pandemic primarily through a decline in retail traffic. Domestic Sephora stores had the largest reduction in sales due to Sephora closing its U.S. stores during the rapid spread of the virus beginning in March 2020. As a result, Sephora did not replenish stores in April 2020 and maintained many closures through July 2020. The reduction of sales in Sephora's U.S. stores continued after reopening mainly due to COVID-19 protocols, which contributed to reduced traffic in stores and demand for several product lines.

Key Components of Results of Operations

Net Sales

We derive product revenue from the sale of cosmetics to retailers, including off-price retailers, and DTC sales via our website. Product revenue is recognized point in time upon transfer of control, including passage of title to the customer and transfer of risk of loss related to the products.

Sales directly to Sephora accounts for approximately 74% and 63% of gross revenue and sales indirectly to Sephora through major retailer distribution arrangements (i.e Kohl's and Sephora inside JCPenney) accounts for approximately 17% and 16% of gross revenue during the six months ended June 30, 2022 and 2021, respectively. Sales directly to Sephora accounts for approximately 69%, 56% and 78% of gross revenue and sales indirectly to Sephora through major retailer distribution arrangements accounts for approximately 14%, 7% and 10% of gross revenue during the year ended December 31, 2021, 2020, and 2019, respectively. We deduct customer credits for damages and returns, promotional discounts, and expected credits to be issued in the future from gross revenue. Expected credits for damages and returns are based on prior history, known events, and projections on sales in the current period.

Cost of Goods Sold (exclusive of depreciation and amortization)

Cost of goods sold includes the aggregate costs to manufacture our products, including the amounts invoiced by our third-party contract manufacturers for finished goods, as well as costs related to inbound freight to our distribution center and overhead. Costs of goods sold also includes the effect of changes in the balance of reserves for excess and obsolete inventory.

Selling, general, and administrative expenses

Selling, general, and administrative expenses consist primarily of employee-related costs, including salaries, bonuses, fringe benefits, travel and entertainment expenses, and other related costs associated with administrative services such as legal, accounting, creative, regulatory, and transaction costs related to the anticipated Business Combination. Selling, general, and administrative expenses also include outbound shipping and handling costs, product processing costs, facility costs, marketing and digital expenses, costs related to merchandising, and research and development.

Depreciation and amortization

Depreciation and amortization primarily consist of depreciation of retailer makeup gondolas. During fiscal year 2019, a determination was made to replace a majority of gondolas at U.S. Sephora stores, and as a result, depreciation was accelerated to reflect the new useful life of the gondolas. Upon being replaced in 2020, these gondolas were fully depreciated and written off.

Interest expense, net

Interest expense primarily consists of (i) the $1.3 million discount on the beneficial conversion feature of a secured convertible promissory note to Milk Series C Preferred Units in 2019; (ii) interest on advances from our line of credit and (iii) interest charged by Sephora on advances related to the 2020 birthday gift program, offset by interest income from interest on notes issued to employees. For more information, see Note 6 within our annual financial statements contained elsewhere in this filing.

Other expense, net

Other expense includes foreign currency transaction gains/losses, state income taxes, and other miscellaneous expenses.

Results of Operations

The following tables set forth our results of operations for the periods presented within our financial statements included elsewhere in this filing. The period-to-period comparison of financial results is not necessarily indicative of future results.

Comparison of the six months ended June 30, 2022 and 2021

The following table summarizes our statements of operations data:

	Six months ended June 30,		Change	
(In thousands)	2022	2021	$	%
Net sales	**$ 38,548**	**$ 26,580**	**$ 11,968**	**45%**
Cost of goods sold (exclusive of depreciation and amortization)	13,365	11,297	2,068	18%
Selling, general, and administrative expenses	18,815	12,415	6,400	52%
Depreciation and amortization	1,169	937	232	25%
Operating income	**5,199**	**1,931**	**3,268**	**169%**
Interest expense, net	21	(25)	46	184%
Other expense, net	217	(64)	281	439%
Income before provision for income taxes	**4,961**	**2,002**	**2,941**	**146%**
Income tax provision	-	-	-	0%
Net income	**$ 4,961**	**$ 2,002**	**$ 2,941**	**146%**
Comprehensive income	**$ 4,961**	**$ 2,002**	**$ 2,941**	**146%**

Net sales

Net sales increased $12.0 million, or 45%, to $38.5 million in the six months ended June 30, 2022, from $26.6 million in the six months ended June 30, 2021. The increase was driven by volume of approximately $11.5 million and favorable average price impact of $1.7 million, partially offset by an increase in returns and damages of approximately $1.3 million attributed to expanded distribution from new retailers, such as Kohl's.

Cost of goods sold (exclusive of depreciation and amortization)

Cost of goods sold increased $2.1 million, or 18%, to $13.4 million in the six months ended June 30, 2022, from $11.3 million in the six months ended June 30, 2021. The increase was primarily driven by volume impact of $3.7 million, however, partially offset of by lower average cost impact of $1.6 million.

Selling, general and administrative expense

SG&A expenses increased $6.4 million, or 52%, to $18.8 million in the six months ended June 30, 2022, from $12.4 million in the six months ended June 30, 2021. The increase was primarily related to increases in marketing, payroll, and facility costs of $4.8 million, which were driven by the overall increase in consumer activities impacted by the loosening of COVID-19 pandemic restrictions during the six months ended June 30, 2022. The increase was further driven by transaction costs of $1.6 million related to the Business Combination during the six months ended June 30, 2022.

Depreciation and amortization

Depreciation and amortization increased $0. 2 million, or 25%, to $1.2 million in the six months ended June 30, 2022 from $0.9 million in the six months ended June 30, 2021. The increase was concurrent with additions of new gondolas attributed to the opening of new Kohl's stores during the six months ended June 30, 2022.

Interest expense, net

Interest expense increased $46 thousand, or 184%, to $21 thousand in interest expense for the six months ended June 30, 2022 from $25 thousand in interest income for the six months ended June 30, 2021. The increase was attributed to the increase in fair value of warrant liabilities during the six months ended June 30, 2022.

Other expense, net

Other expense increased $0.3 million, or 439%, to $0.2 million in the six months ended June 30, 2022 from $0.1 million in other income in the six months ended June 30, 2021. The increase was primarily due to foreign currency transactions.

Comparison of the years ended December 31, 2021 and 2020

The following table summarizes our statements of operations data:

	Year ended December 31,		**Change**	
(In thousands)	**2021**	**2020**	**$**	**%**
Net sales	$ 47,076	$ 39,515	$ 7,561	19%
Cost of goods sold (exclusive of depreciation and amortization)	21,781	23,450	(1,669)	(7)%
Selling, general, and administrative expenses	30,764	26,559	4,205	16%
Depreciation and amortization	1,975	1,746	229	13%
Operating loss	**(7,444)**	**(12,240)**	**4,796**	**(39)%**
Interest expense, net	18	301	(283)	(94)%
Other expense, net	385	393	(8)	(2)%
Income before provision for income taxes	**(7,847)**	**(12,934)**	**5,087**	**(39)%**
Income tax provision	-	-	-	0%
Net loss	**$ (7,847)**	**$ (12,934)**	**$ 5,087**	**(39)%**
Comprehensive loss	**$ (7,847)**	**$ (12,934)**	**$ 5,087**	**(39)%**

Net sales

Net sales increased $7.6 million, or 19%, to $47.1 million in the year ended December 31, 2021, from $39.5 million in the year ended December 31, 2020. The increase was primarily driven by an increase of approximately $13.2 million due to favorable average price, partially offset by a decrease of approximately $2.2 million due to decrease in volume and an increase in returns and damages of approximately $3.4 million attributed to discontinued products and the Company's expected exit from Sephora inside JCPenney during the year ended December 31, 2021.

Cost of goods sold (exclusive of depreciation and amortization)

Cost of goods sold decreased $1.7 million, or 7%, to $21.8 million in the year ended December 31, 2021, from $23.5 million in the year ended December 31, 2020. The decrease was primarily driven by a decrease of approximately $1.5 million in inventory write-offs and a decrease of approximately $0.9 million attributed to decrease in volume, partially offset by an increase of approximately $0.7 million due to an increase in average cost per unit.

Selling, general and administrative expenses

Selling, general and administrative expenses increased $4.2 million, or 16%, to $30.8 million in the year ended December 31, 2021, from $26.6 million in the year ended December 31, 2020. The increase in SG&A was primarily related to increases in marketing and payroll costs for a total of $2.7 million. The increase was further driven by increases in transaction costs of $1.9 million related to the anticipated Business Combination. The increase in SG&A was partially offset by decreases in fulfilment and logistics costs of $0.4 million attributed to lower e-commerce sales resulting from the reopening of physical stores.

Depreciation and amortization

Depreciation and amortization increased $0.2 million, or 13%, to $1.9 million in the year ended December 31, 2021 from $1.7 million in the year ended December 31, 2020. The increase was primarily driven by an increase of approximately $0.5 million in depreciation expense attributed to the additions of new gondolas due to opening of new stores during the year ended December 31, 2021, partially offset by a decrease in amortization expense of $0.3 million as the intangible assets were fully amortized during the year ended December 31, 2021.

Interest expense, net

Interest expense decreased $0.28 million, or 94%, to $0.02 million in the year ended December 31, 2021 from $0.3 million in the year ended December 31, 2020. The decrease was attributed to the customer deposits made by Sephora to the Company in 2020 to fund the production of inventory to be used in a promotional program, for which the Company incurred interest expense during the year ended December 31, 2020 and not during 2021 for the same period, as they were fully settled as of December 31, 2020. The decrease was further attributed to the interest expense incurred on the line of credit during the year ended December 31, 2020 and not during 2021 for the same period, as the Company did not draw on the line of credit during the year ended December 31, 2021.

Other expense, net

Other expense decreased $8 thousand, or 2%, to $385 thousand in the year ended December 31, 2021 from $393 thousand in the year ended December 31, 2020. The decrease was primarily due to foreign currency transactions.

Comparison of Fiscal years ended December 31, 2020 and 2019

The following table summarizes our statements of operations data:

	Year ended December 31,		Change	
(In thousands)	**2020**	**2019**	**$**	**%**
Net sales	$ 39,515	$ 50,811	$ (11,296)	(22)%
Cost of goods sold (exclusive of depreciation and amortization)	23,450	23,379	71	0%
Selling, general, and administrative expenses	26,559	33,567	(7,008)	(21)%
Depreciation and amortization	1,746	2,536	(790)	(31)%
Operating loss	**(12,240)**	**(8,671)**	**(3,569)**	**41%**
Interest expense, net	301	1,369	(1,068)	(78)%
Other expense, net	393	918	(525)	(57)%
Income before provision for income taxes	**(12,934)**	**(10,958)**	**(1,976)**	**18%**
Income tax provision	—	—	—	0%
Net loss	**$ (12,934)**	**$ (10,958)**	**$ (1,976)**	**18%**
Comprehensive loss	**$ (12,934)**	**$ (10,958)**	**$ (1,976)**	**18%**

Net sales

Net sales decreased $11.3 million, or 22%, to $39.5 million in the year ended December 31, 2020 from $50.8 million in the year ended December 31, 2019. The decrease in net sales was mainly driven by the COVID-19 pandemic, with domestic Sephora stores experiencing the largest reduction in sales with respect to our products due to the closure of its United States stores as a result of the rapid spread of COVID-19 in March 2020. As a result, Sephora did not replenish stores in April 2020 and maintained many store closures through July 2020. The reduction of sales in Sephora's United States stores continued after reopening mainly due to COVID-19 protocols, which contributed to reduced traffic in stores and demand for several product lines.

Cost of goods sold (exclusive of depreciation and amortization)

Costs of goods sold increased $0.1 million, to $23.5 million in the year ended December 31, 2020 from $23.4 million in the year ended December 31, 2019. The increase was primarily driven by the increase in cost of goods sold attributed to sales to off-price retailers of $7.5 million, partially offset by the decrease in cost of goods sold attributed to a decline in sales to other retailers of $7.5 million. The increase was also driven by inventory write-offs of $2.0 million that were incurred during the year ended December 31, 2020, which were partially offset by inventory reserve provision of $1.9 million for the year ended December 31, 2019.

Selling, general and administrative expenses

SG&A expenses decreased $7.0 million, or 21%, to $26.6 million in the year ended December 31, 2020 from $33.6 million in the year ended December 31, 2019. The decrease was primarily due to reduction in operating expenses as a result of the pandemic. Marketing expenses decreased by $5.9 million, principally due to the reduction in the number of marketing events and reduced influencer gifting. In addition, payroll expenses decreased by $1.2 million, as we laid off 30% of our staff in April 2020 due to the COVID-19 pandemic.

Depreciation and amortization

Depreciation and amortization decreased $0.8 million, or 31%, to $1.7 million in the year ended December 31, 2020 from $2.5 million in the year ended December 31, 2019. The decrease was primarily driven by $1.1 million in accelerated depreciation related to retailer makeup gondolas booked in 2019, partially offset by the depreciation expense attributed to the gondolas that were newly installed in 2020.

Interest expense, net

Interest expense decreased $1.1 million, or 78%, to $0.3 million in the year ended December 31, 2020 from $1.4 million in the year ended December 31, 2019. The decrease was primarily due to the $1.3 million discount on the beneficial conversion feature of a secured convertible promissory note to Milk Series C Preferred Units given in 2019, which we did not incur in 2020. The decrease was partially offset by interest expense of $0.2 million primarily attributed to Milk's line of credit and customer deposits made by Sephora to Milk in 2020 to fund the production of inventory to be used in a promotional program.

Other expense, net

Other expense decreased $0.5 million, or 57%, to $0.4 million in the year ended December 31, 2020, from $0.9 million in the year ended December 31, 2019. The decrease was primarily due to one-time legal and professional fees incurred in 2019 and foreign currency transactions.

Liquidity and Capital Resources

Our liquidity requirements arise from our working capital needs, our obligations to make scheduled payments of interest on our indebtedness and our need to fund capital expenditures to support our current operations, including inventories, marketing, and payroll, and to facilitate growth and expansion. We have financed our operations and expansion by extending our line of credit through April 2023. As of June 30, 2022, we had an accumulated deficit of $122.6 million. COVID-19, which was declared a global pandemic, had a direct impact on our operations and financial performance in 2020 and 2021. Management took immediate action to secure financing and increased our cash position in response to these events.

Our primary sources of liquidity consist of cash totaling $2.7 million, our line of credit financing arrangement with an aggregate outstanding principal limit of $15.0 million and an outstanding balance of $1.5 million as of June 30, 2022, and additional equity financing in 2020, which is available for use for working capital and general business purposes, which we believe will be sufficient to provide working capital, make interest payments and make capital expenditures to support operations and facilitate growth and expansion for the next twelve months. Our principal uses of cash for the periods presented within our financial statements included elsewhere in this Form 6-K filing have been funding our operations.

The following tables summarize our cash flows for the six months ended June 30, 2022 and 2021 and for the year ended December 31, 2021, 2020, and 2019:

	Six months ended June 30,			
(In thousands)	2022	2021	$ Change	% Change
Net cash (used in) provided by operating activities	$ (1,603)	$ 1,270	$ (2,873)	(226)%
Net cash used in investing activities	(148)	(38)	(110)	289%
Net cash provided by financing activities	-	-	-	-

	Year ended December 31,			
(In thousands)	2021	2020	$ Change	% Change
Net cash (used in) provided by operating activities	$ (1,740)	$ (4,694)	$ 2,954	(63)%
Net cash used in investing activities	(1,050)	(6,001)	4,951	(83)%
Net cash provided (used in) by financing activities	-	10,000	(10,000)	(100)%

	Year ended December 31,			
(In thousands)	2020	2019	$ Change	% Change
Net cash provided by (used in) operating activities	$ (4,694)	$ (20,124)	$ 15,430	(77)%
Net cash used in investing activities	(6,001)	(1,106)	(4,895)	443%
Net cash provided by financing activities	10,000	25,000	(15,000)	(60)%

Milk is party to a Loan and Security Agreement, dated as of October 10, 2019 (as amended, restated, amended and restated, supplemented or otherwise modified from time to time, the “Credit Agreement”) with Pacific Western Bank, which provides us with a line of credit maturing in April 2023. The Milk Equity Purchase Agreement requires that, in connection with the closing of the transactions contemplated thereby, all amounts outstanding under the Credit Agreement be paid off, the Credit Agreement be terminated and all related liens be released in connection with the closing of the transactions contemplated by the Milk Equity Purchase Agreement.

Operating activities

Cash provided by operating activities is primarily driven by earnings from operations and changes in net working capital, defined as current assets minus current liabilities and other liabilities. Changes in net working capital are largely related to changes in account receivable, inventory and inventory reserves, prepaid and other current assets, accounts payable, and other assets and liabilities.

The decrease in cash used in operating activities for the six months ended June 30, 2022 as compared to the cash provided by operating activities in the same period during the previous year was primarily a result of the decrease in changes in net working capital of $6.3 million, partially offset by changes in net income of $3.0 million and changes in non-cash items of $0.4 million.

The decrease in cash used in operating activities for the year ended December 31, 2021 as compared to the year ended December 31, 2020 was primarily a result of the decrease in net loss of $5.1 million and increase in changes in non-cash items of $0.6 million, partially offset by the decrease in changes in net working capital of $2.7 million.

The decrease in cash used in operating activities for the year ended December 31, 2020 as compared to the year ended December 31, 2019 was primarily a result of the increase in changes of net working capital of $20.0 million, partially offset by the increase in net loss of $2.0 million and decrease in changes in non-cash items of $2.6 million.

Investing activities

Cash used in investing activities for all periods presented is primarily related to capital expenditures. Capital expenditures are largely related to purchases of gondolas attributed to opening of new stores during the six months ended June 30, 2022 and year ended December 31, 2021 and those that were newly installed during the year ended December 31, 2020.

Financing Activities

No cash was provided by or used in financing activities during the six months ended June 30, 2022 and year ended December 31, 2021. Cash provided by our financing activities in 2020 was $10.0 million due to proceeds received from contributions from members for the purchase of 982,318 authorized Milk Series D Preferred Units during the year ended December 31, 2020.

Off-Balance Sheet Arrangements

We did not have during the periods presented, and we do not currently have, any off-balance sheet financing arrangements or any relationships with unconsolidated entities or financial partnerships, including entities sometimes referred to as structured finance or special purpose entities, that were established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Critical Accounting Policies and Estimates

Our management's discussion and analysis of financial condition and results of operations is based on our financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of financial statements in accordance with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported revenues and expenses during the reported periods. We employ judgment in making our estimates, but they are based on historical experience, currently available information and various other assumptions that we believe to be reasonable under the circumstances. These estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates, and material changes in these estimates could occur in the future.

We believe that the following accounting policies are critical and involve a high degree of judgment. See Note 2 to our annual financial statements appearing elsewhere in this filing for a description of our other significant accounting policies.

Revenue Recognition

We adopted the new revenue accounting standard, ASC 606, Revenue from Contracts with Customers, under the modified retrospective method to all contracts as of January 1, 2019. There was no significant impact on Milk's results of operations or financial condition upon adoption of the new standard.

We generate revenue from the sale of cosmetics to retailers, including off-price retailers, and DTC sales via our website. Our revenue contracts represent a single performance obligation to sell products to our customers. We recognize revenue at a point in time upon transfer of control, including passage of title to the customer and transfer of risk of loss related to the products, in an amount that reflects the consideration we expect to be entitled to.

For sales to retailers, transfer of control generally passes upon the pickup of goods by the retailer from our distribution center, unless we are responsible for shipping the goods, in which case transfer of control passes upon delivery to the retailer. For DTC sales, we charge credit cards in advance of shipment. Transfer of control passes upon delivery to the customer.

For sales to retailers, we collect cash generally in 15 to 45 days depending on the retailer. We have not to date experienced material issues with collectability. For DTC sales, we collect cash in advance of shipment. Sales taxes imposed on DTC sales are recorded as a sales tax liability on the balance sheet and do not impact net sales.

In measuring revenue and determining the consideration we are entitled to as part of a contract with a customer, we take into account the related elements of variable consideration. Such elements of variable consideration include product returns and sales incentives, such as volume rebates and discounts, markdowns, margin adjustments and early-payment discounts. For the sale of goods with a right of return, we only recognize revenue for the consideration we expect to be entitled to and record a sales return reserve based on prior history, known events, and projections on sales in the current period. We estimate sales incentives and other variable consideration using the most likely amount method and record a reserve when control of the related product is transferred to the customer. Under this method, certain forms of variable consideration are based on expected sell-through results, which requires subjective estimates. These estimates are supported by historical results as well as specific facts and circumstances related to the current period. A reserve for expected returns or sales incentives reduces accounts receivable on the balance sheet. The reserve is trued up for actual results on an ongoing basis.

Our contract assets consist of receivables. Our contractual liabilities consist of cash collections from our customers prior to the delivery of products purchased for DTC sales. These contractual liabilities have not been material to our financial statements.

Equity Based Compensation

The Milk Appreciation Rights Plan, the Milk Incentive Rights Plan, and the Milk Enterprise Management Incentive options for our employees and officers provide for granting of appreciation rights awards, incentive awards, and options at the discretion of the board of directors. Appreciation rights awards, incentive awards, and options have no voting rights. We measure all awards using fair values as determined by the Black-Scholes model.

Under the Milk Appreciation Rights Plan, the total number of units that may be awarded is 2,371,856 common units. Awards granted during 2021 and 2020 totaled 99,000 and 1,385,206 units, respectively. Award terms are 1 years. Awards granted in 2021 vest 25% on vesting commencement date and the remaining units vest in equal monthly installments over the following thirty-six months, contingent upon continued employment or service. Awards granted in 2020 vest in four equal 25% installments on the anniversary date of the vesting commencement date, contingent upon continued employment or service.

Under the Milk Enterprise Management Incentive, the total number of units that may be awarded is 161,607 common units. Awards granted during 2021 totaled 161,607 units. Award terms are 10 years. Awards granted in 2021 vest 25% on the first anniversary of the vesting commencement date and the remaining vest in equal monthly installments over the following three years, contingent upon continued employment or service.

The appreciation right and option awards granted to employees and non-employees were accounted for as equity-classified awards. The awards are issued as equity appreciation rights or options in accordance with the respective award letter and may be settled in cash or units at the sole option of the Company.

Our use of the Black-Scholes option-pricing model requires the input of highly subjective assumptions. If factors change and different assumptions are used, our stock-based compensation expense could be materially different in the future. Key assumptions and estimates associated with Black-Scholes inputs are as follows:

- ***Fair Value of Common Stock*:** As our common units are not publicly traded, the fair value was determined by our management, with input from valuation reports prepared by third-party valuation specialists. Stock-based compensation for financial reporting purposes is measured based on updated estimates of fair value when appropriate, such as when additional relevant information related to the estimate becomes available in a valuation report issued as of a subsequent date.

- ***Expected Dividend Yield*:** We have not historically declared or paid dividends and do not anticipate that distributions will be made in the near future. As a result, an expected dividend yield of zero percent was used.

- ***Expected Volatility*:** The volatility factor for our unit-based options was estimated using publicly available trading data, which was used to estimate our volatility, had we been public.

- ***Expected Term*:** Our expected term represents the period that the awards are expected to be outstanding and was determined as a function of contractual terms of the unit-based awards and vesting schedules. We use the simplified method of calculation for estimating expected term.

- ***Risk-Free Interest Rate*:** We base the risk-free interest rate used in the Black-Scholes model on implied yield currently available on U.S. Treasury zero-coupon issues with an equivalent remaining term.

Common Unit Valuations

Given the absence of a public trading market for our common units, and in accordance with the AICPA Accounting and Valuation Guide, Valuation of Privately-Held Company Equity Securities Issued as Compensation, our board of directors exercised reasonable judgment and considered numerous and subjective factors to determine the best estimate of fair value of our common units, including:

- Independent third-party valuations of our common units;

- The prices at which we sold our common units to outside investors in arms-length transactions;

- Our results of operations, financial position, and capital resources;

- Industry outlook;

- The lack of marketability of our common units;

- The fact that the option grants involve illiquid securities in a private company;

- The likelihood of achieving a liquidity event, such as an initial public offering or a sale of our company, given prevailing market conditions;

- The history and nature of our business, industry trends, and competitive environment; and
- General economic outlook including economic growth, inflation and unemployment, interest rate environment, and global economic trends.

In valuing our common units, the fair value of our business, or enterprise value, was determined using the market approach. The market approach estimates value based on a comparison of the subject company to comparable public companies in a similar line of business, the subject company transaction method, the backsolve method, and secondary transactions of our equity interests. From the comparable companies method, a representative market value multiple is determined and then applied to the subject company's financial results to estimate the value of the subject company. From the subject company transaction method, in this particular instance, an estimate of our market value was determined based on an offer to purchase the company and the likelihood of said transaction being consummated. The Backsolve Method "backsolves" to a value of a company based on its shares sold in a recent, arm's length priced equity round of financing. The market approach also includes consideration of the transaction price of secondary sales of our equity interests by investors.

Application of these approaches involves the use of estimates, judgment, and assumptions that may be highly complex and subjective, such as those regarding our expected future revenue, expenses, and future cash flows, discount rates, market multiples, the selection of comparable companies and the probability of possible future events. Changes in any or all of these estimates and assumptions or the relationships between those assumptions impact our valuations as of each valuation date and may have a material impact on the valuation of our common units.

Recently Adopted Accounting Pronouncements

See Note 2 to our annual financial statements included elsewhere in this filing and in Waldencast's definitive proxy statement/final prospectus dated July 7, 2022, and filed with the SEC on July 7, 2022 for more information regarding recently issued accounting pronouncements.

Qualitative and Quantitative Disclosures about Market Risk

We have in the past and may in the future be exposed to certain market risks, including interest rate, foreign currency exchange and financial instrument risks, in the ordinary course of our business. Currently, these risks are not material to our financial condition or results of operations, but they may be in the future. In particular, upon the consummation of the Business Combination, we expect our exposure to foreign currency translation and transaction risk to increase. See the section of this filing entitled "Obagi's Management's Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures About Market Risk."

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

Defined terms included below have the same meaning as terms defined and included elsewhere in this filing on Form 6-K.

Introduction:

The unaudited pro forma condensed combined financial information is prepared in accordance with Article 11 of Regulation S-X as amended by the final rule, Release No. 33-10786 "Amendments to Financial Disclosures about Acquired and Disposed Businesses." The unaudited pro forma condensed combined financial information presents the pro forma effects of the acquisition of Milk and Obagi by Waldencast resulting in reorganization into an umbrella partnership C corporation structure (or "Up-C" structure), and other agreements entered into as part of the Transaction Agreements.

Waldencast was a blank check company incorporated on December 8, 2020 (inception) as a Cayman Islands exempted company for the purpose of effecting a merger, share exchange, asset acquisition, share purchase, reorganization or similar business combination with one or more businesses. On March 18, 2021, Waldencast consummated the initial public offering of 34,500,000 units, inclusive of the partial exercise by the underwriters of the over-allotment option, at $10.00 per unit, generating gross proceeds of $345.0 million. Each unit consisted of one Class A ordinary share and one-third of one public warrant. Each public warrant is exercisable for one Waldencast plc Class A ordinary share at a price of $11.50 per share. Simultaneously with the closing of the initial public offering, Waldencast consummated the private sale of 5,933,333 private placement warrants at a price of $1.50 per private placement warrant to the Sponsor, generating gross proceeds to Waldencast of $8.9 million. The private placement warrants are identical to the warrants sold as part of the units in Waldencast's initial public offering except that, so long as they are held by the Sponsor or its permitted transferees: (1) they will not be redeemable by Waldencast; (2) they (including the shares issuable upon exercise of these warrants) may not, subject to certain limited exceptions, be transferred, assigned or sold by the Sponsor until 30 days after the completion of Waldencast's initial business combination; (3) they may be exercised by the holders on a cashless basis; and (4) they (including the shares issuable upon exercise of these warrants) are entitled to registration rights. Upon the closing of the initial public offering and the sale of the private placement warrants (inclusive of the partial exercise by the underwriters of the over-allotment option), $345.0 million ($10.00 per unit) of the net proceeds of the initial public offering and the sale of the private placement warrants was placed in the Trust Account established for the benefit of Waldencast's public shareholders. As of Closing, immediately prior to the effect of redemptions, there was approximately $345.8 million held in the Trust Account.

Milk is an environmentally and socially conscious makeup company that develops, manufactures and sells paraben-free, 100% vegan and cruelty-free cosmetics, skin care and other beauty products. It generates revenue from the sale of products to retailers, as well as sales direct to consumer via its online website. Its three most popular products are the Hydro Grip Primer, Kush Mascara and the Mini Hydro Grip.

Obagi is a global skincare products company rooted in research and skin biology. Obagi develops, markets and sells innovative skin health products in more than 60 countries around the world. Every product Obagi develops stems from a deep understanding of the skin and how healthy skin functions. The result is an unmatched product portfolio designed to prevent or improve the most common, visible skin concerns such as fine lines and wrinkles, elasticity, photodamage, hyperpigmentation, acne, oxidative stress, environmental damage and hydration.

Waldencast plc is a Jersey corporation that will be subject to U.S. taxation on its share of the U.S. effectively connected income earned from its partnership investment, which owns both Obagi and Milk. The organizational structure following the completion of the Business Combination is commonly referred to as an Up-C structure. This organizational structure will allow the Milk Members to retain an equity ownership in the form of Waldencast LP Common Units, which owns Obagi and Milk. The Milk Members may exchange Waldencast LP Common Units (together with the cancellation of an equal number of shares of voting, Waldencast plc Non-Economic ordinary shares) into Waldencast plc Class A ordinary shares. There is no tax receivable agreement in place for such exchange of Common Units. The Waldencast public shareholders will continue to hold Waldencast Class A ordinary shares, which, upon consummation of the Business Combination, was renamed Waldencast plc. The parties agreed to structure the Business Combination in this manner for tax and other business purposes, and we do not believe that our Up-C organizational structure will give rise to any significant business or strategic benefit or detriment. See the section entitled "*Risk Factors — Risks Related to the Business Combination and the Company*" for additional information on our organizational structure.

The unaudited pro forma condensed combined balance sheet combines the Milk unaudited historical condensed balance sheet as of June 30, 2022, the Obagi unaudited historical condensed consolidated balance sheet as of June 30, 2022, and the Waldencast unaudited historical condensed balance sheet as of June 30, 2022, giving effect to the Business Combination as if it had been consummated on June 30, 2022. The unaudited pro forma condensed combined statement of operations for the six months ended June 30, 2022 and the year ended December 31, 2021 presents the pro forma effect of the Business Combination as if completed on January 1, 2021.

We refer to the unaudited pro forma condensed combined balance sheet and the unaudited pro forma condensed combined statement of operations as the pro forma financial statements.

The pro forma financial statements are not necessarily indicative of what the combined company's balance sheet or statement of operations actually would have been had the Business Combination been completed as of the dates indicated, nor do they purport to project the future financial position or operating results of the combined company. The actual financial position and results of operations may differ significantly from the pro forma amounts reflected herein due to a variety of factors. The pro forma financial information is presented for illustrative purposes only and does not reflect the costs of any integration activities or cost savings or synergies that may be achieved as a result of the Business Combination.

The unaudited pro forma condensed combined financial statements were prepared using the acquisition method of accounting under the provisions of ASC Topic 805, Business Combinations on the basis of Waldencast as the accounting acquirer and Obagi and Milk as the accounting acquirees. Waldencast has been determined to be the accounting acquirer based on evaluation of the following factors (prior to Closing):

- The owners of Waldencast have the largest voting interest in the combined company;
- The Sponsor and its affiliates nominated the majority of the initial members who will serve on the board of directors of Waldencast (Obagi nominated 1 director, and Milk nominated 0 directors); and
- Waldencast's existing management holds executive management roles for the post-combination company whilst Obagi and Milk management team members reported into the current Waldencast executive team.

The factors discussed above support the conclusion that Waldencast acquired control of Obagi and Milk and is the accounting acquirer. Therefore, the Business Combination constitutes a change in control and was accounted for using the acquisition method. Under the acquisition method of accounting, the purchase price was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed of Obagi and Milk, based on their estimated acquisition-date fair values. These estimates were determined through established and generally accepted valuation techniques.

The following tables represent the pro forma ownership of the combined company which reflects the cumulative effect of actual redemptions, the consummation of the Business Combination and the consummation of the related transactions.

The following summarizes the pro forma ownership of Waldencast plc Class A ordinary shares, excluding potential Waldencast plc Class A ordinary shares from dilutive securities, following the Business Combination:

	Shares	Ownership %(10)
Waldencast Public Shareholders(1)	4,478,054	4.2%
Burwell Mountain Trust(2)	7,848,333	7.3%
Dynamo Master Fund(3)	13,848,333	12.9%
Waldencast Ventures(4)	2,848,334	2.6%
Beauty FPA Investor(5)	17,300,000	16.1%
Investor Directors(6)	100,000	0.1%
PIPE Investors(7)	11,800,000	11.0%
Cumulative Waldencast shareholders	**58,223,054**	**54.1%**
Existing Obagi Owners interest in Waldencast(8)	28,237,500	26.3%
Existing Milk Owners interest in Waldencast(9)	21,104,225	19.6%
Total	**107,564,779**	**100.0%**

1) 30,021,946 Class A ordinary shares were redeemed in connection with the Business Combination.

2) Includes 5,000,000 Waldencast plc Class A ordinary shares acquired pursuant to the Sponsor Forward Purchase Agreement for an investment of $50.0 million by Burwell Mountain PTC LLC, as the trustee of Burwell Mountain Trust (a member of our Sponsor), in exchange for a portion of the Forward Purchase Amount and 2,848,333 Waldencast plc Class A ordinary shares issued upon conversion of the Waldencast Class B ordinary shares. Waldencast plc Class A ordinary shares were issued upon the automatic conversion of the Waldencast Class B ordinary shares concurrently with the consummation of the Business Combination.

3) Includes 11,000,000 Waldencast plc Class A ordinary shares acquired pursuant to the Sponsor Forward Purchase Agreement for an investment of $110.0 million by Dynamo Master Fund (a member of our Sponsor), in exchange for a portion of the Forward Purchase Amount and 2,848,333 Class A ordinary shares issued upon conversion of the existing Waldencast Class B ordinary shares. Class A ordinary shares were issued upon the automatic conversion of the Waldencast Class B ordinary shares concurrently with the consummation of the Business Combination.

4) Waldencast plc Class A ordinary shares issued upon conversion of the Waldencast Class B ordinary shares. Waldencast plc Class A ordinary shares were issued upon the automatic conversion of the Waldencast Class B ordinary shares concurrently with the consummation of the Business Combination.

5) 17,300,000 Waldencast plc Class A ordinary shares acquired pursuant to the Third-Party Forward Purchase Agreement for an investment of $173.0 million by Beauty Ventures in exchange for a portion of the Forward Purchase Amount.

6) 100,000 Waldencast plc Class A ordinary shares held by the Investor Directors, issued upon conversion of the Waldencast Class B ordinary shares. Waldencast plc Class A ordinary shares were issued upon the automatic conversion of the Waldencast Class B ordinary shares concurrently with the consummation of the Business Combination.

7) Represents the private placement pursuant to which Waldencast entered into Subscription Agreements with certain PIPE Investors whereby such investors have agreed to subscribe for Class A ordinary shares at a purchase price of $10.00 per share. The PIPE Investors participating in the PIPE Investment, purchased an aggregate of 11,800,000 Class A ordinary shares.

8) Represents Obagi owners' interest in 28,237,500 Waldencast plc Class A ordinary shares.

9) Represents the Milk Members' noncontrolling economic interest in Waldencast LP Common Units, which are redeemable at the option of the holder of such units, and if such option is exercised, are exchangeable, at the option of Waldencast plc, for Waldencast plc Class A ordinary shares on a 1 for 1 basis or cash (together with the cancellation of an equal number of shares of voting, Waldencast plc Non-Economic ordinary shares).

10) Percentage totals may not foot due to rounding.

The following summarizes the pro forma ownership of Waldencast plc Class A ordinary shares, on a fully dilutive basis, following the Business Combination:

	Shares	**Ownership %(8)**
Waldencast Public Shareholders (1)	15,978,054	10.9%
Burwell Mountain Trust(2)	11,826,110	8.1%
Dynamo Master Fund(3)	19,826,109	13.5%
Waldencast Ventures(4)	5,159,447	3.5%
Beauty FPA Investor(5)	23,066,666	15.7%
Investor Directors	100,000	0.2%
PIPE Investors	11,800,000	8.0%
Cumulative Waldencast shareholders	**87,756,386**	**59.8%**
Existing Obagi Owners interest in Waldencast(6)	35,934,428	24.5%
Existing Milk Owners interest in Waldencast(7)	23,142,337	15.8%
Total	**146,833,151**	**100.0%**

1) Includes the impact of the exercise of 11,500,000 of public warrants.

2) Includes the exercise of (i) 1,977,777 Private Placement Warrants and the exercise of 333,333 Working Capital Loan Warrants, which are indirectly owned by Burwell Mountain PTC LLC, as the trustee of Burwell Mountain Trust (a member of the Sponsor), and (ii) 1,666,667 Sponsor FPA Warrants.

3) Includes the exercise of (i) 1,977,777 Private Placement Warrants and the exercise of 333,333 Working Capital Loan Warrants, which are indirectly owned by Dynamo Master Fund as a member of the Sponsor, and (ii) 3,666,666 Sponsor FPA Warrants.

4) Includes the exercise of 1,977,779 Private Placement Warrants and the exercise of 333,334 Working Capital Loan Warrants, which are indirectly owned by Waldencast Ventures as a member of the Sponsor.

5) Includes the exercise of 5,766,666 Beauty FPA Warrants.

6) Includes the exercise of rollover equity awards, consisting of 5,906,630 stock options, and 1,790,298 restricted stock units.

7) Includes the exercise of rollover equity awards, consisting of 1,887,264 stock appreciation rights and 150,848 options.

8) Percentage totals may not foot due to rounding.

The following unaudited pro forma condensed combined balance sheet as of June 30, 2022 and the unaudited pro forma condensed combined statements of operations for the six months ended June 30, 2022 and year ended December 31, 2021 are based on the historical financial statements of Waldencast, Obagi, and Milk. The unaudited pro forma adjustments are based on information currently available, and assumptions and estimates underlying the unaudited pro forma adjustments are described in the accompanying notes. Actual results may differ materially from the assumptions used to present the accompanying unaudited pro forma condensed combined financial information.

The assumptions and estimates underlying the unaudited adjustments to the unaudited pro forma condensed combined financial information is described in the accompanying notes, which should be read in conjunction with, the following:

- Waldencast's unaudited interim condensed financial statements and related notes as of June 30, 2022 and for the six months ended June 30, 2022 and 2021, included elsewhere in this Form 6-K.

- Waldencast's audited financial statements and related notes as of and for the year ended December 31, 2021 included our definitive proxy statement/final prospectus dated July 7, 2022, and filed by us with the SEC on July 7, 2022.

- Milk's and Obagi's unaudited consolidated financial statements and related notes as of June 30, 2022 and for the six months ended June 30, 2022 and 2021 included elsewhere in this Form 6-K.

- Milk's and Obagi's audited financial statements and related notes as of and for the year ended December 31, 2021 included our definitive proxy statement/final prospectus dated July 7, 2022, and filed by us with the SEC on July 7, 2022.

- *"Waldencast's Management's Discussion and Analysis of Financial Condition and Results of Operations"* included elsewhere in this Form 6-K and in our definitive proxy statement/final prospectus dated July 7, 2022, and filed by us with the SEC on July 7, 2022.

- *"Milk's Management's Discussion and Analysis of Financial Condition and Results of Operations"* included elsewhere in this Form 6-K and in our definitive proxy statement/final prospectus dated July 7, 2022, and filed by us with the SEC on July 7, 2022

- *"Obagi's Management Discussion and Analysis of Financial Condition and Results of Operations"* included elsewhere in this Form 6-K and in our definitive proxy statement/final prospectus dated July 7, 2022, and filed by us with the SEC on July 7, 2022

Unaudited Pro Forma Condensed Combined Balance Sheet
As of June 30, 2022
(in thousands, except per share data)

	As of June 30, 2022				Transaction Accounting Adjustments				As of June 30, 2022
	Waldencast Acquisition Corp. (Historical)	Obagi Global Holdings Limited (Adjusted, Note 2)	Milk Makeup LLC (Historical)	Reclassification Adjustments	Debt Refinance		Business Combination adjustments		Pro Forma Combined
ASSETS									
Current assets:									
Cash and cash equivalents	$ 100	$ 6,242	$ 2,666	$ -	45,944	L	$ 345,313	A	$ 44,172
							(76,199)	B	
							118,000	C	
							333,000	D	
							(429,975)	E	
							103	J	
							(300,905)	M	
							(117)	N	
Restricted cash	.	650	-	-			-		650
Accounts and note receivable, net	-	75,165	6,390	-			-		81,555
Inventories	-	20,789	24,835	-			18,950	E	64,574
Prepaid expenses	282	8,086	-	840			(283)	B	8,925
Other current assets	-	373	-	-	278	L	-		651
Prepaid expenses and other current assets	-	-	453	(453)			-		-
Prepaid supplier	-	-	387	(387)			-		-
Total current assets, net	**382**	**111,305**	**34,731**	**-**	**46,222**		**7,887**		**200,527**
Investment held in Trust Account	345,313	-	-	-			(345,313)	A	-
Property, plant equipment, net	-	3,640	5,938	-			-		9,578
Intangible assets, net	-	70,096	-	-			533,404	E	603,500
Goodwill	-	44,489	-	-			321,206	E	365,695
Other assets	-	1,274	-	-	832	L	-		2,106
Due from officers	-	-	780	-			(780)	J	-
Total assets	**$ 345,695**	**$ 230,804**	**$ 41,449**	**$ -**	**$ 47,054**		**$ 516,404**		**$ 1,181,406**
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)									
Current liabilities:									
Accounts payable	$ 1,039	$ 18,323	$ 6,590	$ -			$ (5,077)	B	$ 20,875
Current portion of long-term debt, net	-	22,603		-	(14,824)	L	-		7,779
Tenant allowance liability - current	-	-	161	(161)			-		-
Accrued expenses and other current liabilities	-	-	6,328	(6,328)			-		-
Line of credit	-	-	1,500	-	(1,500)	L			-
Due to related party	155	-	-	-			-		155
Other current liabilities	-	14,417	-	6,489			-		20,906
Total current liabilities	**1,194**	**55,343**	**14,579**	**-**	**(16,324)**		**(5,077)**		**49,715**
Warrant liabilities	12,552	-	148	(148)			1,500	K	13,904
							(148)	N	
Deferred rent - non-current	-	-	1,172	(1,172)			-		-
Tenant allowance liability - non-current	-	-	978	(978)			-		-
Long-term debt, net	-	100,764	-	-	73,689	L			174,453
Deferred income tax liabilities	-	548	-	-	(2,423)	L	72,255	E	70,380
Other liabilities	-	619	-	16,099			(13,801)	B	2,917
Deferred legal fees	13,801	-	-	(13,801)			-		-
Forward purchase agreement liabilities	7,992	-	-	-			(7,992)	D	-
Working Capital Promissory Note – related party	2,100	-	-	-			(1,500)	K	600
Deferred underwriters' discount	12,075	-	-	-			(12,075)	B	-
Total liabilities	**49,714**	**157,274**	**16,877**	**-**	**54,942**		**33,162**		**311,969**
COMMITMENTS AND CONTINGENCIES									
Class A ordinary shares subject to possible redemption	345,313	-	-	-			(345,313)	F	-
Redeemable Series A preferred units	-	-	44,319	-			(44,319)	F	-
Redeemable Series B preferred units	-	-	26,227	-			(26,227)	F	-
Redeemable Series C preferred units	-	-	46,373	-			(46,373)	F	-
Redeemable Series D preferred units	-	-	30,237	-			(30,237)	F	-
SHAREHOLDERS' EQUITY									
Common units	-	-	-	-			-		-
Common stock	-	4,000	-	-			(4,000)	H	-
Preference shares	-	-	-	-			-		-
Class A ordinary shares	-	-	-	-			1	C	6
							5	D	
							3	E	
							-	F	
							(3)	M	
							-	O	
Class B ordinary shares	1	-	-	-			(1)	H	-
Class B non-economic voting shares	-	-	-	-			1	E	1

Additional paid-in capital	-	72,822	-	-			117,999	**C**	802,629
							340,987	**D**	
							371,325	**E**	
							492,469	**F**	
							(125,159)	**G**	
							4,001	**H**	
							(170,410)	**I**	
							(677)	**J**	
							(300,902)	**M**	
							174	**O**	
Accumulated deficit	(49,333)	(2,575)	(122,584)	-	(7,888)	**L**	(45,528)	**B**	(102,892)
							125,159	**G**	
							31	**N**	
							(174)	**O**	
Accumulated other comprehensive income (loss)	-	(717)	-	-			-		(717)
Total shareholders' equity	**(49,332)**	**73,530**	**(122,584)**	**-**	**(7,888)**		**805,301**		**699,027**
Noncontrolling interest	-	-	-	-	-		170,410	**I**	170,410
Total Equity	**(49,332)**	**73,530**	**(122,584)**	**-**	**(7,888)**		**975,711**		**869,437**
Total liabilities and shareholders' deficit	**$ 345,695**	**$ 230,804**	**$ 41,449**	**$ -**	**47,054**		**$ 516,404**		**$ 1,181,406**

Unaudited Pro Forma Condensed Combined Statement of Operations
For the six months ended June 30, 2022
(in thousands, except per share data)

	For the Six Months Ended June 30, 2022				Transaction Accounting Adjustments				For the Six Months Ended June 30, 2022
	Waldencast Acquisition Corp. (Historical)	**Obagi Global Holdings Limited (Adjusted, Note 2)**	**Milk Makeup LLC (Historical)**	**Reclassification Adjustments**	**Debt Refinance**		**Business Combination adjustments**		**Pro Forma Combined**
Net revenue	$ -	$ 99,654	$ 38,548	$ -			$ -		$ 138,202
Cost of goods sold (exclusive of depreciation and amortization shown separately below)	-	22,781	13,365	-			-		36,146
Formation and operating costs	8,401	-	-	-			(8,401)	**BB**	-
Selling, general and administrative	-	54,520	18,815	-			(6,139)	**BB**	69,913
							2,717	**FF**	
Research and development	-	3,262	-	-			-		3,262
Depreciation and amortization	-	7,076	1,169	-			6,357	**GG**	14,602
Income/(loss) from operations	**(8,401)**	**12,015**	**5,199**	**-**	**-**		**5,466**		**14,279**
Interest income on operating account	(1)	-	-	-			-		(1)
Interest income on marketable securities held in Trust Account	(261)	-	-	-			261	**AA**	-
Change in fair value of forward purchase agreement liabilities	(5,328)	-	-	-			5,328	**HH**	-
Change in fair value of warrant liabilities	(8,602)	-	-	-			-		(8,602)
Interest expense, net	-	5,719	21	-	177	**II**			5,917
Other (income)/expense, net	-	(74)	217	-			(314)	**EE**	(171)
Total other (income)/expense, net	**(14,192)**	**5,645**	**238**	**-**	**177**		**5,275**		**(2,857)**
Income/(loss) before income taxes	**5,791**	**6,370**	**4,961**	**-**	**(177)**		**191**		**17,136**
Income tax expense (benefit)	-	(43)	-	-	1,344	**II**	(1,069)	**CC**	232
Net income (loss)	**$ 5,791**	**$ 6,413**	**$ 4,961**	**$ -**	**(1,521)**		**$ 1,260**		**$ 16,904**
Net income attributable to noncontrolling interest							3,313	**DD**	3,313
Net income attributable to controlling interest							-		13,591
Earnings per share (Note 6)									
Net income per common share - Basic									$ 0.16
Weighted average common shares outstanding - Basic									86,460,554
Net income per common share - Diluted									0.15
Weighted average common shares outstanding - Diluted									111,475,855

Unaudited Pro Forma Condensed Combined Statement of Operations
For the year ended December 31, 2021
(in thousands, except per share data)

	For the Year Ended December 31, 2021				Transaction Accounting Adjustments				For the Year Ended December 31, 2021
	Waldencast Acquisition Corp. (Historical)	**Obagi Global Holdings Limited (Adjusted, Note 2)**	**Milk Makeup LLC (Historical)**	**Reclassification Adjustments**	**Debt Refinance**		**Business Combination adjustments**		**Pro Forma Combined**
Net revenue	$ -	$ 178,681	$ 47,076	$ -			$ -		$ 225,757
Cost of goods sold (exclusive of depreciation and amortization shown separately below)	-	42,310	21,781	-			18,950	**GG**	83,041
Formation and operating costs	9,133	-	-	-			-		9,133
Selling, general and administrative	-	94,457	30,764	-			60,742	**BB**	191,813
							5,676	**FF**	
							174	**JJ**	
Research and development	-	6,991	-	-			-		6,991
Depreciation and amortization	-	13,580	1,975	-			12,744	**GG**	28,299
Income/(loss) from operations	**(9,133)**	**21,343**	**(7,444)**	**-**	**-**		**(98,286)**		**(93,520)**
Interest income on operating account	(1)	-	-	-			-		(1)
Interest income on marketable securities held in Trust Account	(52)	-	-	-			52	**AA**	-
Offering expenses related to warrant issuance	719	-	-	-			-		719
Change in fair value of forward purchase agreement liabilities	1,665	-	-	-			(1,665)	**HH**	-
Change in fair value of warrant liabilities	2,964	-	-	-			-		2,964
Loss on Extinguishment of Debt	-	2,317	-	-	10,311	**II**	-		12,628
Gain on PPP Loan forgiveness	-	(6,824)	-	-			-		(6,824)
Interest expense, net	-	11,158	18	-	993	**II**	-		12,169
Other (income)/expense, net	-	194	385	-			(1,421)	**EE**	(842)
Total other (income)/expense, net	**5,295**	**6,845**	**403**	**-**	**11,304**		**(3,034)**		**20,813**
Income/(loss) before income taxes	**(14,428)**	**14,498**	**(7,847)**	**-**	**(11,304)**		**(95,252)**		**(114,333)**
Income tax expense (benefit)	-	11,131	-	-	199	**II**	(18,329)	**CC**	(6,999)
Net (loss) income	**$ (14,428)**	**$ 3,367**	**$ (7,847)**	**$ -**	**(11,503)**		**$ (76,923)**		**$ (107,334)**
Net loss attributable to noncontrolling interest							(19,107)	**DD**	(19,107)
Net loss attributable to controlling interest							-		(88,227)
Earnings per share (Note 6)									
Net loss per common share - Basic and Diluted									$ (1.02)
Weighted average common shares outstanding - Basic and Diluted									86,460,554

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

Note 1. Basis of pro forma presentation

The unaudited pro forma condensed combined financial statements have been prepared assuming the Business Combination is accounted for using the acquisition method of accounting with Waldencast as the acquiring entity. Under the acquisition method of accounting, Waldencast's assets and liabilities will retain their carrying values and the assets and liabilities associated with Milk and Obagi will be recorded at their fair values measured as of the acquisition date. The excess of the purchase price over the estimated fair values of the net assets acquired, if applicable, will be recorded as goodwill. The acquisition method of accounting is based on ASC 805 and uses the fair value concepts defined in ASC Topic 820, Fair Value Measurements ("ASC 820"). In general, ASC 805 requires, among other things, that assets acquired, and liabilities assumed be recognized at their fair values as of the acquisition date by Waldencast, who was determined to be the accounting acquirer.

ASC 820 defines fair value, establishes a framework for measuring fair value, and sets forth a fair value hierarchy that prioritizes and ranks the level of observability of inputs used to develop the fair value measurements. Fair value is defined in ASC 820 as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." This is an exit price concept for the valuation of the asset or liability. In addition, market participants are assumed to be buyers and sellers in the principal (or the most advantageous) market for the asset or liability. Fair value measurements for a non-financial asset assume the highest and best use by these market participants. Many of these fair value measurements can be highly subjective, and it is possible that other professionals applying reasonable judgment to the same facts and circumstances, could develop and support a range of alternative estimated amounts.

The transaction accounting adjustments represent management's estimates based on information available as of the date of the filing of the condensed combined financial information and do not reflect possible adjustments related to restructuring or integration activities that have to be determined.

The accompanying unaudited pro forma condensed combined financial information was prepared using the acquisition method of accounting in accordance with ASC 805 and are based on certain currently available information and certain assumptions and methodologies that Waldencast believes are reasonable under the circumstances. The unaudited condensed transaction accounting adjustments, which are described in the accompanying notes, may be revised as additional information becomes available. Therefore, it is likely that the actual adjustments will differ from the transaction accounting adjustments and it is possible the differences may be material. Waldencast believes that its assumptions and methodologies provide a reasonable basis for presenting all of the significant effects of the Business Combination based on information available to management at this time and that the transaction accounting adjustments give appropriate effect to those assumptions and are properly applied in the unaudited pro forma condensed combined financial information.

The historical financial statements have been adjusted in the unaudited pro forma condensed combined financial information to reflect transaction accounting adjustments in connection with the Business Combination as well as the Obagi China Distribution.

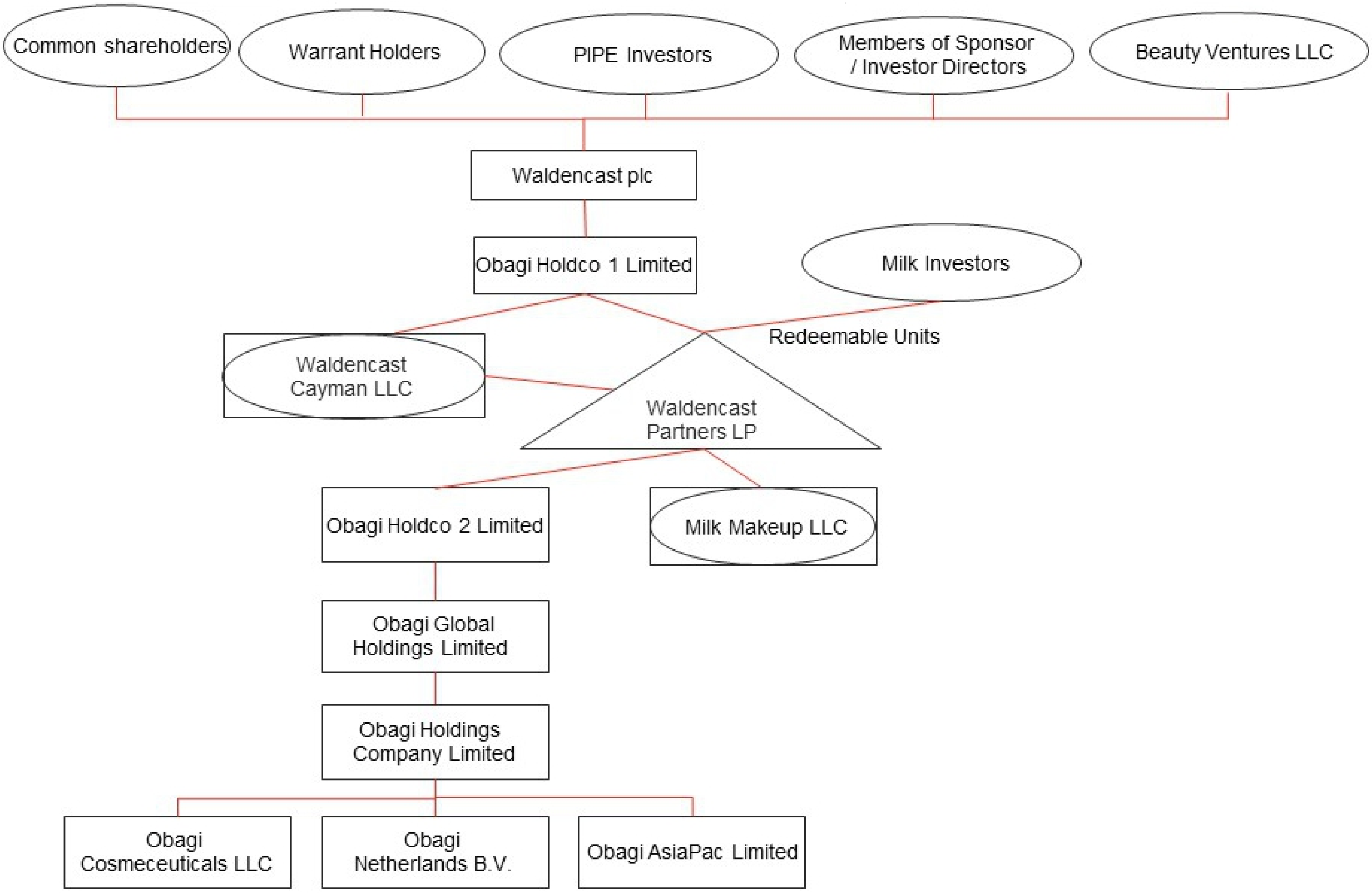
The unaudited pro forma condensed combined balance sheet as of June 30, 2022, assumes that the Business Combination occurred on June 30, 2022. The unaudited pro forma condensed combined statements of operations for the period for the six months ended June 30, 2022 and year ended December 31, 2021, present pro forma effect to the Business Combination as if it had been completed on January 1, 2021. These periods are presented on the basis of Waldencast being the accounting acquirer. The pro forma basic and diluted loss per share amounts presented in the unaudited pro forma condensed combined statement of operations are based upon the number of Class A ordinary shares outstanding, assuming the Business Combination and related transactions occurred on January 1, 2021.

Note 2. Description of the Business Combination

Pursuant to the Transaction Agreements, Obagi owners received a combination of cash and Class A ordinary shares in Waldencast plc and Milk owners received a combination of cash, partnership interest of Waldencast LP and Class B non-economic voting shares. The Business Combination was structured as an Up-C transaction, whereby the Milk shareholders as the Milk Members retained common units in Milk, which hold the net assets of Milk and Obagi. The Milk Members received approximately 19.6% of the economic interests in Waldencast LP.

The transaction occurred as follows: Obagi merged into Holdco 1 and became an indirect subsidiary of Waldencast plc, Milk was acquired by Waldencast through Waldencast LP and Holdco 1 acquiring the Milk Membership Units (organized as an "Up-C") through a subsidiary, and the Obagi assets was contributed to the Milk Up-C structure.

Below is a diagram of the final structure of the transaction:



Obagi China Distribution

In connection with the Obagi Merger, Obagi carved out its businesses located in China – Obagi Shanghai Cosmeceuticals Co. Ltd., Obagi Xi'an Pharmaceuticals Technology Co., Ltd., and Obagi Hong Kong Limited. The adjusted Obagi results include adjustments to eliminate the assets, liabilities and operations of China businesses that was distributed to Cedarwalk prior to closing of the Obagi Merger.

Below is a summary of the carve-out adjustments recorded against the historical financial statements of Obagi to eliminate the assets, liabilities and operations of the Obagi China Businesses:

Condensed Consolidated Balance Sheet as of June 30, 2022

($ in thousands, except share data)	Obagi Global Holdings Limited (Historical)	China Carve-Out Adjustments	Obagi Global Holdings Limited (Adjusted)
ASSETS			
Current assets:			
Cash and cash equivalents	$ 6,742	$ (500)	$ 6,242
Restricted cash	650	-	650
Accounts and note receivable, net	77,665	(2,500)	75,165
Inventories	27,586	(6,797)	20,789
Prepaid expenses	8,086	-	8,086
Other current assets	374	-	374
Total current assets	**121,103**	**(9,797)**	**111,306**
Property, plant equipment, net	3,777	(138)	3,639
Intangible assets, net	73,069	(2,973)	70,096
Goodwill	44,489	-	44,489
Other assets	1,274	-	1,274
Total assets	**$ 243,712**	**$ (12,908)**	**$ 230,804**
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)			
Current liabilities:			
Accounts payable	$ 18,323	$ -	$ 18,323
Current portion of long-term debt, net	22,603	-	22,603
Other current liabilities	14,417	-	14,417
Total current liabilities	**55,343**	**-**	**55,343**
Long-term debt, net	100,764	-	100,764
Deferred income tax liabilities	548	-	548
Other liabilities	619	-	619
Total liabilities	**157,274**	**-**	**157,274**
Shareholder's equity			
Common stock, 25,000,000 shares authorized; $0.50 par value; 8,000,002 shares issued and outstanding as of June 30, 2022 and December 31, 2021	4,000	-	4,000
Additional paid-in capital	100,113	(27,291)	72,822
Accumulated deficit	(17,713)	15,138	(2,575)
Accumulated other comprehensive income (loss)	38	(755)	(717)
Total shareholders' equity (deficit)	**86,438**	**(12,908)**	**73,530**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY (DEFICIT)	**$ 243,712**	**$ (12,908)**	**$ 230,804**

Condensed Consolidated Statements of Operations for the six months ended June 30, 2022

($ in thousands)	Obagi Global Holdings Limited (Historical)	China Carve-Out Adjustments	Obagi Global Holdings Limited (Adjusted)
Net revenue	$ 106,440	$ (6,786)	$ 99,654
Cost of goods sold (exclusive of depreciation and amortization shown separately below)	24,701	(1,920)	22,781
Selling, general and administrative	68,418	(13,898)	54,520
Research and development	3,262	-	3,262
Depreciation and amortization	7,369	(293)	7,076
Total operating expenses	**103,750**	**(16,111)**	**87,639**
Operating (loss) income	**2,690**	**9,325**	**12,015**
Interest expense	5,719	-	5,719
Other expense, net	(74)	-	(74)
(Loss)/Income before income taxes	**(2,955)**	**9,325**	**6,370**
Income tax expense (benefit)	(40)	(3)	(43)
Net (loss)/income	**$ (2,915)**	**$ 9,328**	**$ 6,413**

Condensed Consolidated Statements of Operations for the year ended December 31, 2021

($ in thousands)	Obagi Global Holdings Limited (Historical)	China Carve-Out Adjustments	Obagi Global Holdings Limited (Adjusted)
Net revenue	$ 206,069	$ (27,388)	$ 178,681
Cost of goods sold (exclusive of depreciation and amortization shown separately below)	48,708	(6,398)	42,310
Selling, general and administrative	118,243	(23,786)	94,457
Research and development	6,991	-	6,991
Depreciation and amortization	14,053	(473)	13,580
Total operating expenses	**187,995**	**(30,657)**	**157,338**
Operating income	**18,074**	**3,269**	**21,343**
Interest expense	11,156	2	11,158
Loss on Extinguishment of Debt	2,317	-	2,317
Gain on PPP Loan forgiveness	(6,824)	-	(6,824)
Other expense, net	194	-	194
Income before income taxes	**11,231**	**3,267**	**14,498**
Income tax expense (benefit)	11,301	(170)	11,131
Net (loss) income	**$ (70)**	**$ 3,437**	**$ 3,367**

2022 Credit Agreement

On June 24, 2022, Waldencast entered into a credit agreement (the “2022 Credit Agreement”) with a syndicate of lenders led by JPMorgan Chase Bank, N.A., as administrative agent. The 2022 Credit Agreement provided the combined company with a term loan of $175.0 million (the “Term Loan”) and a revolving credit facility of $11.1 million with a borrowing capacity up to $50.0 million (the “Revolver”), for a total outstanding balance of $186.1 million at Closing.

The Term Loan and the Revolver will mature within four (4) years of the Closing of the Business Combination. Borrowings under the Term Loan were used to, among other things, repay outstanding amounts under, and terminate, the existing credit facilities of Obagi and Milk.

Waldencast is currently evaluating the accounting for the debt refinancing but has assumed that debt extinguishment accounting is applied for pro forma purposes. Depending on the completion of such analysis, there may be changes in the amount of estimated debt extinguishment gains or losses. However, such changes are not expected to be material. Refer to adjustments (L) and (II) for the impact of the 2022 Credit Agreement on the Unaudited Pro Forma Condensed Combined Balance Sheet as of June 30, 2022 and Unaudited Pro Forma Condensed Combined Statement of Operations for the six months ended June 30, 2022 and year ended December 31, 2021.

Note 3. Accounting Policies

Management has performed an initial review of the accounting policies of each entity to conform the accounting policies to those of Waldencast, the accounting acquirer. In doing so, management identified presentation differences that would have an impact on the unaudited pro forma condensed combined financial information and recorded necessary adjustments. In addition, adjustments were made to the historical presentation of the statement of operations and balance sheets of Obagi and Milk to conform to the financial statement presentation Waldencast.

Management will perform a comprehensive review of accounting policies for each entity and conform them to the accounting policies of Waldencast as the accounting acquirer. As a result of the review, management may identify differences between the accounting policies of the entities which, when conformed, could have a material impact on the financial statements of the post-combination company.

Note 4. Adjustments to Pro Forma Condensed Combined Balance Sheet

Explanations of the adjustments to the pro forma balance sheet are as follows:

(A) Reflects the reclassification of $345.3 million of cash and cash equivalents and investments held in the Trust Account that becomes available for transaction consideration, transaction expenses, underwriting commission, redemption of Waldencast public shares, and the operating activities of Waldencast following the Business Combination.

(B) Reflects the payment of $76.2 million in estimated transaction costs, net of the relief of prepaid transaction costs of $0.3 million, out of the total estimated transaction costs of approximately $88.5 million, comprised of advisory, banking, printing, legal, and accounting fees and equity issuance costs that are expensed as a part of the Business Combination. Of the $76.2 million of payment in estimated transactions costs, $18.9 million was previously accrued, $12.1 million was recorded as deferred underwriting and the remaining balance of $45.5 million is expensed through Accumulated Deficit, all of which were partially offset by the relief of prepaid transaction costs of $0.3 million.

(C) Reflects the gross cash proceeds of $118.0 million generated from the PIPE Financing through the issuance of 11,800,000 shares of Class A ordinary shares to the private investors and allocated to Class A ordinary shares and Additional paid-in-capital using a par value of $0.0001 per share and a purchase price of $10.00 per share, respectively.

(D) Reflects the gross proceeds from the Sponsor and Beauty Ventures in the amount of $160.0 million and $173.0 million, respectively and allocated to Waldencast Class A ordinary shares and Additional paid-in capital using a par value of $0.0001 per shares and a purchase of $10.00 and the settlement of Waldencast's related Forward Purchase Transaction liability of $13.3 million through the issuance of Class A shares.

(E) Represents the purchase price allocation adjustments resulting from the Business Combination. The calculation of the purchase price and allocation to assets acquired and liabilities assumed is preliminary. The preliminary allocation to assets and liabilities is based on estimates, assumptions, valuations, and other studies that have not progressed to a stage where there is sufficient information to make a definitive calculation. Accordingly, the purchase price allocation reflected in the unaudited transaction accounting adjustments will remain preliminary until Waldencast determines the final purchase price and the fair values of assets acquired and liabilities assumed. The final determination of the purchase price and related allocation is anticipated to be completed as soon as practicable after the completion of the Business Combination. Potential differences may include, but are not limited to, changes in allocation to intangible assets and change in fair value of financing receivable, deferred tax liability, and property and equipment. Equity consideration was calculated using a $8.72 share price as of the close of the transaction.

The following summarizes the purchase price accounting pro forma adjustments made to the unaudited pro forma condensed combined balance sheet as of June 30, 2022, net of reversals of any historical amounts:

($ in thousands)	**Milk**	**Obagi**	**Total**
Cash consideration	$ 112,500	$ 317,475	$ 429,975
Inventory fair value	9,263	9,687	18,950
Intangibles	141,500	391,904	533,404
Deferred Tax Liability	-	72,255	72,255
Goodwill	136,382	184,824	321,206
Additional paid-in-capital	174,644	196,681	371,325

Obagi Purchase Price Allocation

The following is a preliminary estimate of the fair value of consideration for Obagi and a preliminary purchase price allocation in connection with the Business Combination.

($ in thousands)	
Equity consideration	$ 246,231
Cash consideration to Sellers	327,500
Cash consideration reduction related to Conditional Consent, Waiver & Acknowledgment	(10,025)
Fair value of vested roll-over equity awards	26,544
Repayment of debt	123,367
Total purchase consideration	**$ 713,617**
Cash and cash equivalents	6,242
Restricted cash	650
Accounts and notes receivable, net	75,165
Inventories	30,475
Prepaid expenses	8,086
Other current assets	374
Property, plant and equipment, net	3,777
Intangible assets, net	462,000
Goodwill	229,313
Deferred income taxes	-
Other assets	1,274
Accounts payable	(18,323)
Other current liabilities	(14,417)
Current portion of long-term debt, net	-
Long-term debt, net	-
Deferred tax liability	(70,380)
Other liabilities	(619)
Fair value of net assets acquired from Obagi	**$ 713,617**

Purchase Consideration: The estimated value of the Obagi rollover equity awards attributable to pre-combination service as of Closing of $26.5 million was included in the total purchase consideration. As part of the Obagi China Distribution, Waldencast and Cederwalk Skincare Ltd. entered into the Conditional Consent, Waiver and Acknowledgment Agreement whereby the parties agreed that any inventory on hand purchased by Obagi on behalf of the Obagi China Businesses would be settled at close via a reduction in the cash consideration paid to the Obagi sellers by Waldencast. The reduction in the cash consideration amounted to $10.0 million as of Closing.

Inventories: Obagi's inventory is mainly comprised of finished goods, as Obagi leverages contract manufacturers to source, manufacture and package its products. Obagi carries minimal WIP inventory as (i) an assortment of finished goods that are grouped together by third-party packagers and sold as kits, and (ii) certain raw materials are purchased on behalf of certain contract manufacturers. The fair value of the finished goods was determined using the comparative sales method, which utilizes the actual or expected selling prices of finished goods to customers as a basis for determining fair market values of those finished goods.

Intangible Assets: The following describes intangible assets that may be identified that met either the separability criterion or the contractual-legal criterion described in ASC 805, and the anticipated valuation approach. The trademarks represent the over-arching name of all Obagi's products and is valued using a relief from royalty method. Formulations developed by Obagi differentiate them from others in the market and are valued using the relief from royalty method. The customer lists represent the relationships that Obagi has with partners, resulting in distribution covering over 60 countries around the world, also valued using a relief from royalty method. The licensing agreements give Obagi the right to use certain IP assets of Rohto Pharmaceutical, as well as allowing Rohto to use the Obagi name for products they manufacture and distribute in Japan for which Obagi receives a royalty. The licensing agreements are valued using the discounted cash flow method.

($ in thousands, except for weighted average useful life)	Weighted average useful life (years)	Fair value	Amortization expense for the six months ended June 30, 2022	Amortization expense for the year ended December 31, 2021
Trade name/trademark	Indefinite	$ 297,000	$ -	$ -
Licensing agreements	10	132,000	6,600	13,200
Formulations	10	10,000	500	1,000
Customer / distributor relationships	10	23,000	1,150	2,300
Reversal of historical balance and amortization	N/A	(70,096)	(6,756)	(13,469)
Total Adjustment		**$ 391,904**	**$ 1,494**	**$ 3,031**

Deferred Tax Liability: This adjustment reflects the establishment of deferred tax liabilities on the Obagi fair value purchase accounting adjustments, resulting in an ending deferred tax liability balance of $70.4 million. Note that this deferred tax liability is a sufficient source of income to realize the historical Obagi deferred tax assets and these adjustments include the release of the historical Obagi valuation allowance of $14.3 million. The unaudited pro forma condensed combined financial information does not reflect the income tax effects of the Milk pro forma adjustments as any change in the deferred tax balance would be offset by an increase in the valuation allowance given that Milk has incurred cumulative losses in recent years.

Goodwill: Goodwill represents Obagi's assembled workforce, as well as the future economic benefits arising from the results of the business combination that will enhance Obagi products available to both new and existing customers, and increase its competitive position. The pro forma adjustment of $184.8 million reflects the goodwill generated from the Obagi Merger of $229.3 million, net of the elimination of historical Obagi goodwill of $44.5 million.

Milk Purchase Price Allocation

The following is a preliminary estimate of the fair value of consideration for Milk transferred and a preliminary purchase price allocation in connection with the Business Combination.

($ in thousands)		
Equity consideration	$	184,029
Cash consideration to Sellers		112,500
Fair value of vested roll-over equity awards		5,912
Equity based compensation treated as consideration (Acceleration of Awards)		8,599
Repayment of debt		1,500
Total purchase consideration	**$**	**312,540**
Cash		2,769
Accounts receivable, net		6,390
Inventories		34,098
Prepaid expenses and other current assets		453
Prepaid supplier		387
Property, plant equipment, net		5,938
Intangible assets, net		141,500
Goodwill		136,382
Accounts payable		(6,590)
Tenant allowance liability - current		(161)
Accrued expenses and other current liabilities		(6,328)
Line of credit		-
Warrant liabilities		(148)
Deferred rent - non-current		(1,172)
Tenant allowance liability - non-current		(978)
Fair value of net assets acquired from Milk	**$**	**312,540**

Purchase Consideration: The equity consideration of $184.0 million reflects the fair value of the Milk Members' noncontrolling economic interest in Waldencast LP Common Units, which will be redeemable at the option of the holder of such units, and if such option is exercised, will be exchangeable, at the option of Waldencast plc, for an equal number of Waldencast plc Class A ordinary shares or cash (together with the cancellation of an equal number of shares of voting, Waldencast plc Non-Economic ordinary shares) into Waldencast plc Class A ordinary shares on a 1-for-1 basis. $8.6 million of total purchase consideration relates to the acceleration of equity awards for certain Milk executives. Of that amount, $1.7 million relates to equity awards with a performance component based on Milk's value at Closing. The $1.7 million is based on the achievement of performance objectives that will result in 33% of the objective achieved. As such, 33% of the awards were accelerated. The remaining 67% of the performance awards were forfeited.

Inventories: Milk utilizes contract manufacturers to source, manufacture, and package its products. Thus, Milk primarily holds finished goods inventory. The fair value of the finished goods was determined using the comparative sales method, which utilizes the actual or expected selling prices of finished goods to customers as a basis for determining fair market values of those finished goods.

Intangible Assets: The following describes intangible assets that may be identified that met either the separability criterion or the contractual-legal criterion described in ASC 805, and the anticipated valuation approach. The trademarks represent Milk's increasing brand presence in the cosmetics and skincare market and is valued using a relief from royalty method. Formulations developed by Milk represent their proprietary formulas in their products, and they are upgraded every 3-5 years. The formulations are valued using the relief from royalty method. The customer/distributor relationships are mainly consisted of Milk's relationship with Sephora, its key distributor. Sales directly to Sephora accounts for approximately 69% of gross revenue and sales indirectly to Sephora through major retailer distribution arrangements accounts for approximately 20% of gross revenue. The customer/distributor relationships are valued using the distributor method.

The unaudited pro forma condensed combined financial information does not reflect the income tax effects of the Milk pro forma adjustments as any change in the deferred tax balance would be offset by an increase in the valuation allowance given that Milk has incurred cumulative losses in recent years.

($ in thousands, except for weighted average useful life)	Weighted average useful life (years)		Fair value		Amortization expense for the six months ended June 30, 2022		Amortization expense for the year ended December 31, 2021
Trade name/trademark	15	$	126,000	$	4,200	$	8,400
Formulations	6		1,500		125		250
Customer / distributor relationships	13		14,000		538		1,077
Reversal of historical balance and amortization	N/A		-		-		(14)
Total		**$**	**141,500**	**$**	**4,863**	**$**	**9,713**

Goodwill: Goodwill of $136.4 million represents the Company's assembled workforce, as well as the future economic benefits arising from the results of the business combination that will enhance the Company's products available to both new and existing customers, and increase the Company's competitive position.

(F) Reflects the reclassification of $345.3 million of Waldencast Class A ordinary shares subject to possible redemption from temporary equity to permanent equity and $147.2 million related to the settlement of Milk Preferred Units into additional paid in capital of the combined company.

(G) Represents the elimination of the historical accumulated deficit of Obagi and Milk of $2.6 million and $122.6 million, respectively, into additional paid in capital of the combined company as part of the purchase accounting adjustments.

(H) Reflects the settlement of Obagi's historical equity into additional paid in capital of $4.0 million.

(I) Represents the transaction accounting adjustments to record the noncontrolling interest in Milk LLC of $170.4 million, which is calculated based on the noncontrolling interest percentage of 19.6% multiplied by the pro forma net assets of the combined company.

(J) Represents the stock settlement of amounts due from officer of $0.7, which reduced the equity consideration to Milk by 67,778 Class A ordinary shares, and cash settlement of amounts due from officers of $0.1 million.

(K) Represents the conversion of the Working Capital Loan into warrants.

(L) Represents the proceeds from the 2022 Credit Agreement, net of unamortized debt issuance costs, repayment of historical Obagi and Milk debts, elimination of historical Obagi debt issuance costs and payment of payment of exit fees from the extinguishment of historical Obagi debt as further shown below:

($ in thousands)	**Total**
New debt	186,117
New debt issuance costs (contra-liability)	(3,884)
New debt issuance costs (asset)(1)	(1,110)
Repayment of historical Obagi debt(2)	(127,351)
Obagi debt exit fee(2)	(6,327)
Repayment of historical Milk Debt	(1,500)
Impact to Cash and Cash Equivalents	**45,944**
Elimination of historical Obagi debt issuance costs (3)	(3,984)
Obagi debt exit fee(2)	(6,327)
Deferred tax liability	2,423
Total Impact to Accumulated Deficit	**(7,888)**

	Current	**Long-term**	**Total**
New debt issuance costs (asset) (1)	278	832	1,110
Total impact to Assets	**278**	**832**	**1,110**

	Current	**Long-term**	**Total**
Repayment of historical Obagi debt	(25,125)	(102,226)	(127,351)
Elimination of historical Obagi debt issuance costs (3)	2,522	1,462	3,984
Deferred tax liability	-	(2,423)	(2,423)
Repayment of historical Milk debt	(1,500)	-	(1,500)
New debt	8,750	177,367	186,117
New debt issuance costs (contra-liability)	(971)	(2,913)	(3,884)
Total impact to liabilities	**(16,324)**	**71,266**	**54,942**

(1) The new debt issuance costs related to the Revolver of approximately $1.1 million are classified as a deferred asset.

(2) As of Closing, the proceeds from the new debt of were used to 1) repay Obagi's historical debt, which had an outstanding balance of $128.8 million 2) pay accrued interest expense of $0.8 million, and 3) pay an exit fee of $6.3 million, which is reflected as part of Loss on Extinguishment of Debt on the Unaudited Pro Forma Condensed Combined Statement of Operations for the year ended December 31, 2021, represented by adjustment (II).

(3) The elimination of historical Obagi debt issuance costs is reflected as part of Loss on Extinguishment of Debt on the Unaudited Pro Forma Condensed Combined Statement of Operations for the year ended December 31, 2021, represented by adjustment (II).

(M) Reflects the redemption of 30,021,946 public shares for aggregate redemption payments of $300.9 million allocated to Class A ordinary shares and Additional Paid-In Capital using a par value $0.0001 per share and a redemption price of $10.02 per share, respectively.

(N) Reflects the cash settlement of Milk's warrants.

(O) Reflects the issuance of additional 20,000 Class A ordinary shares to investor directors at Closing.

Note 5. Adjustments to Pro Forma Condensed Combined Statements of Operations

Explanations of the adjustments to the pro forma statement of operations are as follows:

(AA) Represents the elimination of investment income related to the marketable securities held in the Trust Account.

(BB) Reflects the total estimated transaction costs expensed as a part of the Business Combination in the statement of operations for the year ended December 31, 2021. Transaction costs are reflected as if incurred on January 1, 2021, the date the Business Combination is deemed to have occurred for the purposes of the unaudited pro forma condensed statement of operations.

(CC) For the six month period ended June 30, 2022, this adjustment reflects the estimated income tax effect of the pro forma adjustments. The tax effect of the pro forma adjustments was calculated using the historical statutory rates in effect for the periods presented. The tax effect does not reflect the income tax effects of the Milk pro forma adjustments as any deferred tax effect would be offset by an increase in the valuation allowance given that Milk has incurred cumulative losses in recent years. Transaction costs expected to be incurred in connection with the Business Combination have not been assessed for deductibility for income tax purposes and accordingly are assumed to be nondeductible for pro forma purposes. For the year ended December 31, 2021, this adjustment reflects (1) the removal of the 2021 Obagi valuation allowance of $14.3 million that was recorded in 2021 and will be removed as a proforma adjustment due to the company being able realize its deferred tax assets after including purchase accounting deferred tax liabilities, and (2) the estimated income tax effect of the pro forma adjustments. The tax effect of the pro-forma adjustments was calculated using the historical statutory rates in effect for the periods presented. The tax effect does not reflect the income tax effects of the Milk pro forma adjustments as any deferred tax effect would be offset by an increase in the valuation allowance given that Milk has incurred cumulative losses in recent years. Transaction costs expected to be incurred in connection with the business combination transactions have not been assessed for deductibility for income tax purposes and accordingly are assumed to be nondeductible for pro forma purposes.

(DD) Reflects noncontrolling interest in Milk. For the six months ended June 30, 2022, net income attributable to noncontrolling interest was $3.3 million. For the year ended December 31, 2021, net loss attributable to noncontrolling interest was $19.1 million.

(EE) Obagi Worldwide entered into the IP License Agreement with Obagi Hong Kong, which requires Obagi Hong Kong to pay Obagi a royalty of 5.5% on gross sales of licensed products and services, less taxes and refunded returns. This adjustment reflects royalty income of $0.3 million and $1.4 million that would have been received for the six months ended June 30, 2022 and year ended December 31, 2021, respectively.

(FF) Reflects the incremental fair value of unvested equity awards that will roll over into equity awards of Waldencast. The fair value was measured and recorded using the Black-Scholes model using the assumed stock price of Waldencast shares at Closing of $8.72 and the exercise price of the original awards converted based on the contractual exchange ratios for the rollover.

(GG) Reflects the incremental amortization expense and cost of goods sold related to the fair value adjustments for intangible assets and inventory for both Milk and Obagi. Refer to the tables below show the breakout of each of these adjustments:

	Intangible Assets Adjustments	
($ in thousands)	**Amortization expense for the six months ended June 30, 2022**	**Amortization expense for the year ended December 31, 2021**
Obagi		
Trade name/trademark	$ -	$ -
Licensing agreements	6,600	13,200
Formulations	500	1,000
Customer / distributor relationships	1,150	2,300
Reversal of historical amortization of intangible assets	(6,756)	(13,469)
Milk		
Trade name/trademark	4,200	8,400
Formulations	125	250
Customer / distributor relationships	538	1,077
Reversal of historical amortization of intangible assets	-	(14)
Total	**$ 6,357**	**$ 12,744**

	Inventory Adjustments	
($ in thousands)	**Cost of goods sold for the six months ended June 30, 2022**	**Cost of goods sold for the year ended December 31, 2021**
Milk	$ -	$ 9,263
Obagi	$ -	$ 9,687
Total	**$ -**	**$ 18,950**

(HH) Represents the elimination of the fair value adjustment as Waldencast's Forward Purchase Transaction liability will be settled in connection with the Business Combination.

(II) Represents differences in interest expense and amortization of debt issuance costs and a one-time charge to Loss on Extinguishment of Debt on the Unaudited Pro Forma Condensed Combined Statement of Operations for the year ended December 31, 2021, as a result of incurring new debt under the 2022 Credit Agreement and extinguishing historical Obagi debt under the 2021 Credit Agreement. The interest rate of the new debt is 5.9%, which is the sum of the Term SOFR rate of 2.3%, plus 0.1% ("Adjusted Term SOFR Rate") and the Applicable Rate of 3.5%, as defined in the 2022 Credit Agreement.

($ in thousands)	**Interest expense for the six months ended June 30, 2022**	**Interest expense for the year ended December 31, 2021**
Elimination of historical Obagi interest expense and amortization of debt issuance costs	$ (5,719)	$ (11,158)
Interest expense and amortization of debt issuance costs on new debt	5,896	12,151
Income tax expense attributed to the elimination of historical Obagi interest expense and amortization of debt issuance costs	1,344	2,622
Transaction Accounting Adjustment	**$ 1,521**	**$ 3,615**

A 0.125% change in the floating rate would result in the following additional expense by period:

Borrowing Type	Total outstanding principal as of Closing	Change in floating rate	Interest expense for the year ended December 31, 2021	Interest expense for the six months ended June 30, 2022
Term Loan	175,000	0.125%	219	55
Revolver	11,117	0.125%	14	3

(JJ) Reflects the compensation cost associated with the issuance of additional 20,000 Waldencast plc Class A ordinary shares to investor directors at Closing.

Note 6. Pro Forma Earnings Per Share Information

As a result of the Business Combination, for the six months ended June 30, 2022, the pro forma basic number of shares is reflective of 86,460,554 Waldencast plc Class A ordinary shares outstanding. The diluted number of shares is reflective of 111,475,855 Waldencast plc Class A ordinary shares after giving effect to the conversion of Waldencast plc Class B ordinary shares (and exchange of the related noncontrolling interests) and certain dilutive stock compensation awards. For the year ended December 31, 2021, both the pro forma basic and diluted number of shares are reflective of 86,460,554 Waldencast plc Class A ordinary shares outstanding because all potentially dilutive securities are antidilutive due to the pro forma net loss.

(in thousands, except share data)	Six Months Ended June 30, 2022	Year Ended December 31, 2021
Pro forma net income/(loss) attributable to Waldencast	$ 13,591	$ (88,227)
Weighted average shares of Class A ordinary shares outstanding - basic	86,460,554	86,460,554
Net income/(loss) per share - basic	$ 0.16	$ (1.02)

(in thousands, except share data)	Six Months Ended June 30, 2022	Year Ended December 31, 2021
Pro forma net income/(loss) attributable to Waldencast	$ 13,591	$ (88,227)
Plus: additional income, net of estimated taxes, upon conversion of noncontrolling interests and Class B non-economic voting shares	3,313	-
Pro forma net income/(loss) for dilutive purposes	**$ 16,904**	**$ (88,227)**
Weighted average pro forma shares of Class A ordinary shares outstanding	86,460,554	86,460,554
Plus: additional shares upon conversion of noncontrolling interests and Class B non-economic voting shares	21,104,225	-
Plus: dilutive effect of stock compensation awards	3,911,076	-
Weighted average pro forma shares of Class A ordinary shares outstanding - diluted	**111,475,855**	**86,460,554**
Net income/(loss) per share - diluted	**$ 0.15**	**$ (1.02)**

Earnings per share ("EPS") exclude warrants that would be anti-dilutive to pro forma EPS. Below is a summary of anti-dilutive instruments that were excluded from the pro forma EPS for the six months ended June 30, 2022 and year ended December 31, 2021:

	Six Months Ended June 30, 2022	Year Ended December 31, 2021
Public Warrants (IPO)	11,500,000	11,500,000
Private Placement Warrants (Founder)	5,933,333	5,933,333
Warrants (Sponsor Forward Purchase Agreement)	5,333,333	5,333,333
Warrants (3rd Party Forward Purchase Agreement)	5,766,666	5,766,666
Warrants (Working Capital Loan)(1)	1,000,000	1,000,000

(1) During the year ended December 31, 2021, certain Waldencast officers and directors loaned Waldencast funds in the form of promissory notes for working capital needs. At Closing, the notes will be converted into warrants at a price of $1.50 per warrant. Such warrants will be identical to the Private Placement Warrants. The warrants have been reflected in the pro forma financial statements (See adjustment K above). The warrants are anti-dilutive at Closing and do not impact dilutive EPS.

SELECTED UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The following summary unaudited pro forma condensed combined financial data (the "summary pro forma data") gives effect to the Business Combination contemplated by the Business Combination Agreement described in the section entitled "*Unaudited Pro Forma Condensed Combined Financial Information*."

The summary unaudited pro forma condensed combined balance sheet data as of June 30, 2022 gives pro forma effect to the Business Combination as if it had occurred on June 30, 2022. The summary unaudited pro forma condensed combined statement of operations data for the six months ended June 30, 2022 and for the year ended December 31, 2021 gives pro forma effect to the Business Combination as if it had occurred on January 1, 2021.

The summary pro forma data have been derived from, and should be read in conjunction with, the unaudited pro forma condensed combined financial information of the combined company appearing elsewhere in this Form 6-K and in our definitive proxy statement/final prospectus dated July 7, 2022, and filed by us with the SEC on July 7, 2022 (including the accompanying notes). The unaudited pro forma condensed combined financial information is based upon, and should be read in conjunction with, the historical financial statements of Waldencast, Obagi and Milk and related notes included in this Form 6-K and in our definitive proxy statement/final prospectus dated July 7, 2022, and filed by us with the SEC on July 7, 2022. The summary pro forma data have been presented for informational purposes only and are not necessarily indicative of what the combined company's financial position or results of operations actually would have been had the Business Combination been completed as of the dates indicated. In addition, the summary pro forma data do not purport to project the future financial position or operating results of the combined company.

The following table presents summary pro forma data after giving effect to the Business Combination:

(in thousands, except share and per share data)	**Pro Forma Combined**
Summary Unaudited Pro Forma Condensed Combined Statement of Operations Six Months June 30, 2022	
Revenue	138,202
Net income	16,904
Pro forma adjusted EBITDA	32,448
Net income per share - basic	0.16
Weighted-average common shares outstanding - basic	86,460,554
Net income per share - diluted	0.15
Weighted-average common shares outstanding - diluted	111,475,855
Summary Unaudited Pro Forma Condensed Combined Statement of Operations Year Ended December 31, 2021	
Revenue	225,757
Net loss	(107,334)
Pro forma adjusted EBITDA	38,772
Net loss per share - basic and diluted	(1.02)
Weighted-average common shares outstanding - basic and diluted	86,460,554
Summary Unaudited Pro Forma Condensed Combined Balance Sheet as of June 30, 2022	
Total assets	1,181,406
Total liabilities	311,969
Total equity	869,437

We believe that pro forma adjusted EBITDA is useful to investors as a means of evaluating operating performance and reflects the EBITDA of Waldencast, Obagi, and Milk on a combined basis. Pro forma adjusted EBITDA is a non-GAAP measure, which is an addition to, and not a substitute for or superior to, measures of financial performance prepared in accordance with GAAP and should not be considered as alternatives to performance measures derived in accordance with GAAP. Non-GAAP financial measures as used by us may not be comparable to similarly titled amounts used by other companies.

We believe these non-GAAP financial measures:

- reflect the ongoing business of the combined company in a manner that allows for meaningful period-to-period comparison and analysis of trends in its business, as they exclude certain non-recurring income and expense that do not occur regularly as part of the normal activities;

- provide useful information in understanding and evaluating the underlying sustainable performance of the combined business across periods; and

- provide a normalized view of the operating performance of the combined business by excluding items that are either noncash or infrequently occurring in nature.

Pro forma adjusted EBITDA is one of the primary measures management of the combined company will use for planning and budgeting processes, and to monitor and evaluate financial and operating results.

Pro forma adjusted EBITDA gives effect to the Business Combination (including the China Distribution) as if it had been consummated on January 1, 2021.

The table below presents our pro forma adjusted EBITDA reconciled to our net Income/(loss), the closest GAAP measure for the period indicated:

(in thousands)	**Six months ended June 30, 2022**	**Year ended December 31, 2021**
Pro Forma Net Income (Loss)	**$ 16,904**	**$ (107,334)**
Adjusted For:		
Interest expense, net	5,916	12,168
Income tax benefit	232	(6,999)
Depreciation and amortization	14,602	28,299
Transaction costs(1)	-	76,434
Loss on extinguishment of debt	-	12,628
Gain on PPP loan forgiveness	-	(6,824)
Stock-based compensation expense	2,848	5,927
Inventory fair value adjustment(2)	-	18,950
Change in fair value of warrant liabilities	(8,602)	2,964
Restructuring costs(3)	289	1,972
Loss on disposal of assets	24	166
Foreign currency transaction loss	235	421
Pro Forma Adjusted EBITDA	**$ 32,448**	**$ 38,772**

(1) Includes mainly professional service fees in connection with the Business Combination.

(2) Reflects non-cash, non-recurring fair value inventory step-up adjustment as part of the purchase accounting in connection with the Business Combination.

(3) Reflects one-time expenses in connection with realignment of Obagi's organizational structure to support new strategies and relocate corporate headquarters.