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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2023

OR

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

For the transition period from to

Commission File Number 001-39314

TALKSPACE, INC.
(Exact name of Registrant as specified in its Charter)

Delaware	**84-4636604**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
622 Third Avenue, New York, NY	**10017**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (212) 284-7206

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value $0.0001 per share	TALK	The NASDAQ Stock Market LLC
Warrants to purchase common stock	TALKW	The NASDAQ Stock Market LLC

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

Not Applicable
(Title of class)

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☐ NO ☒

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES ☐ NO ☒

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

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

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

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant’s executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). YES ☐ NO ☒

The aggregate market value of the voting common stock held by non-affiliates of the Company on June 30, 2023 was $181.8 million based on the per share closing price of the Company's common stock on June 30, 2023 of $1.27.

The number of shares of common stock outstanding on March 12, 2024 was 168,903,571.

DOCUMENTS INCORPORATED BY REFERENCE

The Company's definitive Proxy Statement for the 2024 Annual Meeting of Stockholders to be filed by the Company pursuant to Regulation 14A is incorporated into Items 10, 11, 12, 13 and 14 of Part III of this Form 10-K.

Auditor Firm Id:	1281	**Auditor Name:**	Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global	**Auditor Location:**	Tel-Aviv, Israel

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PART I

Item 1. BUSINESS

Our Mission

Our mission is to help people everywhere to heal.

Overview

Talkspace, Inc. together with its consolidated subsidiaries (referred to herein as the “Company”, “we”, “our”, “us” or “Talkspace”) is a leading behavioral healthcare company that offers convenient and affordable access to a fully-credentialed network of licensed therapists, psychologists, and psychiatrists. Founded in 2012, and enabled by a purpose-built technology platform, we have connected millions of patients, who we refer to as our “members” with licensed mental health providers through messaging, video and audio.

Talkspace was originally incorporated as Hudson Executive Investment Corp. (“HEC”), a special purpose acquisition company, for the purpose of entering into a business combination with one or more businesses or entities. On January 12, 2021, HEC, entered into an Agreement and Plan of Merger, dated as of January 12, 2021 (the “Merger Agreement”), with Groop Internet Platform, Inc. (“Old Talkspace”), Tailwind Merger Sub I, Inc., a Delaware corporation and a direct wholly owned subsidiary of HEC (“First Merger Sub”), and Tailwind Merger Sub II, LLC, a Delaware limited liability company (“Second Merger Sub”). On June 22, 2021, as contemplated by the Merger Agreement, First Merger Sub merged with and into Old Talkspace (the “First Merger”) with Old Talkspace surviving the First Merger, and immediately following the First Merger and as part of the same overall transaction as the First Merger, Old Talkspace merged with and into Second Merger Sub, with Second Merger Sub surviving the merger as a wholly owned subsidiary of HEC. The Company refers to this transaction as the Business Combination. In connection with the Business Combination, HEC filed the Certificate of Incorporation and changed its name to “Talkspace, Inc.”

Through our platform, we serve our payor clients ("Payor"), comprised of health plans and employee assistance programs such as Aetna, Cigna, and Optum, who offer their insured members access to our platform at in-network reimbursement rates, our Direct-to-Enterprise clients ("DTE"), comprised of enterprises such as Google and the University of Kentucky who offer their enterprise members access to our platform while their enterprise is under an active contract with Talkspace, and individual subscribers ("Consumer") who subscribe directly to our platform; (collectively, our "clients").

Through our psychotherapy offerings, our licensed therapists and counselors treat mental health conditions in over 21 specializations, such as depression, anxiety, trauma and other fields of human challenges. Through our psychiatry offerings, our board-certified psychiatrists and prescription-eligible nurse practitioners treat a higher acuity patient demographic, including those who may have pharmacological needs. Our psychiatry clinicians, may in their discretion, refer the member to a primary care provider or face-to-face psychiatrist if the clinical need arises, including to address potential needs for “controlled substances.” Talkspace does not prescribe controlled substances in accordance with the Drug Enforcement Administration (“DEA”) Ryan Haight Act.

We have a vast nationwide network of fully-credentialed providers across all 50 U.S. states. Our network is sustained and enhanced by an attractive value proposition to providers, including flexibility, convenience, efficiency, professional development opportunities and income. We also believe that our platform provides other benefits to providers through expanded reach, steady access to member leads, reduced administrative burdens, more efficient time utilization and data-driven insights. We designed our provider network to be scalable and to leverage a hybrid model of both employee providers and independently contracted providers to support multiple growth scenarios.

Our network has the power to deliver an enhanced care journey, higher member lifetime engagement and meaningful outcomes for our clients, as well as generally greater margins when compared to face-to-face treatment. In pursuing our mission of helping people everywhere to heal, we aim to provide our members with high-quality behavioral healthcare via coverage through a health plan, employee access program, or enterprise benefit or whether they are paying for the service directly.

For the year ended December 31, 2023 our revenues were $150.0 million compared to $119.6 million for the year ended December 31, 2022. As of December 31, 2023, we had approximately 131 million eligible lives through our Payor and DTE clients and approximately 11,700 Consumer active members compared to 92 million eligible lives and 15,400 Consumer active members as of December 31, 2022. Completed sessions for members covered under our Payor clients during the year ended December 31, 2023 were approximately 850,600 compared to 426,400 completed sessions for the year ended December 31, 2022.

Our Offerings

By seeking to eliminate barriers in accessing and utilizing mental healthcare and offering providers technology-enabled tools to provide high-quality clinical care with a data-driven approach to treatment, we offer our members a robust ecosystem for end-to-end behavioral healthcare. Our offerings include psychotherapy and psychiatry services.

Psychotherapy: In psychotherapy, or “talk therapy,” members work with a licensed therapist or counselor to treat specific mental health conditions like depression or anxiety, trauma and other human challenges, including by developing positive thinking and coping skills. We offer text, audio and video-based psychotherapy from licensed therapists.

Psychiatry: In psychiatry, members receive personalized, expert care from a prescriber who specializes in mental healthcare and prescription management. Typical packages include one initial video consultation, with follow-up video appointments as needed. Like the traditional face-to-face model, Talkspace providers can prescribe medication they deem necessary up and until the point, that in the providers discretion, the member requires a face-to-face provider for potential need of those prescriptions labeled a “controlled substance” under the federal Controlled Substances Act. Our psychiatry services are comprised of board-certified psychiatrists, as well as prescription-eligible nurse practitioners who may supplement the psychiatrist in follow-up visits and act in a medication management capacity.

Our Customers

In pursuit of our mission to expand access to all individuals in need of behavioral services, we strive to deliver effective care to a broad range of customers.

Through Talkspace Behavioral Health plan ("BH") and Talkspace Employee Assistance Program ("EAP) or Payor, we contract with a number of U.S. health plans to provide online therapy to insured members. Through Talkspace for Business or DTE, enterprise members access our platform services on a benefit plan paid by their enterprise.

- Payor clients: Through our BH offering, our members receive care directly covered through their individual health plan where our providers are considered in-network. Through our EAP offering, we contract with major Payor clients who are contracted with enterprises to deliver care. Through this solution, we are able to provide therapy and psychiatry services to our clients’ members, who then pay a flat rate per session or interaction, of which we receive a portion of the fee. A representative sample of our health plan clients include Aetna, Cigna and Optum.
- DTE clients: Through our DTE offering, we contract directly with enterprises to provide their enterprise members unlimited synchronous and asynchronous care primarily on a per-member-per-month (“PMPM”) basis. Enterprises can include employers, academic organizations, higher education, and government entities. Through our contracts we provide mental health solutions to enterprise members which includes employees, teens, students and student athletes. A representative sample of our enterprise clients include Google, the University of Kentucky and the New York City Department of Health and Mental Hygiene.

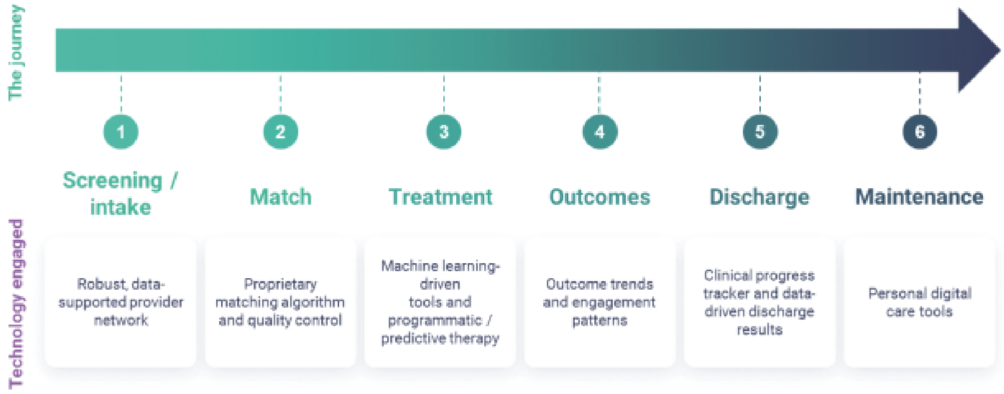
As of December 31, 2023, we had approximately 131 million eligible lives within our Payor and DTE clients. See Note 2, “Summary of Significant Accounting Policies and Estimates” in the notes to the consolidated financial statements for more details on the Company's contractual agreements.

Within our Consumer members, we serve a diverse customer base, with members from all socioeconomic backgrounds, ages, genders, ethnicities, geographies and income level. Further, with both psychotherapy and psychiatry professionals, along with a comprehensive suite of self-help tools, our platform is designed to address the needs of members across a broad range of acuities. As of December 31, 2023, we had approximately 11,700 Consumer active members located across all 50 U.S. states and select international markets. Consumer active members may cancel their subscription at any time and will receive a pro-rata refund for the subscription price.

Technology Platform

We believe that virtual therapy offers an attractive opportunity to improve behavioral health through data science and machine learning. Through digital phenotyping and predictive modeling, the data imprint left by interactions on our platform opens a new, quantitative viewpoint into the behavioral condition of our members. By securely leveraging our unique dataset to identify patterns, which is augmented by advanced, data-driven tools to personalize care, we believe we are able to optimize clinical outcomes. We have designed our technology platform and information practices to achieve and maintain compliance with HIPAA and other legal requirements regarding the confidentiality of patient information. We maintain a written privacy and information security management program, led by designated subject matter experts, in order to (i) limit how we use and disclose protected health information of the members who utilize our technology platform or therapeutic services, (ii) implement reasonable administrative, physical, and technical safeguards to protect such information from misuse or cyber-attacks, and (iii) assist our customers with certain duties such as access to information under the privacy standards, among other program elements. We require our agents and subcontractors who have access to such information to enter into written agreements that require them to meet the same standards for security and privacy. We obtain third-party examinations of our controls relating to security and data privacy. In particular, we regularly obtain a Type II Service Organization Control SOC 2 report (Reporting on Controls at a Service Organization relevant to security, availability and privacy). We also retain outside consultants to regularly assess our vulnerability through penetration testing and analysis of our compliance with the HIPAA Security Rule.

The following table depicts the technology-enabled process flow that supports our platform:



Matching algorithm: We utilize machine learning to predict a provider's efficacy at onboarding. Our matching algorithm combines information from both structured and unstructured sources to predict which therapists have the greatest chance of success with each patient. Our matching model concurrently gathers client and therapist data and screens the therapists' population to match the patient's characteristics, clinical needs and preferences. Our machine learning technology also enables us to track the frequency and quality of clinical interactions, allowing us to provide a better therapist match should the patient request a new clinician.

Robust data ecosystem: We have a closed-loop data ecosystem providing a multi-dimensional view of the individuals who seek treatment on our platform. This data provides a holistic picture of each user – the problems they manifest, diagnoses, treatment plans, medical history, personal history, and clinical outcomes. Our data contains over 7.2 billion words sent by millions of users over 127 million anonymized messages. We have approximately 5 million completed psychological assessments. Our data contains information about members collected by therapists, including approximately 1 million diagnoses and over 2.8 million progress and psychotherapy notes. Our data also contains information about therapists reported by members, including over 2.1 million therapist ratings. We believe the size and depth of our clinical data is vast relative to the industry and is a differentiating element of our digitally-native modality.

Empowering providers to deliver enhanced care: Our providers are equipped with tools that allow them to optimize time utilization and improve clinical efficacy. One of the leading challenges in behavioral healthcare is a patient's premature termination of engagement with the provider and, thus, a core focus of our machine learning strategy is to drive member engagement and increase care continuity, helping members to continue treatment long enough to reap its benefits. In order to extend the lifetime duration of our member base, we provide our providers insights on their patients' needs and behaviors and offer techniques and suggestions that we believe are likely to maximize their patients' satisfaction and engagement. These insights, delivered through our fully-integrated data intelligence platform, help providers to deliver effective treatments to their patients, and raise members' awareness when tracking their own clinical progress.

Performance tracking and feedback: Our "Intro and Expectations" system detects whether providers have followed best practices in the crucial introductory phase of the therapy relationship and reminds them to do so if they have not. Our "Crisis Risk system" monitors all incoming members' messages for linguistic features associated with potential danger or self-harm and draws providers' attention to these cases. Our "Session Highlights system" provides a weekly digest of patient messages and helps therapists draft notes on clinical progress.

Competition

We view as competitors those companies whose primary business is developing and marketing telehealth and virtual behavioral health platforms and services. Competition focuses on, among other factors, technology, breadth and depth of functionality, range of associated services, operational experience, customer support, extent of client and member bases, and reputation. Our key competitors in the telehealth and teletherapy markets are American Well Corporation, Teladoc, Lyra Health and Spring Health, among other small industry participants.

In addition, large, well-financed health systems and health plans have in some cases developed their own virtual behavioral health tools and may provide these solutions to their consumers at discounted prices. In the future we may face competition from large technology companies, such as Apple, Amazon, Meta, Verizon, or Microsoft, who may wish to develop their own virtual behavioral health solutions, as well as from large retailers like Amazon or Walmart. We believe that the breadth of our existing client and member bases, the depth of our technology platform, and our business-to-business focus on promoting existing healthcare brands and integrating freely with multiple platforms increases the likelihood that stakeholders seeking to develop virtual behavioral healthcare solutions will choose instead to collaborate with Talkspace.

Therapists, Physicians and Healthcare Professionals

In the second quarter of 2022, we completed the transition of our structure with respect to our relationships with healthcare providers, transitioning to a structure where Talkspace LLC, our wholly-owned subsidiary, has entered into various agreements with Talkspace Provider Network, PA ("TPN"), a Texas professional association entity, which in turn contracts with our other affiliated professional entities ("PC entities"), physicians, therapists, and other licensed professionals for clinical and professional services provided to our members. As part of this transition, Talkspace LLC is party to various Management Services Agreements ("MSAs") with TPN and the PC entities. Pursuant to the MSAs, Talkspace LLC is the managing entity (the "Manager") and provides management and administrative resources and services essential to the operations of these entities and receives a management fee for these services and reimbursement of expenses incurred. TPN and the PC entities in turn have the obligation under the MSAs to engage all licensed physicians and other health professionals to provide behavioral healthcare services to our members.

The transition to a structure where we operate under various MSAs with professional associations and professional corporations authorized by state law to contract with affiliated professionals to delivery teletherapy services to its members helps ensure we are able to comply with all applicable regulatory requirements, including the corporate practice of medicine and fee-splitting laws, that are necessarily implicated by engaging in telehealth care that can only be delivered by physicians. The Company is continuing to transition its current agreements with its clients, members and other business partners to TPN and/or the PC entities, where applicable.

See Note 12, "Variable Interest Entities" in the notes to the consolidated financial statements for further details.

Human Capital Overview

The Company’s workforce is critical to the creation and delivery of its services and the success of the company. Our ability to attract, develop and retain talented employees with the skills and capabilities needed by our business is a key component of our long-term growth and our mission of providing more people with convenient access to quality, affordable behavioral healthcare.

The Company views full-time employees and independently contracted providers as its total workforce, and each are eligible for the various formal and informal programs and resources to support, recruit, train and retain its workforce. The Company's human capital network includes, but is not limited to, employee and independently contracted providers (licensed therapists, psychologists, psychiatrists), as well as employees in various support functions throughout the Company. The human capital needs and strategy of our business is overseen by the Company's Board of Directors and Chief Executive Officer and supported by the Company’s Human Resources Department, which reports directly to the Chief Executive Officer.

As of December 31, 2023, we had 472 employees comprised of 252 providers and 220 professionals supporting the accounting, finance, technology, sales, marketing and other support functions and 5,235 independently contracted providers. With providers comprising a considerable segment of the Company’s workforce, they are a significant human capital resource for the Company, and, accordingly, we view their recruitment, retention, compensation and productivity as important to the success of the Company.

Culture and Values

Tone at the top is what drives us. We are committed to maintaining a respectful, secure and supportive workplace culture with open communication and accessible, safe channels for feedback. In addition, all employees are required to complete training and affirm compliance with the Talkspace Code of Business Conduct and Ethics (the “Code”), which confirms the Company’s policy to conduct its affairs in compliance with all applicable laws and regulations and observe the highest standards of business ethics. The Code is reviewed regularly by the Audit Committee and approved by the Board of Directors and is complemented by other policies and training. Any violations of our Code are encouraged to be immediately reported and are kept anonymously.

Diversity and Inclusion

Talkspace is committed to creating and maintaining a workplace in which all employees have an opportunity to participate and contribute to the success of the business. Talkspace provides equal employment opportunities to all employees and applicants for employment without regard to race, color, ancestry, national origin, gender, sexual orientation, marital status, religion, age, disability, gender identity, results of genetic testing, or service in the military. Equal employment opportunity applies to all terms and conditions of employment, including hiring, placement, promotion, separation, transfers, compensation, and training. The Company is committed to cultivating diversity and broadening opportunities for inclusion across its business through its recruitment practices, employee development and mentoring and inclusivity programs.

Compensation and Benefits

The Company is committed to hiring the most qualified candidates to fill open positions. Whenever appropriate and possible, open positions are filled with internal candidates to help team members in their career development and enrich a culture of growth. Compensation and benefits programs are focused on attracting, retaining and motivating the top talent necessary to achieve the Company’s mission in ways that reflect its diverse workforce’s needs and priorities. In addition to competitive salaries, the Company and its businesses have established short and long-term incentive programs including stock-based compensation awards and cash-based performance bonus awards, which are designed to motivate and reward performance against key business objectives and facilitate retention. Performance bonus allocations are provided based on the organization meeting its financial goals, the employee achieving goals set by their supervisor, and per the employment agreements and/or any other written agreement. In addition, the Company provides retirement benefits and other comprehensive benefit options to meet the needs of its employees, including healthcare benefits, tax advantaged savings vehicles, life and disability insurance, paid time off, flexible working arrangements, generous parental leave policies and access to wellness programs.

Training and Development

Our growth mindset culture begins with valuing learning over knowing – seeking out new ideas, driving innovation, embracing challenges, learning from failure, and improving over time. The Company strives to provide mentorship and career development to existing employees to help everyone on the team reach their full potential and employees are encouraged to reach out to their supervisors if further development training is needed. In addition, the Company provides ongoing training in areas related to HIPAA, Cybersecurity, Security and Privacy Controls, Fraud Waste, and Abuse and Anti-Harassment and Discrimination training, among others.

U.S. Government Regulation

Our operations are subject to comprehensive United States federal, state and local and international regulation in the jurisdictions in which we do business. Our ability to operate profitably will depend in part upon our ability, and that of our affiliated providers, to maintain all necessary licenses and to operate in compliance with applicable laws and rules. Those laws and rules continue to evolve and can become more restrictive, and we therefore devote significant resources to monitoring developments in healthcare and medical practice regulation. As the applicable laws and rules change, we are likely to make conforming modifications in our business processes from time to time. In some jurisdictions where we operate, neither our current nor our anticipated business model has been the subject of formal judicial or administrative interpretation. We cannot be assured that a review of our business by courts or regulatory authorities will not result in determinations that could adversely affect our operations or that the healthcare regulatory environment will not change in a way that impacts our operations.

For an additional discussion of our regulatory environment, see “Risk Factors—Risk Related to Our Legal and Regulatory Environment” included in Part I, Item 1A of this Annual Report on Form 10-K.

Telehealth and Teletherapy Provider Licensing, Medical Practice, Certification and Related Laws and Guidelines

The practice of medicine, including the provision of therapy services, is subject to various federal, state and local certification and licensing laws, regulations, approvals and standards, relating to, among other things, the adequacy of medical care, the practice of medicine and licensed professional services (including the provision of remote care), equipment, personnel, operating policies and procedures and the prerequisites for the prescription of medication and ordering of tests. The application of some of these laws to telehealth and teletherapy is unclear and subject to differing interpretations.

Physicians, therapists and other licensed professionals who provide professional medical and therapy services to a patient via telehealth and teletherapy must, in most instances, hold a valid license to practice medicine or another licensed profession in the state in which the patient is located. We have established systems for ensuring that our affiliated professionals are appropriately licensed under applicable state law and that their provision of telehealth and teletherapy to our members occurs in each instance in compliance with applicable rules governing telehealth and teletherapy. Failure to comply with these laws and regulations could result in licensure actions against the professionals, our services being found to be non-reimbursable, or prior payments being subject to recoupments and can give rise to civil, criminal or administrative penalties.

Corporate Practice of Medicine Laws in the U.S.; Fee Splitting

We contract with physicians or physician owned professional associations, professional corporations and therapists to provide access to our platform and to provide therapy to their patients. We have entered into MSAs with TPN and the PC entities pursuant to which we provide billing, scheduling and a wide range of other administrative and management services in exchange for management and other service fees. These contractual relationships are subject to various state laws that prohibit fee splitting or the corporate practice of medicine or professional services by lay entities or persons and that are intended to prevent unlicensed persons from interfering with or influencing a physician’s or another licensed professional’s clinical judgment. Activities other than those directly related to the delivery of healthcare may be considered an element of the practice of medicine in many states. Under the corporate practice of medicine and other licensed profession restrictions of certain states, decisions and activities such as contracting, setting rates and the hiring and management of personnel may implicate the restrictions on the corporate practice of medicine or other licensed profession.

State corporate practice of medicine or other licensed professions and fee splitting laws and rules vary from state to state. In addition, these requirements are subject to broad interpretation and enforcement by state regulators. Some of these requirements may apply to us even if we do not have a physical presence in the state, based solely on our engagement of a provider licensed in the state or the provision of telehealth and teletherapy to a resident of the state. Thus, regulatory authorities or other parties, including our providers, may assert that, despite these arrangements, we are engaged in the corporate practice of medicine or a licensed profession or that our contractual arrangements with affiliated providers constitute unlawful fee splitting. In such event, failure to comply could lead to adverse judicial or administrative action against us and/or our affiliated providers, civil, criminal or administrative penalties, receipt of cease and desist orders from state regulators, loss of provider licenses, the need to make changes to the terms of engagement of our providers that interfere with our business, and other materially adverse consequences.

U.S. Federal and State Fraud and Abuse Laws

Although our services are not currently reimbursed by government healthcare programs such as Medicare or Medicaid, any future reimbursement from federal and/or state healthcare programs could expose our business to broadly applicable fraud and abuse laws and other healthcare laws and regulations that would regulate the business. Applicable and potentially applicable U.S. federal and state healthcare laws and regulations include, but are not limited to, those discussed below.

Federal Stark Law

If in the future some of our revenues come from federal healthcare programs, we will be subject to the federal self-referral prohibitions, commonly known as the Stark Law. Where applicable, this law prohibits a physician from referring Medicare patients to an entity providing “designated health services” such as laboratory and other diagnostic services and prescription drugs that are furnished at an entity if the physician or a member of such physician’s immediate family has a “financial relationship” with the entity, unless an exception applies. Sanctions for violating the Stark Law include denial of payment, civil monetary penalties of up to $26,125 per claim submitted and twice the value of each such service and exclusion from the federal healthcare programs. Failure to refund amounts received as a result of a prohibited referral on a timely basis may constitute a false or fraudulent claim and may result in civil penalties and additional penalties under the federal False Claims Act (“FCA”). The statute also provides for a penalty of up to $174,172 for a circumvention scheme. The Stark Law is a strict liability statute, which means proof of specific intent to violate the law is not required. In addition, the government and some courts have taken the position that claims presented in violation of the various statutes, including the Stark Law, can be considered a violation of the FCA (described below) based on the contention that a provider impliedly certifies compliance with all applicable laws, regulations and other rules when submitting claims for reimbursement. A determination of liability under the Stark Law for TPN, the PC entities or our affiliated physicians could have a material adverse effect on our business, financial condition and results of operations.

Federal Anti-Kickback Statute

We will also be subject to the federal Anti-Kickback Statute if any of our services become reimbursable by government healthcare programs. The Anti-Kickback Statute is broadly worded and prohibits the knowing and willful offer, payment, solicitation or receipt of any form of remuneration in return for, or to induce, (i) the referral of a person covered by Medicare, Medicaid or other governmental programs, (ii) the furnishing or arranging for the furnishing of items or services reimbursable under Medicare, Medicaid or other governmental programs or (iii) the purchasing, leasing or ordering or arranging or recommending purchasing, leasing or ordering of any item or service reimbursable under Medicare, Medicaid or other governmental programs. Certain federal courts have held that the Anti-Kickback Statute can be violated if “one purpose” of a payment is to induce referrals. In addition, a person or entity does not need to have actual knowledge of this statute or specific intent to violate it to have committed a violation, making it easier for the government to prove that a defendant had the requisite state of mind or “scienter” required for a violation. Moreover, the government may assert that a claim including items or services resulting from a violation of the Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the FCA, as discussed below. Violations of the federal Anti-Kickback Statute may result in civil monetary penalties up to $105,563 for each violation, plus up to three times the remuneration involved. Civil penalties for such conduct can further be assessed under the FCA. Violations of the federal Anti-Kickback Statute can also result in criminal penalties, including criminal fines of more than $100,000 and imprisonment of up to 10 years. Similarly, violations can result in exclusion from participation in government healthcare programs, including Medicare and Medicaid. Imposition of any of these remedies could have a material adverse effect on our business, financial condition and results of operations, if in the future we provide services reimbursable by government healthcare programs. In addition to a few statutory exceptions, the Office of Inspector General (“OIG”) has published safe-harbor regulations that outline categories of activities that are deemed protected from prosecution under the Anti-Kickback Statute provided all applicable criteria are met. The failure of a financial relationship to meet all of the applicable safe harbor criteria does not necessarily mean that the particular arrangement violates the Anti-Kickback Statute. However, conduct and business arrangements that do not fully satisfy each applicable safe harbor may result in increased scrutiny by government enforcement authorities, such as the OIG.

False Claims Act

Both federal and state government agencies have continued civil and criminal enforcement efforts as part of numerous ongoing investigations of healthcare companies and their executives and managers. Although there are a number of civil and criminal statutes that can be applied to healthcare providers, a significant number of these investigations involve the FCA. These investigations can be initiated not only by the government but also by a private party asserting direct knowledge of fraud. These “qui tam” whistleblower lawsuits may be initiated against any person or entity alleging such person or entity has knowingly or recklessly presented, or caused to be presented, a false or fraudulent request for payment from the federal government or has made a false statement or used a false record to get a claim approved. In addition, the improper retention of an overpayment for 60 days or more is also a basis for an FCA action, even if the claim was originally submitted appropriately. Penalties for FCA violations include fines ranging from $13,508 to $27,018 for each false claim, plus up to three times the amount of damages sustained by the federal government. An FCA violation may provide the basis for exclusion from the federally funded healthcare programs.

State Fraud and Abuse Laws

Several states in which we operate have also adopted or may adopt similar self-referral, anti-kickback, fraud, whistleblower and false claims laws as described above. The scope of these laws and the interpretations of them vary by jurisdiction and are enforced by local courts and regulatory authorities, each with broad discretion. Some state fraud and abuse laws apply to items or services reimbursed by Medicaid programs and any third-party payer, including commercial insurers or to any payer, including to funds paid out of pocket by a patient. A determination of liability under such state fraud and abuse laws could result in fines and penalties and restrictions on our ability to operate in these jurisdictions.

Other Healthcare Laws

FCA established several separate criminal penalties for making false or fraudulent claims to insurance companies and other non-governmental payers of healthcare services. Under FCA, these two additional federal crimes are: “Healthcare Fraud” and “False Statements Relating to Healthcare Matters.” The Healthcare Fraud statute prohibits knowingly and recklessly executing a scheme or artifice to defraud any healthcare benefit program, including private payers. A violation of this statute is a felony and may result in fines, imprisonment, or exclusion from government sponsored programs. The False Statements Relating to Healthcare Matters statute prohibits knowingly and willfully falsifying, concealing, or covering up a material fact by any trick, scheme or device or making any materially false, fictitious, or fraudulent statement in connection with the delivery of or payment for healthcare benefits, items, or services. A violation of this statute is a felony and may result in fines or imprisonment. This statute could be used by the government to assert criminal liability if a healthcare provider knowingly fails to refund an overpayment. These provisions are intended to punish some of the same conduct in the submission of claims to private payers as the federal False Claims Act covers in connection with governmental health programs. In addition, the Civil Monetary Penalties Law imposes civil administrative sanctions for, among other violations, inappropriate billing of services to federally funded healthcare programs and employing or contracting with individuals or entities who are excluded from participation in federally funded healthcare programs. Moreover, a person who offers or transfers to a Medicare or Medicaid beneficiary any remuneration, including waivers of copayments and deductible amounts (or any part thereof), that the person knows or should know is likely to influence the beneficiary’s selection of a particular provider, practitioner or supplier of Medicare or Medicaid payable items or services may be liable for civil monetary penalties of up to $10,000 for each wrongful act. Furthermore, in certain cases, providers who routinely waive copayments and deductibles for Medicare and Medicaid beneficiaries can also be held liable under the Anti-Kickback Statute and civil False Claims Act, which can impose additional penalties associated with the wrongful act. One of the statutory exceptions to the prohibition is non-routine, unadvertised waivers of copayments or deductible amounts based on individualized determinations of financial need or exhaustion of reasonable collection efforts. The OIG emphasizes, however, that this exception should only be used occasionally to address special financial needs of a particular patient. Although this prohibition applies only to federal healthcare program beneficiaries, the routine waivers of copayments and deductibles offered to patients covered by commercial payers may implicate applicable state laws related to, among other things, unlawful schemes to defraud, excessive fees for services, tortious interference with patient contracts, and statutory or common law fraud.

U.S. State and Federal Health Information Privacy and Security Laws

There are numerous U.S. federal and state laws and regulations related to the privacy and security of personal information, including health information. In particular, HIPAA imposes a number of requirements on covered entities and their business associates relating to the use, disclosure and safeguarding of protected health information. These requirements include uniform standards of common electronic healthcare transactions; privacy and security regulations; and unique identifier rules for employers, health plans and providers. In addition, the Health Information Technology for Economic and Clinical Health Act, or HITECH, provisions of the American Recovery and Reinvestment Act of 2009 and corresponding implementing regulations have imposed additional requirements on the use and disclosure of protected health information such as additional breach notification and reporting requirements, contracting requirements for HIPAA business associate agreements, strengthened enforcement mechanisms and increased penalties for HIPAA violations. Federal consumer protection laws may also apply in some instances to privacy and security practices related to personal information.

Violations of HIPAA may result in civil and criminal penalties. However, a single breach incident can result in violations of multiple standards. Our management responsibilities to TPN and the PC entities include assisting it with its obligations under HIPAA’s breach notification rule. Under the breach notification rule, covered entities must notify affected individuals without unreasonable delay in the case of a breach of unsecured protected health information (“PHI”), which may compromise the privacy, security or integrity of the PHI. In addition, notification must be provided to the U.S. Department of Health and Human Services (“HHS”) and the local media in cases where a breach affects more than 500 individuals. Breaches affecting fewer than 500 individuals must be reported to HHS on an annual basis. HIPAA also requires a business associate to notify its covered entity clients of breaches by the business associate.

State attorneys general also have the right to prosecute HIPAA violations committed against residents of their states. While HIPAA does not create a private right of action that would allow individuals to sue in civil court for a HIPAA violation, its standards have been used as the basis for the duty of care in state civil suits, such as those for negligence or recklessness in misusing personal information. In addition, HIPAA mandates that HHS conduct periodic compliance audits of HIPAA covered entities and their business associates for compliance. It also tasks HHS with establishing a methodology whereby harmed individuals who were the victims of breaches of unsecured PHI may receive a percentage of the civil monetary penalty fine paid by the violator. In light of the HIPAA Omnibus Final Rule, recent enforcement activity, and statements from HHS, we expect increased federal and state HIPAA privacy and security enforcement efforts.

HIPAA also required HHS to adopt national standards for electronic transactions that all healthcare providers must use when submitting or receiving certain healthcare transactions electronically. On January 16, 2009, HHS released the final rule mandating that everyone covered by HIPAA must implement ICD 10 for medical coding on October 1, 2013, which was subsequently extended to October 1, 2015 and is now in effect.

Many states in which we operate and in which our patients reside also have laws that protect the privacy and security of sensitive and personal information, including health information. Moreover, state laws may be similar to or even more protective than HIPAA and other federal privacy laws. For example, the laws of the State of California, in which we operate, are more restrictive than HIPAA. Where state laws are more protective/restrictive than HIPAA, we must comply with the state laws we are subject to, in addition to HIPAA. In certain cases, it may be necessary to modify our existing or planned operations and procedures to comply with these more stringent state laws. Not only may some of these state laws impose fines and penalties upon violators, but, unlike HIPAA, some may afford private rights of action to individuals who believe their personal information has been misused. In addition, state laws could change rapidly, and there is currently a new federal privacy law or federal breach notification law under consideration to which we may be subject.

In addition to HIPAA and state health information privacy laws, we may be subject to other state and federal privacy laws, including laws that prohibit unfair privacy and security acts or practices and deceptive statements about privacy and security and laws that place specific requirements on certain types of activities, such as data security and texting. The FTC and states’ attorneys general have brought enforcement actions and prosecuted some data breach cases as unfair and/or deceptive acts or practices under the FTC Act and similar state laws. Further, the California Consumer Protection Act of 2018 (the “CCPA”), which took effect in 2020 and to which we are subject, imposes obligations and restrictions on businesses regarding their collection, use, and sharing of personal information and provides new and enhanced data privacy rights to California residents, such as affording them the right to access and delete their personal information and to opt out of certain sharing of personal information. Additionally, the California Privacy Rights Act (“CPRA”), which came into effect on January 1, 2023, significantly amends and expands the CCPA, including by providing consumers with additional rights with respect to their personal information. The CPRA also creates a new state agency that will be vested with authority to implement and enforce the CCPA and the CPRA.

Laws similar to the CCPA and CPRA have passed in Virginia, Colorado, Connecticut, Utah and Washington and are expected in other states and at the federal level, reflecting a trend toward more stringent privacy legislation in the United States.

In recent years, there have been a number of well publicized data breaches involving the improper use and disclosure of personal information and PHI. Many states have responded to these incidents by enacting laws requiring holders of personal information to maintain safeguards and to take certain actions in response to a data breach, such as providing prompt notification of the breach to affected individuals and state officials and providing credit monitoring services and/or other relevant services to impacted individuals. In addition, under HIPAA, breach notification laws and pursuant to the related contracts that we enter into with our clients who are covered entities, we must report breaches of unsecured PHI to our clients following discovery of the breach. Notification must also be made in certain circumstances to affected individuals, federal authorities and others.

Intellectual Property

It is important to our business that we establish, protect and enforce our intellectual property. We rely on a combination of patent, copyright, trademark and trade secret laws as well as confidentiality procedures, contractual provisions and other legal rights to establish and enforce our brand, proprietary technology and other intellectual property rights.

Through March 13, 2024, the Company has been approved for one patent related to “System and Method in Monitoring Engagement” which relates to the tracking of therapeutic progress between therapist and client. We also have one patent that is pending and several other conditional applications in the United States. We intend to continue to apply for additional patents relating to our software and technology. We cannot assure whether any of our patent applications will result in the issuance of a patent or whether the examination process will require us to narrow our claims.

We own and use trademarks and service marks on or in connection with our business and services, including both unregistered marks and registered trademarks in the United States. In addition, we rely on other forms of intellectual property protection including trade secrets, know-how and other unpatented proprietary processes, in each case in support of our business. We make efforts to maintain and protect our intellectual property and the proprietary aspects of our products and technologies, including through the use of nondisclosure agreements and the monitoring of our competitors. Although we take steps to protect our trade secrets and know-how, third parties may independently develop or otherwise gain access to our trade secrets and know-how by lawful means. We require our employees, consultants and certain of our contractors to execute confidentiality agreements in connection with their employment or consulting relationships with us but these agreements may not provide meaningful protection, and we cannot guarantee that we have executed such agreements with all applicable counterparties. Furthermore, these agreements may be breached, and we may not have an adequate remedy for any such breach. We also require our employees and consultants to disclose and assign to us inventions conceived during the term of their employment or engagement while using our property or which relate to our business. We also license certain intellectual property rights that are used in our business from third parties. From time to time, we may become involved in legal proceedings relating to intellectual property arising in the ordinary course of our business, including opposition to our applications for patents, trademarks, challenges to the validity of our intellectual property rights, and claims of intellectual property infringement. We are not presently a party to any such legal proceedings that, in the opinion of our management, would individually or taken together have a material adverse effect on our business, financial condition, results of operations or cash flows.

Additional Information

The Company's principal place of business is at 622 Third Avenue, New York, NY 10017 and its telephone number is (212) 284-7206. The Company's website address is talkspace.com. The Company makes available free of charge on the investors section of its website the Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements and other SEC filings and all amendments to those reports filed or furnished to the SEC pursuant to Section 13(a), 14 or 15(d) of the Exchange Act, as soon as reasonably practicable after we file or furnish such materials to the SEC. The SEC also maintains a website (www.sec.gov) that contains these reports, proxy and information statements and other information. The information on our website is not, and will not be deemed to be, a part of this Annual Report on Form 10-K or incorporated into any of our other filings with the SEC, except where we expressly incorporated such information.

Item 1A. RISK FACTORS

In the course of conducting our business operations, we are exposed to a variety of risks. Any of the risk factors we describe below have affected or could materially adversely affect our business, financial condition and results of operations. Certain statements in "Risk Factors" are forward-looking statements, see "Forward-Looking Statements" in Part II Item 7.

Unless the context otherwise requires, all references in this subsection as to "Talkspace," the "Company," "we," "us" or "our" refer to the business of Talkspace, Inc. and its consolidated subsidiaries.

SUMMARY RISK FACTORS

The following is a summary of the material risks known to us. Please carefully consider the following risk factors together with all other information included in this Form 10-K and our other publicly filed documents when investing in our common stock.

Risks Related to our Operating Results and Early Stage of Growth

- We have a history of losses and we may never achieve or sustain profitability.
- Our business and the markets we operate in are rapidly evolving which makes it difficult to evaluate our future prospects and the risks and challenges we may encounter.
- We may not grow at the rates we historically have achieved or at all, even if our key metrics may indicate growth, which could have a material adverse effect on the market price of our common stock.
- We may experience difficulties in managing our growth and expanding our operations.

Risks Related to our Business and Industry

- Rapid technological change in our industry presents us with significant risks and challenges.
- We operate in a competitive industry, and if we are not able to compete effectively, our business, financial condition and results of operations will be harmed.
- If we are unable to secure clients' contract renewals, our business, financial condition and results of operations will be harmed.
- The future growth and profitability of our business will depend in large part upon the effectiveness and efficiency of our marketing efforts, and our ability to develop brand awareness cost-effectively.
- We may be unsuccessful in achieving broad market education and changing consumer purchasing habits.
- Our growth depends in part on the success of our strategic relationships with third parties that we provide services to.
- Our virtual behavioral healthcare strategies depend on our ability to maintain and expand our network of therapists, psychiatrists and other providers. If we are unable to do so, our future growth would be limited and our business, financial condition and results of operations would be harmed.
- Developments affecting spending by the healthcare industry could adversely affect our business.
- Negative media coverage and social media engagement could adversely affect our business.
- We may become subject to medical liability claims, which could cause us to incur significant expenses and may require us to pay significant damages if not covered by insurance.
- A decline in the prevalence of enterprise-sponsored healthcare or the emergence of new technologies may adversely impact our DTE business or require us to expend significant resources in order to remain competitive.
- We rely on third-party platforms such as the Apple Store and the Google Play App Store, to distribute our platform and offerings.
- We rely on data center providers, Internet infrastructure, bandwidth providers, third-party computer hardware and software, other third parties and our own systems for providing services to our clients and members, and any failure or interruption in the services provided by these third parties or our own systems could expose us to litigation and negatively impact our relationships with clients and members, adversely affecting our bran and our business.

- If our or our vendors' security measures fail or are breached and unauthorized access to a client's data or information systems is obtained, our services may be perceived as insecure, we may incur significant liabilities, our reputation may be harmed, and we could lose sales, clients and members.
- There may be adverse tax, legal and other consequences if the employment status of providers on our platform is challenged.
- Changes in consumer sentiment or laws, rules or regulations regarding the use of cookies, artificial intelligence technologies and other tracking technologies and other privacy matters could have a material adverse effect on our ability to generate net revenues and could adversely affect our ability to collect proprietary data on consumer behavior.
- Certain U.S. state and local tax authorities may assert that we have a nexus with such states or localities and may seek to impose state and local income taxes on our income allocated to such state and localities and assert we are required to collect sales and use taxes.
- Our ability to use our net operating losses and certain other attributes may be subject to certain limitations.
- We depend on our senior management team, and the loss of one or more of our executive officers or key employees or an inability to attract and retain highly skilled and diverse employees could adversely affect our business.
- We may acquire other companies or technologies, which could divert our management's attention, result in dilution to our stockholders and otherwise disrupt our operations and we may have difficulty integrating any such acquisitions successfully or realizing the anticipated benefits therefrom, any of which could have a material adverse effect on our business, financial condition and results of operations.
- Inflation and increased interest rates may increase our operating and capital costs.

Risks Related to our Legal and Regulatory Environment

- Our business could be adversely affected by legal challenges to our business model or by actions restricting our ability to provide the full range of our services in certain jurisdictions.
- Evolving government regulations may result in increased costs or adversely affect our results of operations.
- We are dependent on our relationships with affiliated professional entities, which we do not own, to provide physician and other professional services, and our business, financial condition and our ability to operate in certain jurisdictions would be adversely affected if those relationships were disrupted or if our arrangements with our providers or clients are found to violate state laws prohibiting the corporate practice of medicine or fee splitting.
- The impact on us of ongoing healthcare legislation and other changes in the healthcare industry and in healthcare spending is currently unknown, but may adversely affect our business, financial condition and results of operations.
- We conduct business in a heavily regulated industry and if we fail to comply with these laws and government regulations, we could incur penalties or be required to make significant changes to our operations or experience adverse publicity, which could have a material adverse effect on our business, financial condition, and results of operations.
- Our use and disclosure of personal information, including protected health information ("PHI"), personal data, and other health information, is subject to state, federal or other privacy and security regulations, and our failure to comply with those regulations or to adequately secure the information we hold could result in significant liability or reputational harm and, in turn, a material adverse effect on our client base and member bases and revenue.
- We may be exposed to compliance obligations and risks under anti-corruption, export controls and economic sanctions laws and regulations of the United States and applicable non-U.S. jurisdictions, and any instances of noncompliance could have a material adverse effect on our reputation and the results of our operations.

Risks Related to our Intellectual Property

- Any failure to protect, enforce or defend our intellectual property rights could impair our ability to protect our technology and our brand.
- Third parties may challenge the validity of our trademarks and patents or oppose trademark and patent applications. Companies with other patents could require us to stop using or pay to use required technology.
- We could incur substantial costs as a result of any claim of infringement of another party's intellectual property rights.

- Our proprietary software may not operate properly, which could damage our reputation, give rise to claims against us or divert application of our resources from other purposes, any of which could harm out business, financial conditions and results of operations.
- We may enter into collaborations, in-licensing arrangements, joint ventures, strategic alliances or partnerships with third-parties that may not result in the development of commercially viable solutions or the generation of significant future revenues.

Risks Related to Ownership of our Common Stock, our Warrants and Operating as a Public Company

- We continue to incur costs and devote continued management time as a result of operating as a public company.
- If we fail to maintain effective internal control over financial reporting in the future, our ability to produce accurate and timely financial statements could be impaired, which may adversely affect investor confidence in us and, as a result, the value of our common stock.
- Delaware law and our organizational documents contain certain provisions, including anti-takeover provisions that limit the ability of stockholders to take certain actions and could delay or discourage takeover attempts that stockholders may consider favorable.
- The provision of our certificate of incorporation requiring exclusive forum in certain courts in the State of Delaware or the federal district courts of the United States for certain types of lawsuits may have the effect of discouraging lawsuits against our directors and officers.
- Future sales and resales of our common stock may cause the market price of our securities to drop significantly, even if our business is doing well.
- An investor's percentage of ownership in the Company may be diluted in the future.
- We do not intend to pay cash dividends for the foreseeable future.
- You may only be able to exercise your public warrants on a "cashless basis" under certain circumstances, and if you do so, you will receive fewer shares of common stock from such exercise than if you were to exercise such warrants for cash.
- We may amend the terms of the warrants in a manner that may be adverse to holders of public warrants with the approval by the holders of at least 50% of the then outstanding public warrants. As a result, the exercise price of your warrants could be increased, the exercise period could be shortened and the number of common stock purchasable upon exercise of a warrant could be decreased, all without your approval.
- The Warrant Agreement designates the courts of the State of New York or the United States District Court for the Southern District of New York as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by holders of our warrants, which could limit the ability of warrant holders to obtain a favorable judicial forum for disputes with us.
- We may redeem your unexpired warrants prior to their exercise at a time that is disadvantageous to you, thereby making your warrants worthless.

RISKS RELATED TO OUR OPERATING RESULTS AND EARLY STAGE OF GROWTH

We have a history of losses and we may never achieve or sustain profitability.

Though our losses have narrowed in 2023, we have incurred significant losses in each period since our inception. These losses and accumulated deficit reflect the substantial investments we made to acquire new clients and members and to develop our technology platform. To date, we have derived a substantial majority of our revenue from clients and members who pay for access to our virtual behavioral health platform, and our longer-term results of operations and continued growth will depend on our ability to successfully grow our revenue from existing clients and members, to acquire new potential future clients and develop and market new virtual behavioral health products and services that are attractive to our clients and members. We intend to continue scaling our business to increase our client, member and provider bases, broaden the scope of services we offer, invest in research and development and expand the applications of our technology through which clients and members can access our services. Accordingly, we expect to make increased investments to support accelerated growth and the required investment to scale our provider network, we also expect increased efficiencies and economies of scale. These efforts may prove more expensive than we currently anticipate, and we may not succeed in increasing our revenue sufficiently to offset these expenses. In addition, our results of operations would also suffer if our innovations are not responsive to the needs of our clients and members, appropriately timed with market opportunity, effectively brought to market or do not achieve market acceptance. We cannot assure you that we will achieve profitability in the future or that, if we do become profitable, we will be able to sustain or increase profitability. As a result of these factors, we may need to raise additional capital through debt or equity financing in order to fund our operations, and such capital may not be available on reasonable terms, if at all.

Our business and the markets we operate in are rapidly evolving, which makes it difficult to evaluate our future prospects and the risks and challenges we may encounter.

Our business and the markets we operate in are rapidly evolving which makes it difficult to evaluate and assess the success of our business to date, our future prospects, our business strategy and the risks and challenges that we may encounter. These risks and challenges include our ability to:

- Retain our existing clients and members that subscribe to our subscription offerings and utilize our services and to attract new clients and members to our platform and subscription offerings and position our platform as a convenient and accepted way to access therapy and psychiatry;
- convince new and existing clients and members to rapidly adopt new offerings on our platform;
- attract and retain providers for inclusion in our platform;
- comply with existing and new laws and regulations applicable to our business and in our industry, as well as additional laws that may be applicable to new service offerings;
- anticipate and respond to macroeconomic changes, and industry pricing benchmarks and changes in the markets in which we operate;
- react to challenges from existing and new competitors;
- maintain and enhance the value of our reputation and brand;
- maintain and improve the infrastructure underlying our platform, including our apps and websites and with respect to data protection, intellectual property, use of artificial intelligence and cybersecurity; and
- successfully update our platform, including expanding our platform and offerings into different healthcare products and services, develop and update our software, apps, features, offerings and services to benefit our clients and members and enhance their experience.

If we fail to understand fully or adequately address the challenges that we are currently encountering or that we may encounter in the future, including those challenges described here and elsewhere in this “Risk Factors” section, our business, financial condition and results of operations could be adversely affected. If the risks and uncertainties that we plan for when operating our business are incorrect or change, if we choose the wrong strategic direction, or if we fail to manage these risks successfully, our results of operations could differ materially from our expectations and our business, financial condition and results of operations could be adversely affected.

We may not grow at the rates we historically have achieved or at all, even if our key metrics may indicate growth, which could have a material adverse effect on the market price of our common stock.

We have experienced significant growth in the last several years, and therefore our recent revenue growth rate and financial performance should not be considered indicative of our future performance. From 2021 to 2022 and 2022 to 2023, our revenues grew at a compound annual rate of 5.2% and 25.5%, respectively. In addition, as a result of the COVID-19 pandemic, we experienced a significant increase in revenue, which increases we have managed to maintain for the time being. You should not rely on our revenue or key business metrics for any previous quarterly or annual period as any indication of our revenue, revenue growth, key business metrics, or key business metrics growth in future periods. In particular, our revenue growth rate has fluctuated in prior periods. Our future growth will depend, in part, on our ability to grow our revenue from existing clients and members, to acquire potential future clients and members, especially our Payor and DTE clients, and to expand our client, member and provider bases. We can provide no assurances that we will be successful in executing on these growth strategies or that, even if our key metrics would indicate future growth, we will continue to grow our revenue or to generate net income. Our ability to execute on our existing sales pipeline, create additional sales pipelines, and expand our client and member bases depends on, among other things, the attractiveness of our services relative to those offered by our competitors, our ability to demonstrate the value of our existing and future services, and our ability to attract and retain a sufficient number of qualified sales and marketing leadership and support personnel. In addition, our existing clients and members may be slower to adopt our services than we currently anticipate, which could adversely affect our results of operations and growth prospects.

We may experience difficulties in managing our growth and expanding our operations.

We expect to experience significant growth in the scope of our operations. Our ability to manage our operations and future growth will require us to continue to improve our operational, financial and management controls, compliance programs and reporting systems. We may not be able to implement improvements in an efficient or timely manner and may discover deficiencies in existing controls, programs, systems and procedures, which could have an adverse effect on our business, reputation and financial results. If we fail to maintain effective internal control over financial reporting in the future, our ability to produce accurate and timely financial statements could be impaired, which may adversely affect investor confidence in us and, as a result, the value of our common stock. Additionally, rapid growth in our business may place a strain on our human and capital resources as well as our systems and controls.

RISKS RELATED TO OUR BUSINESS AND INDUSTRY

Rapid technological change in our industry presents us with significant risks and challenges.

The virtual behavioral health market is characterized by rapid technological change, changing consumer requirements, short product lifecycles and evolving industry standards. Our success will depend on our ability to enhance our solution with next-generation technologies and to develop or to acquire and market new services to access new client and member populations. There is no guarantee that we will possess the resources, either financial or personnel, for the research, design and development of new applications or services, or that we will be able to utilize these resources successfully and avoid technological or market obsolescence. Further, there can be no assurance that technological advances by one or more of our competitors or future competitors, including advancements in artificial intelligence and machine-learning, will not result in our present or future software-based products and services becoming uncompetitive or obsolete.

We operate in a competitive industry, and if we are not able to compete effectively, our business, financial condition and results of operations will be harmed.

While the virtual behavioral health market is in an early stage of development, it is competitive and we expect it to attract increased competition, which could make it difficult for us to succeed. We currently face competition from a range of companies, including specialized software and solution providers that offer similar solutions and that are continuing to develop additional products and becoming more sophisticated and effective. These competitors include American Well Corporation, Teladoc, Lyra Health and Spring Health, among other small industry participants.

In addition, large, well-financed health systems and health plans have in some cases developed their own telehealth and teletherapy tools and may provide these solutions to their consumers at discounted prices. Competition may also increase from large technology companies, such as Apple, Amazon, Meta, Google, Verizon, or Microsoft, who may wish to develop their own virtual behavioral health solutions, as well as from large retailers like Amazon or Walmart. Competition from large software companies or other specialized solution providers, health systems and health plans, communication tools and other parties could result in continued pricing pressures, which is likely to lead to price declines in certain product segments, which could negatively impact our sales, profitability and market share.

Some of our competitors may have greater name recognition, longer operating histories and significantly greater resources than we do. Further, our current or potential competitors may be acquired by third parties with greater available resources. As a result, our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards or consumer requirements and may have the ability to initiate or withstand substantial price competition. In addition, current and potential competitors have established, and may in the future establish, cooperative relationships with vendors of complementary products, technologies or services to increase the availability of their solutions in the marketplace. Accordingly, new competitors or alliances may emerge that have greater market share, a larger consumer base, more widely adopted proprietary technologies, greater marketing expertise, greater financial resources and larger sales forces than we have, which could put us at a competitive disadvantage.

We also expect our competitors to continue to improve their technology infrastructure, including with the use of artificial intelligence ("AI") and machine learning solutions, to interact with clients, members and insurance companies, sell their services, utilize (and even monetize) their data and support and grow their client base. Our ability to innovate our own technology infrastructure and appropriately address user experience will affect our ability to compete.

Many healthcare provider organizations are consolidating to create integrated healthcare delivery systems with greater market power. As provider networks and managed care organizations consolidate, thus decreasing the number of market participants, competition to provide products and services like ours could become more intense, and the importance of establishing and maintaining relationships with key industry participants could increase. These industry participants may try to use their market power to negotiate price reductions for our products and services. In light of these factors, even if our solution is more effective than those of our competitors, current or potential clients and members may accept competitive solutions in lieu of purchasing our solution. If we are unable to successfully compete in the virtual behavioral health market, our business, financial condition and results of operations could be materially adversely affected.

This risk is amplified by the Company deriving a significant portion of its revenues from a limited number of customers. For the years ended December 31, 2022 and 2023, two customers represented 10% or more of the Company's total revenue. The loss of business from either of the Company's significant customers, as a result of competition, customer needs, or other factors beyond the Company's control, could have a material adverse effect on our business, financial condition and results of operations.

If we are unable to secure clients' contract renewals, our business, financial condition and results of operations will be harmed.

We currently generate most of our revenues from our Payor and DTE clients which contracts are one to three years in length. Consumer subscriptions generally have stated initial terms of one-to-six months and members may cancel their subscription at any time and will receive a pro-rata refund for the subscription price. Most of our clients and members have no obligation to renew their subscriptions for our services after the initial term expires. In addition, our clients may negotiate terms less advantageous to us upon renewal, which may reduce our revenue from these clients. Additionally, our future results of operations depend, in part, on our ability to expand our services and offerings, including broadening our continuum of care. If our clients and members fail to renew their contracts, renew their contracts upon less favorable terms or at lower fee levels or fail to purchase new products and services from us, our revenue may decline or our future revenue growth may be constrained.

Additional factors that could affect our ability to sell products and services include, but are not limited to:

- price, performance and functionality of our solution;
- availability, price, performance and functionality of competing solutions;
- our ability to develop and sell complementary products and services;
- stability, performance and security of our hosting infrastructure and hosting services; and
- changes in healthcare marketing laws, regulations or trends.

Any of these consequences could lower retention and have a material adverse effect on our business, financial condition and results of operations.

The future growth and profitability of our business will depend in large part upon the effectiveness and efficiency of our marketing efforts, and our ability to develop brand awareness cost-effectively.

We believe that developing and maintaining widespread awareness of our brand in a cost-effective manner is critical to achieving widespread adoption of our solution and attracting new clients and members. Our brand promotion activities may not generate consumer awareness or increase revenue, and even if they do, any increase in revenue may not offset the expenses we incur in building our brand. If we fail to successfully promote and maintain our brand, or incur substantial expenses in doing so, we may fail to attract or retain clients and members necessary to realize a sufficient return on our brand-building efforts or to achieve the widespread brand awareness that is critical for broad adoption of our brands.

We may be unsuccessful in achieving broad market education and changing consumer purchasing habits.

Our success and future growth largely depend on our ability to increase consumer awareness of virtual behavioral therapy in general and our platform and offerings, in particular, and on the willingness of current and potential clients and members to utilize our platform to access information and behavioral health services. We believe the vast majority of consumers make purchasing decisions for behavioral health services on the basis of traditional factors, such as insurance coverage. This traditional decision-making process does not always account for restrictive and complex insurance plans, high deductibles, expensive co-pays and other factors, such as discounts or savings available at alternative therapists or practices. To effectively market our platform, we must educate consumers about the various purchase options and the benefits of using Talkspace for behavioral healthcare, including when such services may not be covered by their health insurance benefits. We focus our marketing and education efforts on potential clients, members and other consumers, but also aim to educate and inform healthcare providers and other participants that interact with consumers, including at the point of purchase. However, we cannot assure you that we will be successful in changing consumer purchasing habits or that we will achieve broad market education or awareness among consumers. Even if we are able to raise awareness among consumers, they may be slow in changing their habits and may be hesitant to use our platform for a variety of reasons.

If we fail to achieve broad market education of our platform and/or the options for purchasing healthcare products and services, or if we are unsuccessful in changing consumer purchasing habits, our business, financial condition and results of operations would be adversely affected.

Our growth depends in part on the success of our strategic relationships with third parties that we provide services to.

In order to grow our business, we anticipate that we will continue to depend on our existing and future relationships with third parties, such as third-party payors, including government agencies, as well as our ability to expand our Payor and DTE business with health plan clients and enterprises that we provide services to. Identifying potential clients, and negotiating and documenting relationships with them, requires significant time and resources. Our competitors may be effective in providing incentives to third parties to favor their products or services or to prevent or reduce subscriptions to, or utilization of, our products and services. In addition, acquisitions of our clients by our competitors could result in a decrease in the number of our current and potential clients and members, as our clients may no longer facilitate the adoption of our applications by potential members. If we are unsuccessful in establishing or maintaining our relationships with third parties that we provide services to, our ability to compete in the marketplace or to grow our revenue could be impaired and our results of operations may suffer. Even if we are successful, we cannot assure you that these relationships will result in increased client use of our services or increased revenue.

Our virtual behavioral healthcare strategies depend on our ability to maintain and expand our network of therapists, psychiatrists and other providers. If we are unable to do so, our future growth would be limited and our business, financial condition and results of operations would be harmed.

Our success is dependent upon our continued ability to grow and maintain a network of highly trained and qualified therapists, psychiatrists and other providers, especially since our providers are generally not exclusive to our platform. If we are unable to recruit and retain licensed therapists, psychiatrists and other providers, it would have a material adverse effect on our business and ability to grow and would adversely affect our results of operations.

In any particular market, providers could demand higher payments or take other actions that could result in higher medical costs, less attractive service for our clients or members or difficulty meeting regulatory or accreditation requirements.

The ability to develop and maintain satisfactory relationships with providers also may be negatively impacted by other factors not associated with us, such as state therapist or psychiatrist licensing laws and standard of care requirements, and other pressures on healthcare providers and consolidation activity among hospitals, physician groups and healthcare providers. Our failure to maintain or to secure new cost-effective provider contracts may result in a loss of or inability to grow our client and member bases, higher costs, less attractive services for our clients and members and/or difficulty in meeting regulatory or accreditation requirements, any of which could have a material adverse effect on our business, financial condition and results of operations.

Developments affecting spending by the healthcare industry could adversely affect our business.

The U.S. healthcare industry has changed significantly in recent years, and we expect that significant changes will continue to occur. General reductions in expenditures by healthcare industry participants could result from, among other things:

- government regulations or private initiatives that affect the manner in which healthcare providers interact with patients, payors or other healthcare industry participants, including changes in pricing or means of delivery of healthcare products and services;
- consolidation of healthcare industry participants;
- federal amendments to, lack of enforcement or development of applicable regulations for, or repeal of The Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act (the "Affordable Care Act" or the "ACA");
- reductions in government funding for healthcare; and
- adverse changes in business or economic conditions affecting healthcare payors or providers or other healthcare industry participants.

Any of these changes in healthcare spending could adversely affect our revenue. Even if general expenditures by industry participants remain the same or increase, developments in the healthcare industry may result in reduced spending in some or all of the specific market segments that we serve now or in the future. We cannot assure you that the demand for our solutions and services will continue to exist at current levels or that we will have adequate technical, financial, and marketing resources to react to changes in the healthcare industry.

Negative media coverage and social media engagement could adversely affect our business.

We receive a substantial amount of media coverage in the United States. Unfavorable publicity regarding, among others, the healthcare industry, litigation or regulatory activity, the actions of the entities included or otherwise involved in our platform, virtual behavioral health services included on our platform or by other industry participants, our data privacy or data security practices, or our platform could materially adversely affect our reputation. In addition, from time to time, news media outlets have provided negative coverage regarding our platform and privacy practices and any such negative media coverage, regardless of the accuracy of such reporting, may have an adverse impact on our business and reputation, as well as have an adverse effect on our ability to attract and retain clients, members, other consumers, or employees, and result in decreased revenue, which would materially adversely affect our business, financial condition and results of operations.

Our clients and members may engage with us online through our social media pages, including, for example, our presence on Facebook, Instagram and Twitter, by providing feedback and public commentary about all aspects of our business. Information concerning us or our platform and offerings, whether accurate or not, may be posted on social media pages at any time and may have a disproportionately adverse impact on our brand, reputation or business. The harm may be immediate without affording us an opportunity for redress or correction and could have a material adverse effect on our business, financial condition, results of operations and prospects.

We may become subject to medical liability claims, which could cause us to incur significant expenses and may require us to pay significant damages if not covered by insurance.

Our overall business entails the risk of medical liability claims. Although TPN and our affiliated professionals carry or will carry insurance covering medical malpractice claims in amounts that we believe are appropriate in light of the risks attendant to the services rendered, successful medical liability claims could result in substantial damage awards that exceed the limits of the insurance coverage. TPN carries or will carry professional liability insurance for itself and each of its healthcare professionals (our providers). Additionally, all of our network providers that contract or will contract with TPN separately carry or will carry professional liability insurance for itself and its healthcare professionals. Professional liability insurance is expensive and insurance premiums may increase significantly in the future, particularly as we expand our services through TPN and our affiliated professionals. As a result, adequate professional liability insurance may not be available to TPN and our affiliated professionals in the future at acceptable costs or at all, which may negatively impact TPN and our affiliated professionals to provide services to our members, and thereby adversely affect our overall business and operations.

Any claims made against TPN or our affiliated professionals that are not fully covered by insurance could be costly to defend against, result in substantial damage awards, and divert the attention of our management and our affiliated professional entities from our operations, which could have a material adverse effect on our business, financial condition and results of operations. In addition, any claims may adversely affect our business or reputation.

A decline in the prevalence of enterprise-sponsored healthcare or the emergence of new technologies may adversely impact our DTE business or require us to expend significant resources in order to remain competitive.

The U.S. healthcare industry is massive, with a number of large market participants with conflicting agendas, and it is subject to significant government regulation and is currently undergoing significant change.

Some experts have predicted that future healthcare reform will encourage enterprise-sponsored health insurance to become significantly less prevalent as enterprise members migrate to obtain their own insurance over the state-sponsored insurance marketplaces. Were this to occur, there is no guarantee that we would be able to compensate for the loss in revenue from enterprises by increasing sales of our solution to health insurance companies or to individuals or government agencies. In such a case, our results of operations would be adversely impacted.

We rely on third-party platforms such as the Apple App Store and Google Play App Store, to distribute our platform and offerings.

Our apps are accessed and operated through third-party platforms or marketplaces, including the Apple App Store and Google Play App Store, which also serve as significant online distribution platforms for our apps. As a result, the expansion and prospects of our business and our apps depend on our continued relationships with these providers and any other emerging platform providers that are widely adopted by consumers. We are subject to the standard terms and conditions that these providers have for application developers, which govern the content, promotion, distribution and operation of apps on their platforms or marketplaces, and which the providers can change unilaterally on short or no notice.

Thus, our business could suffer materially if platform providers change their standard terms and conditions, interpretations or other policies and practices in a way that is detrimental to us or if platform providers determine that we are in violation of their standard terms and conditions and prohibit us from distributing our apps on their platforms. In addition, our business would be harmed if the providers discontinue or limit our access to their platforms or marketplaces; the platforms or marketplaces decline in popularity; the platforms modify their algorithms, communication channels available to developers, respective terms of service or other policies, including fees; the providers adopt changes or updates to their technology that impede integration with other software systems or otherwise require us to modify our technology or update our apps in order to ensure that consumers can continue to access and use our virtual behavioral health services.

We could be adversely impacted if we fail to create compatible versions of our apps in a timely manner, or if we fail to establish a relationship with such alternative providers. Likewise, if our current providers alter their operating platforms, we could be adversely impacted as our offerings may not be compatible with the altered platforms or may require significant and costly modifications in order to become compatible.

In the past, some of these platforms or marketplaces have been unavailable for short periods of time. If this or a similar event were to occur on a short- or long-term basis, or if these platforms or marketplaces otherwise experience issues that impact the ability of consumers to download or access our apps and other information, it could have a material adverse effect on our brand and reputation, as well as our business, financial condition and operating results.

We rely on data center providers, Internet infrastructure, bandwidth providers, third-party computer hardware and software, other third parties and our own systems for providing services to our clients and members, and any failure or interruption in the services provided by these third parties or our own systems could expose us to litigation and negatively impact our relationships with clients and members, adversely affecting our brand and our business.

We serve all of our clients and members from third party interconnection and data centers, such as Amazon Web Services. While we control and have access to our servers, we do not control the operation of these facilities. The cloud vendors and the owners of our data center facilities have no obligation to renew their agreements with us on commercially reasonable terms, or at all. If we are unable to renew these agreements on commercially reasonable terms, or if one of our cloud vendors or data center operators is acquired, we may be required to transfer our servers and other infrastructure to a new vendor or a new data center facility, and we may incur significant costs and possible service interruption in connection with doing so. Problems faced by our cloud vendors or third-party data center locations with the telecommunications network providers with whom we or they contract, or with the systems by which our telecommunications providers allocate capacity among their clients, including us, could adversely affect the experience of our clients and members. Our third-party data center operators could decide to close their facilities without adequate notice. In addition, any financial difficulties, such as bankruptcy faced by our cloud vendors or third-party data centers operators or any of the service providers with whom we or they contract may have negative effects on our business, the nature and extent of which are difficult to predict.

Additionally, if our cloud or data center vendors are unable to keep up with our growing needs for capacity, this could have an adverse effect on our business. For example, a rapid expansion of our business could affect the service levels at our cloud vendors or data centers or cause such data centers and systems to fail. Any changes in third-party service levels at our data centers or any disruptions or other performance problems with our solution could adversely affect our reputation and may damage our clients and members' stored files or result in lengthy interruptions in our services. Interruptions in our services may reduce our revenue, cause us to issue refunds to clients and members for prepaid and unused subscriptions, as well as loss of revenue related to service level credits and uptime, subject us to potential liability or adversely affect client retention.

In addition, our ability to deliver our Internet-based services depends on the development and maintenance of the infrastructure of the Internet by third parties. This includes maintenance of a reliable network backbone with the necessary speed, data capacity, bandwidth capacity and security. Our services are designed to operate without interruption in accordance with our service level commitments. However, we have experienced, and expect that we may experience in the future, interruptions and delays in services and availability from time to time. In the event of a catastrophic event with respect to one or more of our systems, we may experience an extended period of system unavailability, which could negatively impact our relationship with clients and members.

We also rely on computer hardware purchased and software licensed from third parties in order to offer our services. These licenses are generally commercially available on varying terms. However, it is possible that this hardware and software may not continue to be available on commercially reasonable terms, or at all. Any loss of the right to use any of this hardware or software could result in delays in the provisioning of our services until equivalent technology is either developed by us, or, if available from third parties, is identified, obtained and integrated.

Our ability to rely on these services of third-party vendors could be impaired as a result of the failure of such providers to comply with applicable laws, regulations and contractual covenants, or as a result of events affecting such providers, such as power loss, telecommunication failures, software or hardware errors, computer viruses, cyber incidents and similar disruptive problems, fire, flood and natural disasters. Any such failure or event could adversely affect our relationships with our clients and members and damage our reputation. This could materially and adversely impact our business, financial condition and operating results.

If our or our vendors' security measures fail or are breached and unauthorized access to a client's data or information systems is obtained, our services may be perceived as insecure, we may incur significant liabilities, our reputation may be harmed, and we could lose sales, clients and members.

Our services involve the storage and transmission of our clients' and members' proprietary information, sensitive or confidential data, including valuable intellectual property and personal information of employees, clients, members and others, as well as the PHI of our clients and members. We are subject to laws and regulations relating to the collection, use, retention, security and transfer of this information, including to vendors. Because of the extreme sensitivity of the information we store and transmit, the security features of our and our third-party vendors' computer, network, and communications systems infrastructure are critical to the success of our business. A breach or failure of our or our third-party vendors' network, hosted service providers or vendor systems could result from a variety of circumstances and events, including third-party action, employee negligence or error, malfeasance, computer viruses, cyber-attacks by malicious actors such as denial-of-service and phishing attacks, failures during the process of upgrading or replacing software and databases, power outages, hardware failures, telecommunication failures, or catastrophic events.

Information security risks have generally increased in recent years because of the proliferation of new technologies, including the increased adoption of AI technologies, and the increased sophistication and activities of perpetrators of cyber-attacks. Malicious actors are increasingly sophisticated and operating large-scale and complex automated attacks, including on companies within the healthcare industry. The techniques, sources and targets of these attacks change and are often not recognized until such attacks are launched or have been in place for some time. In an increasing amount of cases, these malicious actors are or are acting on behalf of state sponsors which further increases the risk of sophistication, capability and funding for the attack. As cyber threats continue to evolve, we may be required to expend additional resources to further enhance our information security measures, develop additional protocols and/or to investigate and remediate any information security vulnerabilities. If our or our third-party vendors' security measures fail or are breached, it could result in unauthorized persons accessing sensitive client or member data (including PHI), a loss of or damage to our data, an inability to access data sources, or process data or provide our services to our clients and members. Such failures or breaches of our or our third-party vendors' security measures, or our or our third-party vendors' inability to effectively resolve such failures or breaches in a timely manner, could severely damage our reputation, adversely affect client, member or investor confidence in us, and reduce the demand for our services from existing and potential clients and members. In addition, we could face litigation, damages for contract breach, monetary penalties, or regulatory actions for violation of applicable laws or regulations and incur significant costs for remedial measures to prevent future occurrences and mitigate past violations.

Any potential security breach could result in increased costs associated with liability for stolen assets or information, repairing system damage that may have been caused by such breaches, incentives offered to clients or other business partners in an effort to maintain our business relationships after a breach and implementing measures to prevent future occurrences, including organizational changes, deploying additional personnel and protection technologies, training employees and engaging third-party experts and consultants. Although we maintain insurance covering certain security and privacy damages and claim expenses, we may not carry insurance or maintain coverage sufficient to compensate for all liability and we cannot be certain that our insurance coverage will be adequate for data security liabilities actually incurred, will cover any indemnification claims against us relating to any incident, will continue to be available to us on economically reasonable terms, or at all, or that any insurer will not deny coverage as to any future claim. In any event, insurance coverage would not address the reputational damage that could result from a security incident.

Data privacy is also subject to frequently changing laws, rules and regulations in the various jurisdictions in which we operate. Such initiatives around the country could increase the cost of developing, implementing or securing our servers and require us to allocate more resources to improved technologies, adding to our IT and compliance costs. Our Board of Directors is briefed periodically on cybersecurity and risk management issues and we have implemented a number of processes to avoid cyber threats and to protect privacy. However, the processes we have implemented in connection with such initiatives may be insufficient to prevent or detect improper access to confidential, proprietary or sensitive data, including personal data. In addition, the competition for talent in the data privacy and cybersecurity space is intense, and we may be unable to hire, develop or retain suitable talent capable of adequately detecting, mitigating or remediating these risks. Our failure to adhere to, or successfully implement processes in response to, changing legal or regulatory requirements in this area could result in legal liability or damage to our reputation in the marketplace. No material cybersecurity incidents have occurred during the year ended December 31, 2023.

There may be adverse tax, legal and other consequences if the employment status of providers on our platform is challenged.

There is often uncertainty in the application of worker classification laws, especially in the medical field where individuals are required to hold professional licenses, and, consequently, there is risk that providers could be deemed to be misclassified under applicable law. We and TPN, structure our relationships with the majority of our respective providers in a manner that we believe results in an independent contractor relationship, not an employee relationship. The tests governing whether a service provider is an independent contractor, or an employee are typically highly fact sensitive and vary by governing law. An independent contractor is generally distinguished from an employee by his or her degree of autonomy and independence in providing services. A high degree of autonomy and independence is generally indicative of a contractor relationship, while a high degree of control is generally indicative of an employment relationship. Although we believe that our and TPN's providers are properly characterized as independent contractors, tax or other regulatory authorities may in the future challenge our characterization of these relationships. An actual or alleged misclassification determination creates potential exposure for us, including but not limited to: monetary exposure arising from or relating to failure to withhold and remit taxes, unpaid wages and wage and hour laws and requirements (such as those pertaining to minimum wage and overtime); claims for employee benefits, social security, Medicare, workers' compensation and unemployment; claims of discrimination, harassment and retaliation under civil rights laws; claims under laws pertaining to unionizing, collective bargaining and other concerted activity; and other claims, charges, or other proceedings under laws and regulations applicable to employers and employees, including risks relating to allegations of joint employer liability. Such claims could result in monetary damages or other liability, and any adverse determination, including potentially the requirement for us to indemnify a user, could also harm our brand, which could materially and adversely affect our business, prospects, financial condition and results of operations. While these risks are mitigated, in part, by our contractual rights of indemnification against third-party claims, such indemnification agreements could be determined to be unenforceable or costly to enforce and indemnification under such agreements may otherwise prove inadequate. As a result, any determination that our and/or TPN's providers are employees could have a material adverse effect on our business, financial condition and results of operations.

Changes in consumer sentiment or laws, rules or regulations regarding the use of cookies, artificial intelligence technologies and other tracking technologies and other privacy matters could have a material adverse effect on our ability to generate net revenues and could adversely affect our ability to collect proprietary data on consumer behavior.

Consumers may become increasingly resistant to the collection, use and sharing of information online, including information used to deliver and optimize advertising, and take steps to prevent such collection, use and sharing of information. For example, consumer complaints and/or lawsuits regarding online advertising or the use of cookies or other tracking technologies in general and our practices specifically could adversely impact our business.

Consumers can currently opt out of the placement or use of most cookies for online advertising purposes by either deleting or disabling cookies on their browsers, visiting websites that allow consumers to place an opt-out cookie on their browsers, which instructs participating entities not to use certain data about consumers' online activity for the delivery of targeted advertising, or by downloading browser plug-ins and other tools that can be set to: identify cookies and other tracking technologies used on websites; prevent websites from placing third-party cookies and other tracking technologies on the consumer's browser; or block the delivery of online advertisements on apps and websites.

We are subject to evolving EU and UK privacy national laws derived from the ePrivacy Directive. The current national laws that implement the ePrivacy Directive are highly likely to be replaced across the EU (but not directly in the UK) by an EU regulation known as the ePrivacy Regulation which will significantly increase fines for non-compliance.

There is a trend of increasing enforcement by regulators of the strict approach in recent guidance and decisions which could lead to substantial costs, require significant systems changes, limit the effectiveness of our marketing activities, divert the attention of our technology personnel, adversely affect our margins, increase costs and subject us to additional liabilities. Regulation of cookies and similar technologies, and any decline of cookies or similar online tracking technologies as a means to identify and potentially target users, may lead to broader restrictions and impairments on our marketing and personalization activities and may negatively impact our efforts to understand users.

In response to marketplace concerns about the usage of third-party cookies and web beacons to track user behaviors, providers of major browsers have included features that allow users to limit the collection of certain data generally or from specified websites. In addition, various software tools and applications have been developed that can block advertisements from a consumer's screen or allow consumers to shift the location in which advertising appears on webpages or opt out of display, search and internet-based advertising entirely. These developments, among others, could impair our ability to collect user information, including personal data and usage information, that helps us provide more targeted advertising to our current and prospective consumers, which could adversely affect our business, given our use of cookies and similar technologies to target our marketing and personalize the consumer experience.

If consumer sentiment regarding privacy issues or the development and deployment of new browser solutions or other Do Not Track mechanisms result in a material increase in the number of consumers who choose to opt out or block cookies and other tracking technologies or who are otherwise using browsers where they need to, and fail to, allow the browser to accept cookies, or otherwise result in cookies or other tracking technologies not functioning properly, our ability to advertise effectively and conduct our business will be impaired, and our results of operations and financial condition would be adversely affected.

Certain U.S. state and local tax authorities may assert that we have a nexus with such states or localities and may seek to impose state and local income taxes on our income allocated to such state and localities and assert we are required to collect sales and use taxes.

There is a risk that certain state tax authorities where we do not currently file a state income tax return could assert that we are liable for state and local income taxes based upon income or gross receipts allocable to such states or localities. States and localities are becoming increasingly aggressive in asserting nexus for state and local income tax purposes. We could be subject to additional state and local income taxation, including penalties and interest attributable to prior periods, if a state or local tax authority in a state or locality where we do not currently file an income tax return successfully asserts that our activities give rise to nexus for state income tax purposes. Such tax assessments, penalties and interest may adversely affect our cash, tax liabilities, results of operations and financial condition.

In addition, state taxing authorities may assert that we had economic nexus with their state and were required to collect sales and use or similar taxes with respect to past or future services that we have provided or will provide, which could result in tax assessments and penalties and interest.

Our ability to use our net operating losses and certain other attributes may be subject to certain limitations.

The Company has federal and state net operating loss carryovers ("NOL") which are available to reduce future taxable income. The NOL carry-forwards begin to expire in 2032 and may become subject to annual limitation in the event of certain cumulative changes in the ownership interest of significant stockholders over a three-year period in excess of 50%, as defined under I.R.C. Section 382. This could limit the amount of tax attributes that can be utilized annually to offset future taxable income or future tax liabilities. The federal losses generated from 2018 onward do not expire.

It is possible that we will not generate taxable income in time to use these net operating loss carryforwards before their expiration (or that we will not generate taxable income at all). Under the Tax Cuts and Jobs Act of 2017, U.S. federal net operating losses incurred in 2018 and in future years may be carried forward indefinitely, but the deductibility of such net operating losses is limited. It is uncertain if and to what extent various states will conform to these in federal tax laws. In addition, the federal and state net operating loss carryforwards and certain tax credits may be subject to significant limitations under Section 382 and Section 383 of the Internal Revenue Code, respectively, and similar provisions of state law. Under those sections of the Internal Revenue Code, if a corporation undergoes an "ownership change," the corporation's ability to use its pre-change net operating loss carryforwards and other pre-change attributes, such as research tax credits, to offset its post-change income or tax may be limited. In general, an "ownership change" will occur if there is a cumulative change in our ownership by "5-percent shareholders" that exceeds 50 percentage points over a rolling three-year period. Similar rules may apply under state tax laws. We have not undertaken an analysis of whether we have experienced an "ownership change" for purposes of Section 382 and Section 383 of the Internal Revenue Code or whether there are any limitations on use with respect to our net operating losses and other tax attributes.

We depend on our senior management team, and the loss of one or more of our executive officers or key employees or an inability to attract and retain highly skilled and diverse employees could adversely affect our business.

Our success depends largely upon the continued services of our key members of senior management. These members of senior management are at-will employees and therefore they may terminate their employment with us at any time with no advance notice. We also rely on our leadership team in the areas of research and development, marketing, clinical operations, and general and administrative functions. From time to time, there may be changes in our management team resulting from the hiring or departure of executives, which could disrupt our business. The replacement of one or more of our executive officers or other key employees will likely involve significant time and costs and may significantly delay or prevent the achievement of our business objectives. Our business would also be adversely affected if we fail to adequately plan for succession of our executives and senior management; or if we fail to effectively recruit, integrate, retain and develop key talent and/or align our talent with our business needs, in light of the current rapidly changing environment. While we have employment arrangements with a limited number of key executives, these do not guarantee that the services of these or suitable successor executives will continue to be available to us.

We may not be successful in continuing to attract and retain qualified personnel. We have from time to time in the past experienced, and we expect to continue to experience in the future, difficulty in hiring and retaining highly skilled personnel with appropriate qualifications. The pool of qualified personnel with experience working in the healthcare market is limited overall.

In addition, in making employment decisions, particularly in high-technology industries, job candidates often consider the value of the stock options or other equity instruments they are to receive in connection with their employment. Volatility in the price of our stock may, therefore, adversely affect our ability to attract or retain highly skilled personnel. Failure to attract new personnel or failure to retain and motivate our current personnel, could have a material adverse effect on our business, financial condition and results of operations.

We may acquire other companies or technologies, which could divert our management's attention, result in dilution to our stockholders and otherwise disrupt our operations and we may have difficulty integrating any such acquisitions successfully or realizing the anticipated benefits therefrom, any of which could have a material adverse effect on our business, financial condition and results of operations.

We intend to seek to acquire or invest in businesses, software-based products and services or technologies that we believe could complement or expand our solution, enhance our technical capabilities or otherwise offer growth opportunities. To pursue this strategy successfully, we must identify attractive acquisition or investment opportunities and successfully complete transactions, some of which may be large and complex. We may not be able to identify or complete attractive acquisition or investment opportunities due to, among other things, the intense competition for these transactions. If we are not able to identify and complete such acquisition or investment opportunities, our future results of operations and financial condition may be adversely affected. Additionally, the pursuit of potential acquisitions may divert the attention of management and cause us to incur various expenses in identifying, investigating and pursuing suitable acquisitions, whether or not they are consummated.

If we acquire additional businesses, we may not be able to integrate the acquired personnel, operations and technologies successfully, or effectively manage the combined business following the acquisition. We also may not achieve the anticipated benefits from the acquired business as a result of unanticipated costs or liabilities, difficulty converting the clients of the acquired business onto our platform and contract terms, diversion of management's attention from other business concerns and employee retention issues, among other reasons.

In addition, a significant portion of the purchase price of companies we acquire may be allocated to acquired goodwill and other intangible assets, which generally must be assessed for impairment at least annually. In the future, if our acquisitions do not yield expected returns, we may be required to take charges to our results of operations based on this impairment assessment process, which could adversely affect our results of operations.

Inflation and increased interest rates may increase our operating and capital costs.

In 2023, the global inflation rate began to stabilize and, in some cases decline, as a result of central bank policy tightening; however, core inflation has proved persistent, in addition to the escalating number of significant conflicts throughout the globe. We expect these inflationary pressures to continue to impact our margins and more generally our business in 2024.

After almost 10 years of low interest rate environments, inflationary pressures and efforts in the U.S. and around the world to combat inflation have resulted in increased interest rates by central banks globally. While we do not have any debt outstanding, the increased interest rates could affect our clients' businesses and borrowing costs, which in turn could impact their ability to make timely payments to us. Given that core inflation has proved persistent, it is uncertain if interest rates will stabilize, continue to increase or decrease.

Our attempts to offset these increasing costs, such as improving efficiency in other areas of the business and passing these increases on to customers, may not be successful. To the extent that our offsetting measures are not sufficient to offset these higher costs, our results of operations may be adversely affected.

RISKS RELATED TO OUR LEGAL AND REGULATORY ENVIRONMENT

Our business could be adversely affected by legal challenges to our business model or by actions restricting our ability to provide the full range of our services in certain jurisdictions.

Our ability to conduct telehealth and teletherapy services through our network of providers in a particular jurisdiction is directly dependent upon the applicable laws governing remote care, the practice of medicine and healthcare delivery in general in such location, which are subject to changing political, regulatory and other influences. With respect to telehealth and teletherapy services, in the past, state medical boards have established new rules or interpreted existing rules in a manner that has limited or restricted our ability to conduct our business as it was conducted in other states. Some of these actions have resulted in the suspension or modification of our telehealth and teletherapy operations in certain states. However, the extent to which a jurisdiction considers particular actions or relationships to comply with the applicable standard of care is subject to change and to evolving interpretations by (in the case of U.S. states) medical boards and state attorneys general, among others, each with broad discretion. Accordingly, we must monitor our compliance with the law in every jurisdiction in which we operate, on an ongoing basis, and we cannot provide assurance that our activities and arrangements, if challenged, will be found to be in compliance with the law.

Additionally, it is possible that the laws and rules governing the practice of medicine, including telehealth and prescribing medication online, in one or more jurisdictions may change in a manner deleterious to our business. For instance, a few states have imposed different, and, in some cases, additional, standards regarding the provision of services via telehealth and teletherapy. Some states impose strict standards on using telehealth and teletherapy to prescribe certain classes of controlled substances that can be commonly used to treat behavioral health disorders. The unpredictability of this regulatory landscape means that sudden changes in policy regarding standards of care and reimbursement are possible. If a successful legal challenge or an adverse change in the relevant laws were to occur, and we or our affiliated medical group were unable to adapt our business model accordingly, our operations in the affected jurisdictions would be disrupted, which could have a material adverse effect on our business, financial condition and results of operations.

Evolving government regulations may result in increased costs or adversely affect our results of operations.

In a regulatory climate that is uncertain, our operations may be subject to direct and indirect adoption, expansion or reinterpretation of various laws and regulations. Compliance with these future laws and regulations may require us to change our practices at an undeterminable and possibly significant initial monetary and recurring expense. These additional monetary expenditures may increase future overhead, which could have a material adverse effect on our results of operations. We have identified what we believe are the areas of government regulation that, if changed, would be costly to us. These include rules governing the practice of medicine by physicians and other licensed professionals; laws relating to licensure requirements for physicians and other licensed health professionals; laws limiting the corporate practice of medicine and professional fee-splitting; laws governing the issuances of prescriptions in an online setting; cybersecurity and privacy laws; and laws and rules relating to the distinction between independent contractors and employees. There could be laws and regulations applicable to our business that we have not identified or that, if changed, may be costly to us, and we cannot predict all the ways in which implementation of such laws and regulations may affect us.

In the jurisdictions in which we operate, even where we believe we are in compliance with all applicable laws, due to the uncertain regulatory environment, certain jurisdictions may determine that we are in violation of their laws. In the event that we must remedy such violations, we may be required to modify our services and products in a manner that undermines our solution's attractiveness to our clients, members or providers or experts, we may become subject to fines or other penalties or, if we determine that the requirements to operate in compliance in such jurisdictions are overly burdensome, we may elect to terminate our operations in such places. In each case, our revenue may decline and our business, financial condition and results of operations could be materially adversely affected.

Additionally, the introduction of new services may require us to comply with additional, yet undetermined, laws and regulations. Compliance may require obtaining appropriate licenses or certificates, increasing our security measures and expending additional resources to monitor developments in applicable rules and ensure compliance. The failure to adequately comply with these future laws and regulations may delay or possibly prevent some of our products or services from being offered to members and clients, or their members and patients, which could have a material adverse effect on our business, financial condition and results of operations.

There is increasing pressure for businesses to use AI to streamline processes and remain competitive. It is expected that laws and regulations around the use of AI and machine learning tools will increase over the next few years but it is unknown at this time what these laws and regulations will address and how and whether they will be adopted globally. As we introduce AI or machine learning into our information technology systems, we could become subject to these new regulations, which may be difficult to comply with. Some of our competitors may not be required to comply, which would put us at a competitive disadvantage. In addition, we may find we do not have the right employee set for the advancement of our AI and machine learning initiatives or that we have not provided the appropriate training to our staff.

We are dependent on our relationships with affiliated professional entities, which we do not own, to provide physician and other professional services, and our business, financial condition and our ability to operate in certain jurisdictions would be adversely affected if those relationships were disrupted or if our arrangements with our providers or clients are found to violate state laws prohibiting the corporate practice of medicine or fee splitting.

We have entered into various agreements with Talkspace Provider Network, PA ("TPN"), a Texas professional association entity, which in turn contracts with our other affiliated professional entities ("PC entities"), physicians, therapists, and other licensed professionals for clinical and professional services provided to our members. There is a risk that U.S. state authorities in some jurisdictions may find that these contractual relationships with professional entities, physicians and other healthcare providers providing telehealth and teletherapy violate laws prohibiting the corporate practice of medicine and professional fee splitting. These laws generally prohibit the practice of medicine by lay persons or entities and prohibit us from employing physicians and certain licensed professionals, directing the clinical practice of physicians and certain licensed professionals, holding an ownership interest in an entity that employs physicians and certain licensed professionals or from engaging in certain financial arrangements, such as splitting professional fees with physicians and certain licensed professionals. The laws are intended to prevent unlicensed persons or entities from interfering with or inappropriately influencing a healthcare provider's professional judgment. The extent to which each state considers particular actions or contractual relationships to constitute improper influence of professional judgment varies across the states and is subject to change and to evolving interpretations by state boards of medicine and professional counselors and therapists, and state attorneys general, among others. As such, we must monitor our compliance with applicable laws in every jurisdiction in which we operate on an ongoing basis and we cannot guarantee that subsequent interpretation of the corporate practice of medicine or fee splitting laws will not circumscribe our business operations.

TPN contracts with therapists and other licensed professionals or enters into agreements with the PC entities, physicians, therapists and other licensed professionals for the clinical and professional services provided to our members. We do not own TPN or the PC entities; TPN and the PC entities are 100% owned by an independent licensed physician qualified to own TPN and such professional entities in the respective states of incorporation. A material change in our relationship with TPN or among TPN and the contracted professional entities, whether resulting from a dispute among the entities, a change in government regulation, or the loss of these affiliations, could impair our ability to provide services to members as we intend under the transitioned structure and could have a material adverse effect on our business, financial condition, and results of operations.

State corporate practice of medicine doctrines also often impose penalties on physicians themselves for aiding the corporate practice of medicine, which could discourage physicians from participating in our network of providers. Due to the prevalence of the corporate practice of medicine doctrine, including in states where we conduct our business, we are subject to related agreements with TPN. One such agreement is a management services agreement with TPN, pursuant to which TPN reserves exclusive control and responsibility for all aspects of the practice of medicine and the delivery of medical services and we provide non-clinical management and administrative services in exchange for a management fee. The PC entities, physicians, therapists and other licensed professionals who provide clinical and professional services to our members through contracts with TPN also retain exclusive control and responsibility for all aspects of medical services provided to our members. Although we seek to substantially comply with applicable state prohibitions on the corporate practice of medicine and fee splitting, state officials who administer these laws or other third parties may successfully challenge our organization and contractual arrangements with our providers once implemented. If such a claim were successful, we could be subject to civil and criminal penalties and could be required to restructure or terminate the applicable contractual arrangements. A determination that these arrangements violate state statutes, or our inability to successfully restructure our relationships with our providers to comply with these statutes, could eliminate clients located in certain states from the market for our services. Furthermore, these arrangements could subject us to additional scrutiny by federal and state regulatory bodies regarding federal and state fraud and abuse laws. Any scrutiny, investigation, adverse determination or litigation with regard to our arrangements with TPN and the PC entities could have a material adverse effect on our business, financial condition, and results of operations.

The impact on us of ongoing healthcare legislation and other changes in the healthcare industry and in healthcare spending is currently unknown, but may adversely affect our business, financial condition and results of operations.

The impact on us of healthcare reform legislation and other changes in the healthcare industry and in healthcare spending is currently unknown, but may adversely affect our business, financial condition and results of operations. Our revenue is dependent on the healthcare industry and could be affected by changes in healthcare spending, reimbursement and policy. The healthcare industry is subject to changing political, regulatory and other influences. The ACA made major changes in how healthcare is delivered and reimbursed, and it increased access to health insurance benefits to the uninsured and underinsured population of the United States.

Since its enactment, there have been judicial and Congressional challenges to certain aspects of the ACA. It is uncertain the extent to which any such changes may impact our business or financial condition.

Other legislative changes have been proposed and adopted since the ACA was enacted. These changes include aggregate reductions to Medicare payments to providers of up to 2% per fiscal year pursuant to the Budget Control Act of 2011 and subsequent laws, which began in 2013 and will remain in effect through 2030, with the exception of a temporary suspension from May 1, 2020 through March 31, 2022, unless additional Congressional action is taken. In January 2013, the American Taxpayer Relief Act of 2012 was signed into law, which, among other things, further reduced Medicare payments to several types of providers, including hospitals, imaging centers and cancer treatment centers, and increased the statute of limitations period for the government to recover overpayments to providers from three to five years. New laws may result in additional reductions in Medicare and other healthcare funding, which may materially adversely affect consumer demand and affordability for our products and services and, accordingly, the results of our financial operations. Additional changes that may affect our business include the expansion of new programs such as Medicare payment for performance initiatives for physicians under the Medicare Access and CHIP Reauthorization Act of 2015 (MACRA) which first affected physician payment in 2019. At this time, it is unclear how the introduction of the Medicare quality payment program will impact overall physician reimbursement.

In addition, in 2022, the No Surprises Act went into effect to prevent surprise medical bills to non-federal healthcare program patients. Such changes in the regulatory environment may also result in changes to our payer mix that may affect our operations and revenue. In addition, certain provisions of the ACA authorize voluntary demonstration projects, which include the development of bundling payments for acute, inpatient hospital services, physician services and post-acute services for episodes of hospital care. Further, the ACA may adversely affect payers by increasing medical costs generally, which could have an effect on the industry and potentially impact our business and revenue as payers seek to offset these increases by reducing costs in other areas. Certain of these provisions are still being implemented and the full impact of these changes on us cannot be determined at this time.

Uncertainty regarding future amendments to the ACA as well as new legislative proposals to reform healthcare and government insurance programs, along with the trend toward managed healthcare in the United States, could result in reduced demand and prices for our services. We expect that additional state and federal healthcare reform measures will be adopted in the future, any of which could limit the amounts that federal and state governments and other third-party payers will pay for healthcare products and services, which could adversely affect our business, financial condition and results of operations.

We conduct business in a heavily regulated industry and if we fail to comply with these laws and government regulations, we could incur penalties or be required to make significant changes to our operations or experience adverse publicity, which could have a material adverse effect on our business, financial condition, and results of operations.

Although our services are not currently reimbursed by government healthcare programs such as Medicare or Medicaid, any future reimbursement from federal and/or state healthcare programs could expose our business to broadly applicable fraud and abuse laws and other healthcare laws and regulations that would regulate the business. As we enter the teen mental health market, it will encounter parental consent rules and regulations that vary by state, creating another level of compliance risks. The U.S. healthcare industry is heavily regulated and closely scrutinized by federal and state governments. Comprehensive statutes and regulations govern the manner in which we and our affiliated professional entities may provide and bill for services and collect reimbursement from governmental programs and private payers, our contractual relationships with TPN and its corresponding relationship with its contracted providers, vendors and clients, our marketing activities and other aspects of our operations.

For a summary of the potential applicable U.S. federal and state healthcare laws, see, “Item 1. Business – U.S. Regulation.”

Because of the breadth of these laws and the need to fit certain activities within one of the statutory exceptions and safe harbors available, it is possible that some of our business activities could be subject to challenge under one or more of such laws. Achieving and sustaining compliance with these laws may prove costly. Failure to comply with these laws and other laws can result in civil and criminal penalties such as fines, damages, overpayment recoupment, loss of enrollment status and, if in the future we provide services reimbursable by government healthcare programs, exclusion from the Medicare and Medicaid programs. The risk of our being found in violation of these laws and regulations is increased by the fact that many of them have not been fully interpreted by the regulatory authorities or the courts, and their provisions are sometimes open to a variety of interpretations. Our failure to accurately anticipate the application of these laws and regulations to our business or any other failure to comply with regulatory requirements could create liability for us and negatively affect our business. Any action against us for violation of these laws or regulations, even if we successfully defend against it, could cause us to incur significant legal expenses, divert our management’s attention from the operation of our business and result in adverse publicity.

The laws, regulations and standards governing the provision of healthcare services may change significantly in the future. We cannot assure you that any new or changed healthcare laws, regulations or standards will not materially adversely affect our business. We cannot assure you that a review of our business by judicial, law enforcement, regulatory or accreditation authorities will not result in a determination that could adversely affect our operations.

Failure by us, our employees, affiliates, partners or others with whom we work to comply with applicable laws and regulations could result in administrative, civil, commercial or criminal liabilities, including exclusion from participation in government healthcare programs, including Medicare and Medicaid. Any such penalties could have a material adverse effect on our reputation, our ability to compete for other contracts and our financial position, results of operations and/or cash flows.

Our use and disclosure of personal information, including PHI, personal data, and other health information, is subject to state, federal or other privacy and security regulations, and our failure to comply with those regulations or to adequately secure the information we hold could result in significant liability or reputational harm and, in turn, a material adverse effect on our client base and member bases and revenue.

The privacy and security of personal information stored, maintained, received or transmitted electronically is an enforcement priority in the United States and internationally. While we strive to comply with all applicable privacy and security laws and regulations, as well as our own posted privacy policies and legal standards for privacy, any failure or perceived failure to comply with such requirements may result in proceedings or actions against us by government entities or private parties, or could cause us to lose clients or members, any of which could have a material adverse effect on our business. Recently, there has been an increase in public awareness of privacy issues in the wake of revelations about the activities of various government agencies and in the number of private privacy-related lawsuits filed against companies. Any allegations about our practices with regard to the collection, use, disclosure, or security of personal information or other privacy-related matters, even if unfounded and even if we are in compliance with applicable laws, could damage our reputation and harm our business.

In the United States, numerous federal and state laws and regulations govern collection, storage, dissemination, use, retention, transfer, disposal, security and confidentiality of personal information, including HIPAA; U.S. state privacy, security and breach notification and healthcare information laws; the California Consumer Protection Act ("CCPA"); and other data protection laws.

HIPAA requires us to maintain policies and procedures governing PHI that are used or disclosed, and to implement administrative, physical and technical safeguards to protect PHI, including PHI maintained, used and disclosed in electronic form. Ongoing implementation and oversight of these measures involves significant time, effort and expense.

HIPAA also requires that patients be notified of any unauthorized acquisition, access, use or disclosure of their unsecured PHI that compromises the privacy or security of such information, with certain exceptions related to unintentional or inadvertent use or disclosure by employees or authorized individuals. Further, if a breach affects 500 patients or more, it must be reported to the U.S. Department of Health and Human Services Office ("HHS") without unreasonable delay, and HHS will post the name of the breaching entity on its public web site. Breaches affecting 500 patients or more in the same state or jurisdiction must also be reported to the local media. If a breach involves fewer than 500 people, the covered entity must record it in a log and notify HHS at least annually.

Entities that are found to be in violation of HIPAA as the result of a breach of unsecured PHI or following a complaint about privacy practices or an audit by HHS, may be subject to significant civil, criminal and administrative fines and penalties and/or additional reporting and oversight obligations if required to enter into a resolution agreement and corrective action plan with HHS to settle allegations of HIPAA non-compliance. HIPAA also authorizes state attorneys general to file suit on behalf of their residents and HIPAA's standards have been used as the basis for duty of care in state civil suits such as those for negligence or recklessness in the misuse or breach of PHI. Any such penalties or lawsuits could harm our business, financial condition, results of operations and prospects.

In addition to HIPAA, the U.S. federal government and various states and governmental agencies have adopted or are considering adopting various laws, regulations and standards regarding the collection, use, retention, security, disclosure, transfer and other processing of sensitive and personal information, to which we are or may become subject. For example, California implemented the California Consumer Privacy Act, or CCPA, which came into effect in 2020, and the California Privacy Rights Act ("CPRA"), which came into effect on January 1, 2023, which we are subject. The CCPA imposes obligations and restrictions on businesses regarding their collection, use, processing, retaining and sharing of personal information and provides new and enhanced data privacy rights to California residents. Protected health information that is subject to HIPAA is excluded from the CCPA; however, information we hold about individual residents of California that is not subject to HIPAA would be subject to the CCPA. The CPRA significantly amends and expands the CCPA, including by providing consumers with additional rights with respect to their personal information. The CPRA also creates a new state agency that will be vested with authority to implement and enforce the CCPA and the CPRA. We expect states to continue to enact legislation similar to the CCPA and CPRA that provides consumers with new privacy rights and increases the privacy and security obligations of entities handling certain personal information of such consumers. Laws similar to the CCPA and CPRA have passed in Virginia and Colorado, and have been proposed in other states and at the federal level, reflecting a trend toward more stringent privacy legislation in the United States.

Moreover, we are subject to certain other state laws such as the California Confidentiality of Medical Information Act, which imposes restrictive requirements regulating the use and disclosure of health information and other personal information. Such laws and regulations are not necessarily preempted by HIPAA, particularly if a state affords greater protection to individuals than HIPAA. Where state laws are more protective, we have to comply with the stricter provisions. Further, in addition to fines and penalties imposed upon violators, some of these state laws, such as the CCPA, also afford private rights of action to individuals who believe their personal information has been misused.

In the aggregate, state-based data privacy and security laws and regulations may impact our business. All of these evolving compliance and operational requirements impose significant costs that are likely to increase over time, may require us to modify our data processing practices and policies, divert resources from other initiatives and projects could restrict the way services involving data are offered and could subject us to additional liabilities, all of which may adversely affect our results of operations, business, and financial condition.

Furthermore, there are numerous foreign laws, regulations and directives regarding privacy and the collection, storage, transmission, use, processing, disclosure and protection of personal information, the scope of which is continually evolving and subject to differing interpretations. If we provide services to users outside the United States, we may be subject to such laws, regulations, directives and obligations in relation to processing of personal information, and we may be subject to significant consequences, including penalties, fines and contractual liability, for our failure to comply. We are subject to the EU GDPR and the UK data privacy regime consisting primarily of the UK General Data Protection Regulation and the UK Data Protection Act 2018 (the "UK GDPR") (the EU GDPR and the UK GDPR, collectively the "GDPR"), which impose a strict data protection compliance regime including stringent data protection requirements. EU Member States and the UK are also able to legislate separately on sensitive data (i.e., mental health), and we must comply with these local laws where we offer our services.

The GDPR also imposes strict rules on the transfer of personal data out of the EEA and the UK, including to the United States. The European Commission has published revised standard contractual clauses for data transfers from the EEA: the revised clauses must be used for relevant new data transfers from September 27, 2021; existing standard contractual clauses arrangements must be migrated to the revised clauses by December 27, 2022. We will be required to implement the revised standard contractual clauses within the relevant time frames. The revised standard contractual clauses apply only to the transfer of personal data outside of the EEA and not the UK; the UK's Information Commissioner's Office launched a public consultation on its draft revised data transfers mechanisms in August 2021. We continue to monitor updates and we may be required to implement new or revised documentation and processes in relation to our data transfers subject to the UK GDPR, within the relevant time frames. As supervisory authorities issue further guidance on data export mechanisms, including circumstances where the standard contractual clauses cannot be used, and/or start taking enforcement action, we could suffer additional costs, complaints and/or regulatory investigations or fines, and/or if we are otherwise unable to transfer personal information between and among countries and regions in which we operate, it could affect the manner in which we provide our services, the geographical location or segregation of our relevant systems and operations, and could adversely affect our financial results.

The relationship between the UK and the EU in relation to certain aspects of data protection law, particularly transfers of personal data, remains unclear following the UK's departure from the EU on January 1, 2021, and it is unclear how UK data protection laws and regulations will develop in the medium to longer term, and how data transfers to and from the UK will be regulated in the long term. These changes will lead to additional costs and increase our overall risk exposure.

Failure to comply with the requirements of the GDPR may result in fines of up to €20,000,000/ £17.5 million or up to 4% of our total worldwide annual revenue for the preceding financial year, whichever is higher. In addition, a breach of the GDPR could result in regulatory investigations, reputational damage, orders to cease/ change our processing of our data, enforcement notices, and/ or assessment notices (for a compulsory audit). We may also face civil claims including representative actions and other class action type litigation (where individuals have suffered harm), potentially amounting to significant compensation or damages liabilities, as well as associated costs, diversion of internal resources, and reputational harm.

We also publish statements to our clients and members that describe how we handle and protect personal information. If federal or state regulatory authorities or private litigants consider any portion of these statements to be inaccurate, incomplete, or not fully implemented, we may be subject to claims of deceptive practices or other violation of law, which could lead to significant liabilities and consequences, including, without limitation, costs of responding to investigations, defending against litigation, settling claims and complying with regulatory or court orders.

Because of the breadth of these laws and the narrowness of their exceptions and safe harbors, it is possible that our business activities can be subject to challenge under one or more of such laws. The applicability, scope and enforcement of each of these laws is uncertain and subject to rapid change in the current environment of healthcare reform. Federal, state and foreign enforcement bodies have recently increased their scrutiny of interactions between healthcare companies and healthcare providers and of processing of health data generally, which has led to a number of investigations, prosecutions, convictions and settlements in the healthcare industry. Any such investigations, prosecutions, convictions or settlements could result in significant financial penalties, damage to our brand and reputation, and a loss of clients and/or members, any of which could have an adverse effect on our business.

In addition, any significant change to applicable laws, regulations or industry practices regarding the collection, use, retention, security or disclosure of our users' personal information content, or regarding the manner in which the express or implied consent of users for the collection, use, retention or disclosure of such content is obtained, could increase our costs and require us to modify our services and features, possibly in a material manner, which we may be unable to complete and may limit our ability to store and process users' personal information data or develop new services and features. Any of the foregoing could harm our competitive position, business, financial condition, results of operations and prospects.

We may be exposed to compliance obligations and risks under anti-corruption, export controls and economic sanctions laws and regulations of the United States and applicable non-U.S. jurisdictions, and any instances of noncompliance could have a material adverse effect on our reputation and the results of our operations.

Although we have limited international operations, we may be or may become subject to compliance obligations under anti-corruption laws and regulations imposed by governmental authorities around the world with jurisdiction over our operations. As a U.S. corporation, we are subject to the regulations imposed by the FCPA, which generally prohibits U.S. companies and their intermediaries from making improper payments to foreign officials for the purpose of obtaining or maintaining business. As a result, the Company faces the risk that an unauthorized payment or offer of payment could be made by one of its employees or intermediaries, even if such parties are not always subject to the Company's control or are not themselves subject to the FCPA or other similar laws to which the Company may be subject. Any allegation or determination that the Company has violated the FCPA (or any other applicable anti-bribery laws in countries in which the Company does business, including the U.K. Bribery Act 2010) could have a material adverse effect on the Company's business, financial position, results of operations, cash flows and prospects.

RISKS RELATED TO OUR INTELLECTUAL PROPERTY

Any failure to protect, enforce or defend our intellectual property rights could impair our ability to protect our technology and our brand.

Our success depends in part on our ability to maintain, protect and enforce our intellectual property and other proprietary rights. We rely upon a combination of trademark, patent and trade secret laws, as well as license and access agreements and other contractual provisions, to protect our intellectual property rights. These laws, procedures and agreements provide only limited protection and any of our intellectual property rights may be challenged, invalidated, circumvented, infringed, diluted or misappropriated.

We attempt to protect our intellectual property and proprietary information by requiring our employees, consultants and certain of our contractors to execute confidentiality and assignment of inventions agreements. However, we may not obtain these agreements in all circumstances, and individuals with whom we have these agreements may not comply with their terms. The assignment of intellectual property rights under these agreements may not be self-executing or the assignment agreements may be breached, and we may be forced to bring claims against third parties, or defend claims that they may bring against us, to determine the ownership of what we regard as our intellectual property. In addition, we may not be able to prevent the unauthorized disclosure or use of our technical know-how or other trade secrets by the parties to these agreements despite the existence generally of confidentiality agreements and other contractual restrictions.

Monitoring unauthorized uses and disclosures is difficult and we do not know whether the steps we have taken to protect our proprietary technologies will be effective. Additionally, if a competitor lawfully obtains or independently develops the technology we maintain as a trade secret, we would have no right to prevent such competitor from using that technology or information to compete with us, which could harm our competitive position.

In addition, we use open-source software in connection with our proprietary software and expect to continue to use open-source software in the future. Some open-source licenses require licensors to provide source code to licensees upon request or prohibit licensors from charging a fee to licensees. While we try to insulate our proprietary code from the effects of such open-source license provisions, we cannot guarantee we will be successful. Accordingly, we may face claims from others claiming ownership of, or seeking to enforce the license terms applicable to such open-source software, including by demanding release of the open-source software, derivative works or our proprietary source code that was developed or distributed with such software. These claims could also result in litigation, require us to purchase a costly license or require us to devote additional research and development resources to change our software, any of which would have a negative effect on our business and results of operations. In addition, if the license terms for the open-source code change, we may be forced to re-engineer our software or incur additional costs. We cannot assure you that we have not incorporated open-source software into our proprietary software in a manner that may subject our proprietary software to an open-source license that requires disclosure, to clients or members or the public, of the source code to such proprietary software. Any such disclosure would have a negative effect on our business and the value of our proprietary software.

Third parties may challenge the validity of our trademarks and patents or oppose trademark and patent applications. Companies with other patents could require us to stop using or pay to use required technology.

We rely on our trademarks, trade name and brand names to distinguish our products and services from the products and services of our competitors, and we have registered or applied to register many of these trademarks. In the event that our trademarks are successfully challenged, we could be forced to rebrand products or services, which could result in time and expense to re-program our software and websites, loss of brand recognition, and could require us to devote resources to advertising and marketing new brands.

We have applied for, and intend to continue to apply for, patents relating to our software and technology. Such applications may not result in the issuance of any patents, and any patents that may be issued may not provide adequate protection from competition. Furthermore, because the issuance of a patent is not conclusive as to its inventorship, scope, validity or enforceability, it is possible that patents issued to us may be challenged successfully and found to be invalid or unenforceable in the future. If we are unable to secure or maintain patent coverage, our technology could become subject to competition from the sale of similar competing products.

Competitors may also be able to design around our now held or later issued patents. Changes in either the patent laws or interpretation of the patent laws in the United States and other countries may diminish the value of such patents or narrow the scope of our patent protection. If these developments were to occur, we could face increased competition.

From time to time, patents issued to us relating to our software and technology may be infringed by the products or processes of others. The cost of enforcing patent rights against infringers, if such enforcement is required, could be significant and the time demands could interfere with our normal operations. Efforts to defend our intellectual property rights could incur significant costs and may or may not be resolved in our favor. If we fail to successfully enforce our intellectual property rights, our competitive position could suffer, which could harm our operating results. Regardless of the outcome, the cost and distraction associated with any such enforcement efforts could harm our business.

We could incur substantial costs as a result of any claim of infringement of another party's intellectual property rights.

We could become a party to intellectual property litigation and other infringement proceedings. The cost to us of any intellectual property litigation or other infringement or misappropriation proceeding, even if resolved in our favor, could be substantial. Some of our would-be competitors may sustain the costs of such litigation more effectively than we can because of their greater financial resources.

Regardless of the merits of any intellectual property litigation, we may be required to expend significant management time and financial resources on the defense of such claims, and any adverse outcome of any such claim or the above referenced review could have a material adverse effect on our business, financial condition or results of operations. We expect that we may receive in the future notices that claim we or our clients using our solution have misappropriated, misused or otherwise infringed other parties' intellectual property rights, particularly as the number of competitors in our market grows and the functionality of applications amongst competitors overlaps. Our existing, or any future, litigation, whether or not successful, could be extremely costly to defend, divert our management's time, attention and resources, damage our reputation and brand and substantially harm our business.

We employ individuals who were previously employed at other companies in our field, including our competitors or potential competitors. Although we try to ensure that our employees and consultants do not use the proprietary information or know-how of others in their work for us, we may be subject to claims that we or our employees, consultants or independent contractors have inadvertently or otherwise used or disclosed intellectual property, including trade secrets or other proprietary information, of a former employer or other third parties. Litigation may be necessary to defend against these claims. If we fail in defending any such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel. Additionally, in connection with such litigation, our use of such intellectual property could be temporarily or permanently enjoined forcing us to stop using such intellectual property altogether. Even if we are successful in defending against such claims, litigation could result in substantial costs and be a distraction to management and other employees.

In addition, in most instances, we have agreed to indemnify our clients against certain third-party claims, which may include claims that our solution infringes the intellectual property rights of such third parties. Our business could be adversely affected by any significant disputes between us and our clients as to the applicability or scope of our indemnification obligations to them. The results of any intellectual property litigation to which we may become a party, or for which we are required to provide indemnification, may require us to do one or more of the following:

- cease offering or using technologies that incorporate the challenged intellectual property;
- make substantial payments for legal fees, settlement payments or other costs or damages;

If we are required to make substantial payments or undertake any of the other actions noted above as a result of any intellectual property infringement claims against us or any obligation to indemnify our clients for such claims, such payments or costs could have a material adverse effect on our business, financial condition and results of operations.

Our proprietary software may not operate properly, which could damage our reputation, give rise to claims against us or divert application of our resources from other purposes, any of which could harm our business, financial condition and results of operations.

Proprietary software development is time-consuming, expensive and complex, and may involve unforeseen difficulties. We encounter technical obstacles from time to time, and it is possible that we may discover additional problems that prevent our proprietary applications from operating properly. If our solution does not function reliably or fails to achieve client expectations in terms of performance, clients could assert liability claims against us or attempt to cancel their contracts with us. This could damage our reputation and impair our ability to attract or maintain clients. Moreover, data services are complex and those we offer have in the past contained, and may in the future develop or contain, undetected defects or errors. Material performance problems, defects or errors in our existing or new software-based products and services may arise in the future and may result from the interface of our solution with systems and data that we did not develop and the function of which is outside of our control or from issues undetected in our testing. These defects and errors, and any failure by us to identify and address them, could result in loss of revenue or market share, diversion of development resources, harm to our reputation and increased service and maintenance costs. Defects or errors may discourage existing or potential clients from purchasing our solution from us. Correction of defects or errors could prove to be impossible or impracticable. The costs incurred in correcting any defects or errors may be substantial and could have a material adverse effect on our business, financial condition and results of operations.

We may enter into collaborations, in-licensing arrangements, joint ventures, strategic alliances or partnerships with third-parties that may not result in the development of commercially viable solutions or the generation of significant future revenues.

In the ordinary course of our business, we may enter into collaborations, in-licensing arrangements, joint ventures, strategic alliances, partnerships or other arrangements to develop products and to pursue new markets. Proposing, negotiating and implementing collaborations, in-licensing arrangements, joint ventures, strategic alliances or partnerships may be a lengthy and complex process. Other companies, including those with substantially greater financial, marketing, sales, technology or other business resources, may compete with us for these opportunities or arrangements. We may not identify, secure, or complete any such transactions or arrangements in a timely manner, on a cost-effective basis, on acceptable terms or at all. We have limited institutional knowledge and experience with respect to these business development activities, and we may also not realize the anticipated benefits of any such transaction or arrangement.

In particular, these collaborations may not result in the development of products that achieve commercial success or result in significant revenues and could be terminated prior to developing any products. Additionally, we may not own, or may jointly own with a third party, the intellectual property rights in products and other works developed under our collaborations, joint ventures, strategic alliances or partnerships.

If any conflicts arise with any future collaborators, they may act in their self-interest, which may be adverse to our best interest, and they may breach their obligations to us. In addition, we may have limited control over the amount and timing of resources that any future collaborators devote to our or their future products. Disputes between us and our collaborators may result in litigation or arbitration which would increase our expenses and divert the attention of our management. Further, these transactions and arrangements will be contractual in nature and will generally be terminable under the terms of the applicable agreements and, in such event, we may not continue to have rights to the products relating to such a transaction or arrangement or may need to purchase such rights at a premium.

RISKS RELATED TO OWNERSHIP OF OUR COMMON STOCK, OUR WARRANTS AND OPERATING AS A PUBLIC COMPANY

We continue to incur costs and devote continued management time as a result of operating as a public company.

As a public company, we incur significant legal, accounting and other expenses that we did not incur as a private company. For example, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and are required to comply with the applicable requirements of the Sarbanes-Oxley Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act, as well as rules and regulations of the SEC and the Nasdaq Stock Market ("Nasdaq"), including the establishment and maintenance of disclosure and financial controls, changes in corporate governance practices and required filing of annual, quarterly and current reports with respect to our business and results of operations. Any failure to develop or maintain effective controls, or any difficulties encountered in their implementation or improvement could harm our results of operations or cause us to fail to meet our reporting obligations. Compliance with these requirements has increased our legal and financial compliance costs and made some activities more time-consuming and costly. In particular, we have incurred and expect to continue to incur expenses and devote continued management effort toward ensuring compliance with the requirements of Section 404 of the Sarbanes-Oxley Act.

If we fail to maintain effective internal control over financial reporting in the future, our ability to produce accurate and timely financial statements could be impaired, which may adversely affect investor confidence in us and, as a result, the value of our common stock.

As a public company, we are required to establish and maintain internal controls over financial reporting and, pursuant to Section 404 of the Sarbanes-Oxley Act, are required provide a report by management on, among other things, the effectiveness of our internal control over financial reporting for our annual reports on Form 10-K filed with the SEC. In addition, Section 404 of the Sarbanes-Oxley Act also generally requires an attestation from our independent registered public accounting firm on the effectiveness of our internal control over financial reporting.

Failure to maintain internal control over financial reporting could limit our ability to prevent or detect a misstatement of our financial results, limit our ability to report financial information on a timely and accurate basis, lead to a loss of investor confidence and have a negative impact on the trading price of our common stock and could subject us to sanctions or investigations by Nasdaq, the SEC or other regulatory authorities. A failure to implement and maintain effective control systems could also restrict our future access to the capital markets.

The Company's management identified material weaknesses in its internal controls over financial reporting for the year ended December 31, 2022. Though these material weaknesses were since remediated, it cannot be assumed that the Company will not have another material weakness in its internal controls over financial reporting in the future.

Moreover, the Company's internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumventions or overriding of controls or fraud. Even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. The existence of a material weakness could result in errors in the Company's financial statements that could result in a restatement of financial statements, which could cause the Company to fail to meet its reporting obligations, lead to a loss of investor confidence and have a negative impact on the trading price of the Company's common stock.

Delaware law and our organizational documents contain certain provisions, including anti-takeover provisions that limit the ability of stockholders to take certain actions and could delay or discourage takeover attempts that stockholders may consider favorable.

Our organizational documents and the Delaware General Corporation Law ("DGCL") contain provisions that could have the effect of rendering more difficult, delaying, or preventing an acquisition that stockholders may consider favorable, including transactions in which stockholders might otherwise receive a premium for their shares. These provisions could also limit the price that investors might be willing to pay in the future for shares of our common stock, and therefore depress the trading price of our common stock. These provisions could also make it difficult for stockholders to take certain actions, including electing directors who are not nominated by the current members of our board of directors or taking other corporate actions, including effecting changes in our management. Among other things, our organizational documents include the following provisions or features that may make the acquisition of our company more difficult:

- we have a classified board of directors with staggered, three-year terms;
- our board of directors is permitted to issue shares of preferred stock, including “blank check” preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquirer;
- the Certificate of Incorporation prohibits cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;
- the limitation of the liability of, and the indemnification of, our directors and officers;
- certain transactions are not “corporate opportunities” and the Identified Persons (as defined in the Certificate of Incorporation) are not subject to the doctrine of corporate opportunity and such Identified Persons do not have any fiduciary duty to refrain from engaging directly or indirectly in the same or similar business activities or lines of business as us;
- we are not governed by Section 203 of the DGCL and, instead, our Certificate of Incorporation includes a provision that is substantially similar to Section 203 of the DGCL, and acknowledges that certain stockholders cannot be “interested stockholders” (as defined in the Certificate of Incorporation);
- our board of directors has the ability to amend the bylaws, which may allow our board of directors to take additional actions to prevent an unsolicited takeover and inhibit the ability of an acquirer to amend the bylaws to facilitate an unsolicited takeover attempt; and
- our bylaws contain advance notice procedures with which stockholders must comply to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders’ meeting, which could preclude stockholders from bringing matters before annual or special meetings of stockholders and delay changes in our board of directors and also may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer’s own slate of directors or otherwise attempting to obtain control of us.

These provisions, alone or together, could delay or prevent hostile takeovers and changes in control or changes in our board of directors or management.

The provision of our certificate of incorporation requiring exclusive forum in certain courts in the State of Delaware or the federal district courts of the United States for certain types of lawsuits may have the effect of discouraging lawsuits against our directors and officers.

The Certificate of Incorporation requires, to the fullest extent permitted by law, that (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or stockholders to us or our stockholders, (iii) any action asserting a claim against us arising pursuant to any provision of the DGCL or the Certificate of Incorporation or our bylaws or (iv) any action asserting a claim against us governed by the internal affairs doctrine will have to be brought in a state court located within the state of Delaware (or if no state court of the State of Delaware has jurisdiction, the federal district court for the District of Delaware), in all cases subject to the court’s having personal jurisdiction over the indispensable parties named as defendants. The foregoing provisions do not apply to claims arising under the Securities Act, the Exchange Act or other federal securities laws for which there is exclusive federal or concurrent federal and state jurisdiction.

Additionally, unless we consent in writing to the selection of an alternative forum, the federal district courts of the United States of America shall be the exclusive forum for the resolution of any complaint asserting a cause of action arising under the Securities Act; provided, however, that our stockholders will not be deemed to have waived our compliance with the federal securities laws and the rules and regulations thereunder. The enforceability of similar choice of forum provisions in other companies’ organizational documents has been challenged in legal proceedings, and it is possible that, in connection with claims arising under federal securities laws, a court could find the choice of forum provisions contained in the Certificate of Incorporation to be inapplicable or unenforceable.

Although we believe these exclusive forum provisions benefit us by providing increased consistency in the application of Delaware law and federal securities laws in the types of lawsuits to which each applies, the exclusive forum provisions may limit a stockholder’s ability to bring a claim in a judicial forum that it finds favorable for disputes with us or any of our directors, officers or stockholders, which may discourage lawsuits with respect to such claims. Further, in the event a court finds either exclusive forum provision contained in the Certificate of Incorporation to be unenforceable or inapplicable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could harm our business, operating results and financial condition.

Future sales and resales of our common stock may cause the market price of our securities to drop significantly, even if our business is doing well.

Sales of a substantial number of shares of our common stock in the public market could occur at any time. These sales, or the perception in the market that the holders of a large number of shares intend to sell shares, could reduce the market price of our common stock. As restrictions on resale end and registration statements (to provide for the resale of such shares from time to time) are available for use, the sale or possibility of sale of these shares could have the effect of increasing the volatility in our share price or the market price of our common stock could decline if the holders of currently restricted shares sell them or are perceived by the market as intending to sell them.

In addition, we may issue additional common stock or other equity securities without the approval of investors, including for among other purposes to raise capital or pay for an acquisition, which would dilute investors' ownership interests and may depress the market price of our common stock.

An investor's percentage of ownership in the Company may be diluted in the future.

As with any publicly traded company, an investor's percentage ownership in the Company may be diluted in the future because of equity issuances for acquisitions, capital markets transactions, or other circumstances, including the equity awards that the Company has and will continue to grant its directors, officers and employees. Certain holders also have outstanding warrants to purchase shares of common stock that are exercisable in accordance with the terms of the Warrant Agreement governing those securities. To the extent such warrants are exercised, additional shares of common stock will be issued, which will result in dilution to the holders of our common stock and increase the number of shares eligible for resale in the public market. Sales of substantial numbers of such shares in the public market or the fact that such warrants may be exercised could adversely affect the market price of our common stock. However, there is no guarantee that the public warrants will ever be in the money prior to their expiration, and as such, the warrants may expire worthless.

We do not intend to pay cash dividends for the foreseeable future.

We currently intend to retain our future earnings, if any, to finance the further development and expansion of our business and do not intend to pay cash dividends in the foreseeable future. Any future determination to pay dividends will be at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements and future agreements and financing instruments, business prospects and such other factors as our board of directors deems relevant.

You may only be able to exercise your public warrants on a "cashless basis" under certain circumstances, and if you do so, you will receive fewer shares of common stock from such exercise than if you were to exercise such warrants for cash.

The Warrant Agreement provides that in the following circumstances holders of warrants who seek to exercise their warrants will not be permitted to do for cash and will, instead, be required to do so on a cashless basis in accordance with Section 3(a)(9) of the Securities Act: (i) if the common stock issuable upon exercise of the warrants are not registered under the Securities Act in accordance with the terms of the Warrant Agreement; (ii) if we have so elected and the common stock are at the time of any exercise of a warrant not listed on a national securities exchange such that they satisfy the definition of "covered securities" under Section 18(b)(1) of the Securities Act; and (iii) if we have so elected and we call the public warrants for redemption. If you exercise your public warrants on a cashless basis, you would pay the warrant exercise price by surrendering the warrants for that number of common stock equal to the quotient obtained by dividing (x) the product of the number of common stock underlying the warrants, multiplied by the excess of the "fair market value" of our common stock (as defined in the next sentence) over the exercise price of the warrants by (y) the fair market value. The "fair market value" is the average reported closing price of the common stock for the 10 trading days ending on the third trading day prior to the date on which the notice of exercise is received by the warrant agent or on which the notice of redemption is sent to the holders of warrants, as applicable. As a result, you would receive fewer shares of common stock from such exercise than if you were to exercise such warrants for cash.

We may amend the terms of the warrants in a manner that may be adverse to holders of public warrants with the approval by the holders of at least 50% of the then outstanding public warrants. As a result, the exercise price of your warrants could be increased, the exercise period could be shortened and the number of common stock purchasable upon exercise of a warrant could be decreased, all without your approval.

The Warrant Agreement provides that the terms of the warrants may be amended without the consent of any holder for, among other things, the purpose of adding or changing any provisions with respect to matters or questions arising under the Warrant Agreement as the parties to the Warrant Agreement may deem necessary or desirable and that the parties deem to not adversely affect the rights of the registered holders of the warrants, provided that the approval by the holders of at least 50% of the then-outstanding public warrants is required to make any change that adversely affects the interests of the registered holders of public warrants. Accordingly, we may amend the terms of the public warrants in a manner adverse to a holder of public warrants if holders of at least 50% of the then outstanding public warrants approve of such amendment. Although our ability to amend the terms of the public warrants with the consent of at least 50% of the then outstanding public warrants is unlimited, examples of such amendments could be amendments to, among other things, increase the exercise price of the warrants, convert the warrants into cash or shares, shorten the exercise period or decrease the number of common stock purchasable upon exercise of a warrant.

The Warrant Agreement designates the courts of the State of New York or the United States District Court for the Southern District of New York as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by holders of our warrants, which could limit the ability of warrant holders to obtain a favorable judicial forum for disputes with us.

The Warrant Agreement provides that, subject to applicable law, (i) any action, proceeding or claim against us arising out of or relating in any way to the warrant agreement, including under the Securities Act, will be brought and enforced in the courts of the State of New York or the United States District Court for the Southern District of New York, and (ii) that we irrevocably submit to such jurisdiction, which jurisdiction shall be the exclusive forum for any such action, proceeding or claim. We will waive any objection to such exclusive jurisdiction and that such courts represent an inconvenient forum.

Notwithstanding the foregoing, these provisions of the Warrant Agreement will not apply to suits brought to enforce any liability or duty created by the Exchange Act or any other claim for which the federal district courts of the United States of America are the sole and exclusive forum. Any person or entity purchasing or otherwise acquiring any interest in any of our warrants shall be deemed to have notice of and to have consented to the forum provisions in our Warrant Agreement. If any action, the subject matter of which is within the scope the forum provisions of the warrant agreement, is filed in a court other than a court of the State of New York or the United States District Court for the Southern District of New York (a "foreign action") in the name of any holder of our warrants, such holder shall be deemed to have consented to: (x) the personal jurisdiction of the state and federal courts located in the State of New York in connection with any action brought in any such court to enforce the forum provisions (an "enforcement action"), and (y) having service of process made upon such warrant holder in any such enforcement action by service upon such warrant holder's counsel in the foreign action as agent for such warrant holder. This choice-of-forum provision may limit a warrant holder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us, which may discourage such lawsuits. Alternatively, if a court were to find this provision of our Warrant Agreement inapplicable or unenforceable with respect to one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could materially and adversely affect our business, financial condition and results of operations and result in a diversion of the time and resources of our management and board of directors.

We may redeem your unexpired warrants prior to their exercise at a time that is disadvantageous to you, thereby making your warrants worthless.

We have the ability to redeem outstanding warrants at any time after they become exercisable and prior to their expiration, at a price of $0.01 per warrant, provided that the closing price of our common stock equals or exceeds $18.00 per share (as adjusted for stock splits, stock recapitalizations, reorganizations, recapitalizations and the like) for any 20 trading days within a 30 trading-day period ending on the third trading day prior to the date on which we give proper notice of such redemption to the warrants holders and provided certain other conditions are met. If and when the warrants become redeemable by us, we may exercise our redemption right even if we are unable to register or qualify the underlying securities for sale under all applicable state securities laws. Redemption of the outstanding warrants could force you to (i) exercise your warrants and pay the exercise price at a time when it may be disadvantageous for you to do so, (ii) sell your warrants at the then-current market price when you might otherwise wish to hold your warrants or (iii) accept the nominal redemption price which, at the time the outstanding warrants are called for redemption, is likely to be substantially less than the market value of your warrants. None of the private placement warrants will be redeemable by us so long as they are held by the Sponsor or its permitted transferees.

GENERAL RISK FACTORS

The price of our securities may be volatile.

The price of our securities may fluctuate due to a variety of factors, including:

- the success of competitive services or technologies;
- developments related to our existing or any future collaborations;
- regulatory or legal developments in the United States and other countries;
- developments or disputes concerning our intellectual property or other proprietary rights;
- the recruitment or departure of key personnel;
- actual or anticipated changes in estimates as to financial results, development timelines or recommendations by securities analysts;
- variations in our financial results or those of companies that are perceived to be similar to us;
- changes in the structure of healthcare payment systems;
- changes in the market's expectations about our operating results;
- the public's reaction to our press releases, other public announcements and filings with the SEC;
- speculation in the press or investment community;
- commencement of, or involvement in, litigation involving us;
- changes in our capital structure, such as future issuances of securities or the incurrence of additional debt;
- the volume of our securities available for public sale;
- changes in our board of directors or management;
- general economic, geopolitical industry and market conditions; and
- the other factors described in this "Risk Factors" section.

These market and industry factors may materially reduce the market price of our common stock and warrants regardless of our operating performance.

Economic uncertainties or downturns in the general economy or the industries in which our clients operate could disproportionately affect the demand for our solution and negatively impact our results of operations.

General worldwide economic and geopolitical conditions have experienced significant volatility during the last ten years, and market volatility and uncertainty remain widespread, making it potentially very difficult for our clients and us to accurately forecast and plan future business activities. The demand for our service is dependent on the general economy, which is in turn affected by geopolitical conditions and the stability of the global credit markets. The ongoing and potential future impacts of escalating global conflicts, including those between Russia and Ukraine and the Israel/Hamas war in the Middle East, has heightened global economic and geopolitical uncertainty. During challenging economic times, our clients may have difficulty gaining timely access to sufficient credit or obtaining credit on reasonable terms, which could impair their ability to make timely payments to us and adversely affect our revenue. If that were to occur, our financial results could be harmed. Further, challenging economic conditions may impair the ability of our clients to pay for the software-based products and services they already have purchased from us and, as a result, our write-offs of accounts receivable could increase. We cannot predict the timing, strength or duration of any economic slowdown or recovery. If the condition of the general economy or markets in which we operate worsens, our business could be harmed.

Relatedly, while we have a small back-office presence in Israel, none of our primary operations in the U.S. are dependent on those operations and we can use other locations and employees to fully supplement the work conducted in Israel.

We may need to raise additional capital in the future in order to execute our business plans, which may not be available on terms acceptable to us, or at all.

We have experienced recurring losses from operations, and negative cash flows at operations, and we expect our operating expenses will increase in the foreseeable future. We believe our cash and cash equivalents on hand following the Business Combination, together with cash we expect to generate from future operations, will be sufficient to meet our working capital and capital expenditure requirements in the near future. However, in the future we may still require additional capital to respond to technological advancements, competitive dynamics or technologies, customer demands, business opportunities, challenges, acquisitions or unforeseen circumstances and we may determine to engage in equity or debt financings or enter into credit facilities for other reasons. We may not be able to timely secure additional debt or equity financing on favorable terms, or at all. If we raise additional funds through the issuance of equity or convertible debt or other equity-linked securities, our existing stockholders could experience significant dilution. Any debt financing obtained by us in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to grow or support our business and to respond to business challenges could be significantly limited.

Changes in tax laws could adversely affect our operating results and financial condition.

We may be subject to changes in tax laws and have additional tax liabilities. We are subject to changes in tax laws, treaties or regulations and the interpretation or enforcement thereof in the United States and in jurisdictions in which we or any of our subsidiaries operate or are organized, and any such changes could have a material effect on our results of operations and liquidity. In October 2021, the Group of 20 endorsed a new global minimum tax rate for large multinational companies, which also has the support of a large number of countries and territories responsible for the overwhelming majority of global economic output. To take effect, the minimum tax would need to be implemented by each jurisdiction. It is not yet clear how such a minimum tax would impact our business. The Tax Cuts and Jobs Act of 2017 ("Tax Reform Act") adopted sweeping changes to the U.S. Internal Revenue Code which also could have a material adverse effect on our financial condition and results of operations. In addition to lowering the U.S. corporate income tax rate and numerous other changes, the law imposes more stringent limitations on the deductibility of net operating losses and imposes a type of minimum tax designed to reduce the benefits derived from intercompany transactions and payments that result in base erosion. Although the Tax Reform Act has not had a material effect on our financial statements to date, if these tax laws, treaties or regulations change or any tax authority successfully challenges our assessment of the effects of such laws, treaties and regulations it could have a material adverse effect on us, resulting in a higher effective tax rate on our consolidated earnings or a reclassification of the tax effects of our significant corporate restructuring transactions. On August 16, 2022, the Inflation Reduction Act ("IRA") was signed into law in the United States. Among other provisions, the IRA includes a 15% corporate minimum tax rate applied to certain large corporations and a 1% excise tax on corporate stock repurchases made after December 31, 2022. The IRA has not had a material impact to the Company thus far.

If we fail to comply with the continued listing requirements of the Nasdaq Stock Market, it could result in our common stock being delisted, which could adversely affect the market price and liquidity of our securities and could have other adverse effects.

Our common stock is currently listed for trading on The Nasdaq Capital Market. We must satisfy Nasdaq's continued listing requirements or risk possibly delisting, which would have a material adverse effect on our business. In November 2022, we received a letter from the Listing Qualifications staff of Nasdaq indicating that we no longer met the requirement of the Nasdaq Global Select Market to maintain a minimum bid price of $1 per share, as set forth in Nasdaq Listing Rule 5450(a)(1). In June 2023, we regained compliance with Nasdaq Listing Rule 5450(a)(1). Though we regained compliance, there is no guarantee will be able to maintain it going forward.

We may be subject to securities and/or other litigation, which is expensive, time-consuming and could divert management attention.

The market price of our securities may be volatile and, in the past, companies that have experienced volatility in the market price of their securities have been subject to securities class action litigation. We may face allegations or litigation related to, among other things, securities issuances or business practices. For example, in the past, putative class action lawsuits have been filed by certain of our shareholders against us and certain of our current and former officers and directors alleging certain violations of the federal securities laws in connection with certain statements we have made regarding our business and financial condition.

See Note 6, "Commitments and Contingent Liabilities" in the notes to the consolidated financial statements for further details. Additionally, we may become subject, from time to time, to other legal proceedings, payor audits, investigations, and claims that arise in the ordinary course of business such as claims brought by our clients in connection with commercial disputes or employment claims made by our current or former associates. Litigation disputes, including the disputes we are currently facing, could cause us to incur unforeseen expenses, result in content unavailability, and otherwise occupy a significant amount of our management's time and attention, any of which could negatively affect our business operations and financial position. While the ultimate outcome of investigations, inquiries, information requests and legal proceedings is difficult to predict, such matters can be expensive, time-consuming and distracting, and adverse resolutions or settlements of those matters may result in, among other things, modification of our business practices, reputational harm or costs and significant payments, any of which could negatively affect our business operations and financial position. Insurance may not cover such claims, may not provide sufficient payments to cover all of the costs to resolve one or more such claims and may not continue to be available on terms acceptable to us. A claim brought against us that is uninsured or underinsured could result in unanticipated costs, thereby reducing our earnings and leading analysts or potential investors to reduce their expectations of our performance, which could reduce the market price of our stock.

Reports published by analysts, including projections in those reports that differ from our actual results, could adversely affect the price and trading volume of our common stock.

Securities research analysts may establish and publish their own periodic projections for our business. These projections may vary widely and may not accurately predict the results we actually achieve. Our share price may decline if our actual results do not match the projections of these securities research analysts. Similarly, if one or more of the analysts who write reports on us downgrades our stock or publishes inaccurate or unfavorable research about our business, our share price could decline. If one or more of these analysts ceases coverage of us or fails to publish reports on us regularly, our securities price or trading volume could decline. While we expect to receive research analyst coverage, if no analysts commence coverage of us, the market price and volume for our securities could be adversely affected.

We could experience losses or liability not covered by insurance.

Our business exposes us to risks that are inherent in the provision of virtual behavioral healthcare. If clients, members or other individuals assert liability claims against us, any ensuing litigation, regardless of outcome, could result in a substantial cost to us, divert management's attention from operations, and decrease market acceptance of our solution. We attempt to limit our liability to clients and members by contract; however, the limitations of liability set forth in the contracts may not be enforceable or may not otherwise protect us from liability for damages. Additionally, we may be subject to claims that are not explicitly covered by contract. We also maintain general liability coverage; however, this coverage may not continue to be available on acceptable terms, may not be available in sufficient amounts to cover one or more large claims against us, and may include larger self-insured retentions or exclusions for certain products. In addition, the insurer might disclaim coverage as to any future claim. A successful claim not fully covered by our insurance could have a material adverse impact on our liquidity, financial condition, and results of operations.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 1C. CYBERSECURITY

Risk Management and Strategy

Talkspace recognizes the importance of assessing, identifying, and managing material risks associated with cybersecurity threats as a vital component to the success of our business. We have established policies and processes for assessing, identifying, and managing the material risk from cybersecurity threats which may include, among other things, operational risks; fraud; extortion; harm to our business, employees or customers; violation of privacy or security laws and other litigation and legal risk; and reputational risks.

We routinely assess material risks from cybersecurity threats, which include unauthorized access to our information systems that may result in adverse effects on the confidentiality, integrity, or availability of such systems or any information residing therein. Our process for identifying and assessing material risks from cybersecurity threats operates alongside our broader overall risk assessment process, covering all company risks. For additional information regarding risks from cybersecurity threats, please refer to Item 1A, "Risk Factors," in this annual report on Form 10-K.

We also have a cybersecurity specific risk assessment process, which helps identify residual risk from cybersecurity threats. We have adopted the HITRUST CSF Assurance Program for Cloud assessment to inform this risk assessment process. Our risk assessments include the identification of reasonably foreseeable internal and external information security and cybersecurity risks, the likelihood that such events may occur and the impact or potential damage that could result from such risks. The assessments examine the adequacy of our policies, procedures, systems, and the safeguards in place to manage and mitigate the identified risks. The impact of these assessments is the refinement of existing safeguards and the implementation of new safeguards to improve our cybersecurity protections; reasonably address any identified gaps in existing safeguards; and ensure that we regularly monitor the effectiveness of those safeguards.

As part of the above processes, we engage with a third-party to review our information security program and related cybersecurity safeguards to help identify areas for continued focus, improvement, and/or compliance. Along with these third parties we ensure that the appropriate personnel collaborate with subject matter specialists, as necessary, to gather insights for identifying and assessing material cybersecurity threat risks, their impact and potential mitigations. We have implemented the following activities (among others) to mitigate risk:

- Periodic risk assessments to identify and assess cybersecurity risks and vulnerabilities in our information technology systems;
- Running simulated cybersecurity drills, which are performed both in-house and by the third-party service provider, including vulnerability scanning, penetration testing and disaster recovery exercises;
- background checks prior to hire;
- encryption of data at rest and in transit;
- logging and event monitoring;
- threat detection to monitor for malicious activity and anomalous behavior;
- malware protection and restricting connections to malicious websites;
- data loss protection mechanisms;
- third party penetration testing;
- cybersecurity risk assessments of our third-party vendors;
- reviews by internal and external audit of the effectiveness of information security-related internal controls;
- closely monitor emerging data protection laws and implement changes to our processes designed to comply as needed; and
- carry information security risk insurance that provides protection against the potential losses arising from a cybersecurity incident.

Our incident response plan, as effected by management, coordinates the activities we take to prepare for, detect, contain, eradicate, and recover from cybersecurity incidents as well as to comply with potentially applicable legal obligations and mitigate brand and reputational damage. The incident response plan also outlines the appropriate communication flow and response for certain categories of potential cybersecurity incidents. The Chief Technology Officer escalates material events, including to the Chief Executive Officer and Board.

We require all employees to participate in cybersecurity awareness, privacy, security training annually and provide system-wide mechanisms to report potential threats. In addition, we use a third-party phishing awareness vendor to increase employee awareness of cybersecurity threats.

Our processes also address cybersecurity threat risks associated with our use of third-party service providers. Third-party risks are included within our broader overall risk assessment process, as well as our cybersecurity-specific risk identification program. In addition, cybersecurity considerations affect the selection and oversight of our third-party service providers and we continually monitor cybersecurity threat risks identified through such diligence.

There can be no guarantee that our policies and procedures will be effective. Although our risk factors include further detail about the material cybersecurity risks we face and how a cybersecurity incident may affect our business strategy, results of operations or financial condition, we believe that risks from prior cybersecurity threats, including as a result of any previous cybersecurity incident, have not materially affected our business to date. We can provide no assurances that there will not be incidents in the future or that they will not materially affect us, including our business strategy, results of operations or financial condition. See “Item 1A. Risk Factors” for further information about these risks.

Cybersecurity Governance

Cybersecurity is an important part of our risk management processes and an area of increasing focus for our Board and management. Our Audit Committee is responsible for the oversight of risks from cybersecurity threats. At least quarterly, and more frequently as relevant, the Audit Committee receives an overview from management covering topics such as security posture, results from third-party assessments, progress towards pre-determined risk-mitigation-related goals, and material cybersecurity threat risks or incidents and developments, as well as the steps management has taken to respond to such risks.

Members of the Audit Committee are also encouraged to regularly engage in ad hoc conversations with management on cybersecurity-related news and discuss any updates to our cybersecurity risk management and strategy programs. Material cybersecurity risks are also considered during separate Board meeting discussions of important matters like risk management, business continuity planning, and other relevant matters. Management or the Audit Committee will provide a comprehensive update to the Board on cybersecurity threats and risk mitigation generally at least annually, and more frequently as relevant.

The Company’s information security and cybersecurity program is managed by our Chief Information Security Officer (CISO) and our Chief Technology Officer (CTO). The CISO and the Senior Director Information Security are responsible for our overall network security and assessing and managing cybersecurity risks and threats. The CISO has over 20 years of information security, privacy, auditing and compliance experience and holds numerous certifications. The Senior Director of Information Security has over 15 years of experience in information security, and holds numerous certifications. The CTO has over 20 years of experience and has been a leader of our Company’s information systems and technological advancements for the past nine (9) years. The SVP of Engineering has over 20 years of experience in IT and has specialized knowledge in systems and network infrastructure. The Director of SRE and Security has eight (8) years of experience and has principal responsibility for our network operations and system administration.

These members of management are informed about and monitor the prevention, mitigation, detection, and remediation of cybersecurity incidents through their management of, and participation in, the cybersecurity risk management and strategy processes described above.

Item 2. PROPERTIES

The Company's headquarters are located in New York, NY. As of December 31, 2023, the majority of the Company’s employees are still working remotely.

The Company has limited operations outside the United States. The Company has one foreign subsidiary located in Israel which leases its operating facilities under a month-to-month operating lease agreement.

The Company does not view any of its leased facilities as material to its business.

Item 3. LEGAL PROCEEDINGS

We reached settlements for certain class action lawsuits in February 2023 ending ongoing litigation. The court granted final approval to these settlements in all respects in the third and fourth quarter of 2023. The Company has not admitted any liability of wrongdoing in connection with these settlements and has entered into these settlements solely to avoid the costs, risks, distraction, and uncertainties of continued litigation. See Note 6, “Commitments and Contingent Liabilities” in the notes to the consolidated financial statements for further details.

In addition to the foregoing, the Company may in the future be involved in various legal proceedings, claims and litigation that arise in the normal course of business. The Company accrues for estimated loss contingencies related to legal matters when available information indicates that it is probable a liability has been incurred and the Company can reasonably estimate the amount of that loss. In many proceedings, however, it is inherently difficult to determine whether any loss is probable or even possible or to estimate the amount of any loss. In addition, even where a loss is possible or an exposure to loss exists in excess of the liability already accrued with respect to a previously recognized loss contingency, it is often not possible to reasonably estimate the size of the possible loss or range of loss or possible additional losses or range of additional losses.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

Item 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

On June 23, 2021, Talkspace, Inc.'s common stock and warrants began trading on the Nasdaq under the symbols “TALK” and “TALKW,” respectively. Prior to that time, there was no public market for our common stock or warrants.

As of December 31, 2023, there were 168,428,856 shares of common stock issued and outstanding, and 12,780,000 Private Placement Warrants and 21,350,000 Public Warrants to purchase the Company’s common stock at an exercise price of $11.50 per share. As of December 31, 2023, there were 10,558,573 and 8,984,827 shares underlying outstanding stock options and non-vested restricted stock units, respectively.

Holders

As of March 12, 2024, there were 78 holders of record of our common stock and 13 holders of record of our warrants.

Dividends

We have not paid any cash dividends on our common stock to date. The payment of cash dividends in the future will be dependent upon our revenues and earnings, if any, capital requirements and general financial condition. The payment of any cash dividends will be within the discretion of our board of directors. Our ability to declare dividends may be limited by the terms of financing or other agreements entered into by us or our subsidiaries from time to time.

Share-Based Compensation Plans

The Company maintains a stock-based compensation plan under which the Company may grant cash and equity incentive awards to officers, employees, directors, consultants and service providers and one employee stock purchase plan under which employees of the Company and its participating subsidiaries are provided with the opportunity to purchase Talkspace common stock at a discount through accumulated payroll deductions during successive offering periods. See Note 8, “Share-based Compensation” in the notes to the consolidated financial statements and Part III, Item 12, which incorporates information by reference to the definitive Proxy Statement for our 2024 Annual Meeting of Stockholders, for further details.

Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities

None.

Issuer Repurchases of Equity Securities

The following table provides information with respect to purchases by the Company of shares of its Common Stock during the fourth quarter of 2023:

Period	Total number of shares purchased	Average price per share	Total number of Shares Purchased as Part of a Publicly Announced Plan	Maximum number of Shares that may be Purchased Under the Plan
	—	$ —	—	—
October 1, 2023 to October 31, 2023	—	—	—	—
November 1, 2023 to November 30, 2023	—	—	—	—
December 1, 2023 to December 31, 2023	—	—	—	—
Total	—	$ —	—	—

Equity Compensation Plan Information

The information required by this item is incorporated by reference to the definitive Proxy Statement for our 2024 Annual Meeting of Stockholders, which will be filed with the SEC no later than 120 days after December 31, 2023.

Share Repurchase Program

On February 22, 2024, the Company announced that its Board of Directors ("Board") has approved a share repurchase program which authorizes the repurchase of up to $15 million of the currently outstanding shares of the Company's common stock over a period of twenty-four months beginning on March 1, 2024 (the "Repurchase Program"). Under the Repurchase Program, the Company may repurchase shares through various methods, including open market purchases and privately-negotiated transactions, or otherwise in accordance with applicable federal securities laws, including Rule 10b-18 of the Securities Exchange Act of 1934 (the "Exchange Act"). Such purchases will be at times and in amounts as the Company deems appropriate, based on factors such as price, market conditions, corporate and regulatory requirements, constraints specified in any Rule 10b5-1 trading plans, alternative investment opportunities and other business considerations.

The Repurchase Program does not obligate the Company to repurchase any dollar amount or number of shares, and may be suspended or terminated at any time.

Item 6. Reserved.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Unless the context otherwise requires, all references in this section as to "Talkspace," the "Company," "we," "us" or "our" refer to the business of Talkspace, Inc. and its consolidated subsidiaries.

The following discussion and analysis of our financial condition and results of operations should be read together with the financial statements and the related notes contained in this Annual Report. This discussion contains forward-looking statements that reflect our plans, estimates, and beliefs that involve risks and uncertainties. As a result of many factors, such as those discussed in the "Risk Factors" and "Forward-Looking Statements" sections and elsewhere in this Annual Report, our actual results may differ materially from those anticipated in these forward-looking statements.

The purpose of this section is to discuss and analyze our consolidated financial condition, liquidity and capital resources and results of operations for the years ended December 31, 2023 and 2022. For a discussion of our results of operations, liquidity and capital resources for the year ended December 31, 2021, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

Overview

Talkspace is a healthcare company offering its members convenient and affordable access to a fully-credentialed network of highly qualified providers. We are a leading virtual behavioral health company and, since Talkspace's founding in 2012, we have connected millions of patients with licensed mental health providers across a wide and growing spectrum of care through virtual counseling, psychotherapy and psychiatry. We created a purpose-built platform to address the vast, unmet and growing demand for mental health services of our members, serving our payor clients ("Payor"), comprised of health plans and employee assistance programs such as Aetna, Cigna, and Optum, who offer their insured members access to our platform at in-network reimbursement rates, our Direct-to-Enterprise clients ("DTE") comprised of enterprise clients such as Google, the University of Kentucky and the New York City Department of Health and Mental Hygiene, who offer their enterprise members access to our platform while their enterprise is under an active contract with Talkspace, and individual consumers ("Consumer") who subscribe directly to our platform.

As of December 31, 2023, we had approximately 131 million eligible lives compared to 92 million eligible lives as of December 31, 2022. As of December 31, 2023, we had approximately 11,700 consumer active members compared to approximately 15,400 consumer active members as of December 31, 2022. For the year ended December 31, 2023, our clinicians completed 850,600 sessions for members covered under our Payor clients, as compared to 426,400 completed sessions for the year ended December 31, 2022. Please refer to the "Key Business Metrics" section below for a description of eligible lives and consumer active members.

Inflation Risk and Economic Conditions

The demand for our solution is dependent on the general economy, which is in turn affected by geopolitical conditions, the stability of the global credit markets, inflationary pressures, increasing interest rates, the industries in which our Payor or DTE clients operate or serve, and other factors. Downturns in the general economy could disproportionately affect the demand for our solution and cause it to decrease.

Our operations could also be impacted by inflation and increased interest rates. Inflation did not have a material effect on our business, financial condition or results of operations for the years ended December 31, 2023 and 2022. However, if our costs were to become subject to significant inflationary pressures (such as Provider cost), we may not be able to fully offset such higher costs through price increases or cost savings. Our inability or failure to do so could harm our business, financial condition or results of operations.

Quarterly Fluctuations

Our financial results may fluctuate from period-to-period as a result of a variety of factors, many of which are outside of our control, including, without limitation, the factors described in this section. Most of our revenue in any given quarter is derived from contracts entered into with our clients during previous quarters. Consequently, a decline in new or renewed contracts in any one quarter may not be fully reflected in our revenue for that quarter. Such declines, however, would negatively affect our revenue in future periods and the effect of significant downturns in sales of and market demand for our solution, and potential changes in our renewals or renewal terms, may not be fully reflected in our results of operations until future periods. Our subscription model also makes it difficult for us to rapidly increase our total revenue through additional sales in any period, as revenue from new clients must be recognized over the applicable term of the contract. Accordingly, the effect of changes in the industry impacting our business or changes we experience in our new sales may not be reflected in our short-term results of operations. Any fluctuation in our quarterly results may not accurately reflect the underlying performance of our business and could cause a decline in the trading price of our securities.

Operating Segments

The Company operates as a single segment and as one reporting unit, which is how the chief operating decision maker (who is the chief executive officer) reviews financial performance and allocates resources.

Key Business Metrics

We monitor the following key metrics to help us evaluate our business, identify trends affecting our business, formulate business plans and make strategic decisions. We believe the following metrics are useful in evaluating our business:

	Year Ended December 31,	
(in thousands, except number of health plan and enterprise clients or otherwise indicated)	**2023**	**2022**
Number of eligible lives at year end *(in millions)*	131	92
Number of completed Payor sessions	850.6	426.4
Number of health plan clients at year end	22	19
Number of enterprise clients at year end	210	226
Number of Consumer active members at year end	11.7	15.4

	Three Months Ended December 31,	
(in thousands)	**2023**	**2022**
Unique Payor active members during the period	79.2	47.5

Eligible Lives: We consider eligible lives "eligible" if such persons are eligible to receive treatment on the Talkspace platform, in the case of our Payor clients, at an agreed upon reimbursement rate through insurance under an employee assistance program or other network behavioral health paid benefit program. There may be instances where a person may be covered through multiple solutions, typically through behavioral health plans and employee assistance programs. In these instances, the person is counted each time they are covered in the eligible lives calculation, which may cause this amount to reflect a higher number of eligible lives than we actually serve.

Consumer Active Members: We consider consumer members "active" commencing on the date such member initiates contact with a provider on our platform until the term of their monthly, quarterly or bi-annual subscription plan expires, unless terminated early.

Unique Payor Active Members: Represents unique users who had a session completed during the period.

Components of Results of Operations

Revenues

We generate revenues from services provided to individuals who are qualified to receive access to the Company's services through our commercial arrangements with health insurance plans, employee assistance organizations and enterprises. We also generate revenues from the sale of monthly, quarterly, bi-annual and annual membership subscriptions to the Company's therapy platform as well as supplementary a la carte offerings directly to individual consumers through a subscription plan. See Note 2, “Summary of significant accounting policies and estimates” in the notes to the consolidated financial statements for further details.

Revenue growth is generated from a combination of increasing our eligible covered lives through contracting with health insurance plans and employee assistance organizations, increasing utilization within eligible covered lives, expanding enterprise clients, and increasing membership subscriptions.

Cost of Revenues

Cost of revenues is comprised primarily of therapist payments. Cost of revenues is largely driven by the number of sessions and the size of our provider network that is required to service the growth of our health plan and enterprise clients, in addition to the growth of our customer base.

We designed our business model and our provider network to be scalable and to leverage a hybrid model of both employee providers and independently contracted providers to support multiple growth scenarios. The compensation paid to our independently contracted providers is variable, and the amount paid to a provider is generally based on the amount of time committed by such provider to our members. Our employee providers receive a fixed-salary and discretionary bonuses, where applicable, all of which is included in cost of revenues.

While we expect to make increased investments to support accelerated growth and the required investment to scale our provider network, we also expect increased efficiencies and economies of scale. Our cost of revenues as a percentage of revenues is expected to fluctuate from period to period depending on the interplay of these factors as well as pricing fluctuations.

Operating Expenses

Operating expenses consist of research and development, clinical operations, sales and marketing, and general and administrative expenses.

Research and Development Expenses

Research and development expenses include personnel and related expenses for software development and engineering, information technology infrastructure, security and privacy compliance and product development (inclusive of stock-based compensation for our research and development employees), third-party services and contractors related to research and development, information technology and software-related costs.

Clinical Operations Expenses

Clinical operations expenses are associated with the management of our provider network of therapists. This item is comprised of costs related to recruiting, onboarding, credentialing, training and ongoing quality assurance activities (inclusive of stock-based compensation for our clinical operations employees), costs of third-party services and contractors related to recruiting and training and software-related costs.

Sales and Marketing Expenses

Sales expenses consist primarily of employee-related expenses, including salaries, benefits, commissions, travel and stock-based compensation costs for our employees engaged in sales and account management.

Marketing expenses consist primarily of advertising and marketing expenses for member acquisition and engagement, as well as personnel costs, including salaries, benefits, bonuses, stock-based compensation expense for marketing employees, third-party services and contractors. Marketing expenses also include third-party software subscription services, third-party independent research, participation in trade shows, brand messaging and costs of communications materials that are produced for our clients to generate greater awareness and utilization of our platform among our Payor and DTE clients.

General and Administrative Expenses

General and administrative expenses consist primarily of personnel costs, including salaries, benefits, bonuses and stock-based compensation expense for certain executives, finance, accounting, legal, compliance and human resources functions, as well as professional fees, occupancy costs, and other general overhead costs.

Impairment of goodwill

Impairment of goodwill represents an impairment charge for goodwill as a result of the annual impairment test performed for the year ended December 31, 2022. No impairment charges were incurred for the years ending December 31, 2023 and 2021.

Financial (income), net

Financial (income), net includes the impact from (i) non-cash changes in the fair value of our warrant liabilities, (ii) interest earned on cash equivalents deposited in our money market accounts and (iii) other financial expenses in connection with bank charges.

Taxes on income

Taxes on income consists primarily of foreign income taxes related to income generated by our subsidiary organized under the laws of Israel.

We have a full valuation allowance for our U.S. deferred tax assets, including federal and state NOLs. We expect to maintain this valuation allowance until it becomes more likely than not that the benefit of our federal and state deferred tax assets will be realized through expected future taxable income in the United States.

Results of Operations

The following table presents the results of operations for the years ended December 31, 2023 and 2022 and the dollar and percentage change between the respective years:

	Year Ended December 31,		Variance	
(in thousands, except percentages)	2023	2022	$	%
Payor revenue	$ 80,823	$ 36,168	$ 44,655	123.5
DTE revenue	33,614	$ 28,241	5,373	19.0
Consumer revenue	35,608	55,158	(19,550)	(35.4)
Total revenue	150,045	119,567	30,478	25.5
Cost of revenues	75,665	59,229	16,436	27.7
Gross profit	74,380	60,338	14,042	23.3
Operating expenses:				
Research and development, net	17,571	21,659	(4,088)	(18.9)
Clinical operations, net	6,159	6,591	(432)	(6.6)
Sales and marketing	52,544	72,842	(20,298)	(27.9)
General and administrative	21,315	36,270	(14,955)	(41.2)
Impairment of goodwill	—	6,134	(6,134)	(100.0)
Total operating expenses	97,589	143,496	(45,907)	(32.0)
Operating loss	(23,209)	(83,158)	59,949	72.1
Financial (income), net	(4,245)	(3,740)	(505)	13.5
Loss before taxes on income	(18,964)	(79,418)	60,454	76.1
Taxes on income	218	254	(36)	(14.2)
Net loss	$ (19,182)	$ (79,672)	$ 60,490	75.9

Year Ended December 31, 2023 compared to December 31, 2022

Revenues

Revenues increased by $30.5 million, or 25.5%, to $150.0 million for the year ended December 31, 2023 from $119.6 million for the year ended December 31, 2022. The increase was principally due to a 123.5% increase in Payor revenue driven by a higher number of completed payor sessions, and 19.0% growth in DTE revenue, partially offset by a 35.4% decline in Consumer subscription revenue. Revenue from our Payor clients increased by $44.7 million, or 123.5% to $80.8 million for the year ended December 31, 2023 from $36.2 million for the year ended December 31, 2022. Revenue from our DTE clients increased by $5.4 million, or 19.0% to $33.6 million for the year ended December 31, 2023 from $28.2 million for the year ended December 31, 2022. Consumer member subscriptions revenue decreased by $19.6 million, or 35.4%, to $35.6 million for the year ended December 31, 2023 from $55.2 million for the year ended December 31, 2022 due to the Company's intentional and strategic decision to optimize and focus marketing efforts on attracting payor members and while we no longer have marketing resources dedicated solely to the Consumer category, it continues to have a positive contribution to our financial results.

Costs of revenues

Cost of revenues increased by $16.4 million or 27.7%, to $75.7 million for the year ended December 31, 2023 from $59.2 million for the year ended December 31, 2022 primarily due to increased hours worked by therapists to meet strong customer engagement.

Gross profit

Gross profit increased by $14.0 million, or 23.3%, to $74.4 million for the year ended December 31, 2023 from $60.3 million for the year ended December 31, 2022. Gross margin was 49.6% for the year ended December 31, 2023, compared to 50.5% during the year ended December 31, 2022. The increase in gross profit was primarily driven by an increase in Payor and DTE revenues. The decline in gross margin was driven by a shift in revenue mix towards Payor.

Operating Expenses

Overall, our operating expenses for the year ended December 31, 2023 have decreased compared to the year ended December 31, 2022 due to our efficiency initiatives in order to optimize for profitability.

Research and development expenses

Research and development expenses decreased by $4.1 million, or 18.9%, to $17.6 million for the year ended December 31, 2023 from $21.7 million for the year ended December 31, 2022, primarily due to a decrease in employee-related costs, inclusive of non-cash stock compensation expense.

Clinical operations expenses

Clinical operations expenses decreased by $0.4 million, or 6.6%, to $6.2 million for the year ended December 31, 2023 from $6.6 million for the year ended December 31, 2022, primarily due to a decrease in software subscriptions.

Sales and marketing expenses

Sales and marketing expenses decreased by $20.3 million, or 27.9%, to $52.5 million for the year ended December 31, 2023 from $72.8 million for the year ended December 31, 2022. The decrease in sales and marketing expenses was primarily driven by a decrease in direct marketing and promotional costs, subcontractor costs, and employee-related costs, inclusive of non-cash stock compensation expense.

General and administrative expenses

General and administrative expenses decreased by $15.0 million, or 41.2%, to $21.3 million for the year ended December 31, 2023 from $36.3 million for the year ended December 31, 2022. The decrease in general and administrative expenses was primarily due to a decrease in professional fees, employee-related costs, inclusive of non-cash stock compensation expense, and subcontractor costs.

Impairment of goodwill

Impairment of goodwill consists of a $6.1 million impairment charge related to goodwill for the year ending December 31, 2022. No impairment charges were incurred for the years ending December 31, 2023 and 2021.

Financial (income), net

Financial (income), net was $4.2 million for the year ended December 31, 2023, compared to financial (income), net of $3.7 million for the year ended December 31, 2022. For the year ended December 31, 2023, financial (income), net, primarily consisted of $5.3 million of interest income from our money market accounts partially offset by $0.9 million in non-cash losses resulting from the remeasurement of warrant liabilities. For the year ended December 31, 2022, financial (income), net primarily consisted of $3.1 million in non-cash gains resulting from the remeasurement of warrant liabilities.

Taxes on income

Taxes on income consists primarily of foreign income taxes related to income generated by our subsidiary organized under the laws of Israel. Taxes on income were immaterial for the years ending December 31, 2023 and 2022.

Year Ended December 31, 2022 compared to December 31, 2021

For a detailed discussion of the results for the year ended December 31, 2022 compared to the year ended December 31, 2021, please refer to the "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 filed on March 10, 2023.

Non-GAAP Financial Measures

In addition to our financial results determined in accordance with GAAP, we believe adjusted EBITDA, a non-GAAP measure, is useful in evaluating our operating performance, and our management uses it as a key performance measure to assess our operating performance. Because adjusted EBITDA facilitates internal comparisons of our historical operating performance on a more consistent basis, we use this measure for business planning purposes and in evaluating acquisition opportunities. We also use adjusted EBITDA to evaluate our ongoing operations and for internal planning and forecasting purposes. We believe that this non-GAAP financial measure, when taken together with the corresponding GAAP financial measures, provides meaningful supplemental information regarding our performance by excluding certain items that may not be indicative of our business, results of operations or outlook. We believe that the use of adjusted EBITDA is helpful to our investors as it is a metric used by management in assessing the health of our business and our operating performance. However, non-GAAP financial information is presented for supplemental informational purposes only, has limitations as an analytical tool and should not be considered in isolation or as a substitute for financial information presented in accordance with GAAP.

Some of the limitations of adjusted EBITDA include (i) adjusted EBITDA does not necessarily reflect capital commitments to be paid in the future and (ii) although depreciation and amortization are non-cash charges, the underlying assets may need to be replaced and adjusted EBITDA does not reflect these requirements. In evaluating adjusted EBITDA, you should be aware that in the future we will incur expenses similar to the adjustments described herein. Our presentation of adjusted EBITDA should not be construed as an inference that our future results will be unaffected by these expenses or any unusual or non-recurring items. Our adjusted EBITDA may not be comparable to similarly titled measures of other companies because they may not calculate adjusted EBITDA in the same manner as we calculate the measure, limiting its usefulness as a comparative measure. Adjusted EBITDA should not be considered as an alternative to loss before income taxes, net loss, loss per share, or any other performance measures derived in accordance with U.S. GAAP. When evaluating our performance, you should consider adjusted EBITDA alongside other financial performance measures, including our net loss and other GAAP results.

A reconciliation is provided below for adjusted EBITDA to net loss, the most directly comparable financial measure stated in accordance with GAAP. Investors are encouraged to review our financial statements prepared in accordance with GAAP and the reconciliation of our non-GAAP financial measure to its most directly comparable GAAP financial measure, and not to rely on any single financial measure to evaluate our business. We do not provide a forward-looking reconciliation of adjusted EBITDA guidance as the amount and significance of the reconciling items required to develop meaningful comparable GAAP financial measures cannot be estimated at this time without unreasonable efforts. These reconciling items could be meaningful.

We calculate adjusted EBITDA as net loss income adjusted to exclude (i) depreciation and amortization, (ii) interest and other expenses (income), net, (iii) tax benefit and expense, (iv) stock-based compensation expense, (v) impairment of goodwill and (vi) certain non-recurring expenses that we believe do not represent our on-going operations, where applicable.

The following table presents a reconciliation of adjusted EBITDA from the most comparable GAAP measure, net loss, for the years ended December 31, 2023 and 2022:

	Year Ended December 31,	
(in thousands)	2023	2022
Net loss	$ (19,182)	$ (79,672)
Add:		
Depreciation and amortization	1,285	1,357
Financial (income), net [1]	(4,245)	(3,740)
Taxes on income	218	254
Stock-based compensation	8,395	12,116
Impairment of goodwill	—	6,134
Non-recurring expenses [2]	—	4,880
Adjusted EBITDA	$ (13,529)	$ (58,671)

(1) For the year ended December 31, 2023, financial (income), net, primarily consisted of $5.3 million of interest income from our money market accounts partially offset by $0.9 million in losses resulting from the remeasurement of warrant liabilities. For the year ended December 31, 2022, financial (income), net, primarily consisted of $3.1 million in gains resulting from the remeasurement of warrant liabilities.

(2) For the year ended December 31, 2022, non-recurring expenses primarily consisted of a $5.5 million accrual for estimated litigation expenses.

Liquidity and Capital Resources

As of December 31, 2023, we had $123.9 million of cash and cash equivalents ($138.5 million as of December 31, 2022), which we use to finance our operations and support a variety of growth initiatives and investments. We had no debt as of December 31, 2023.

Our primary cash needs are to fund operating activities and invest in technology development. Our future capital requirements will depend on many factors including our growth rate, contract renewal activity, the timing and extent of investments to support product development efforts, our expansion of sales and marketing activities, the introduction of new and enhanced service offerings and the continuing market acceptance of virtual behavioral services. Additionally, we may in the future enter into arrangements to acquire or invest in complementary businesses, services and technologies.

We currently anticipate to be able to fund our cash needs for at least the next twelve months and thereafter for the foreseeable future using available cash and cash equivalent balances as of December 31, 2023. However, in the future we may require additional capital to respond to technological advancements, competitive dynamics, customer demands, business and investment opportunities, acquisitions or unforeseen circumstances and we may determine to engage in equity or debt financings for other reasons. We may not be able to timely secure additional debt or equity financing on favorable terms, or at all. If we raise additional funds through the issuance of equity or convertible debt or other equity-linked securities, our existing stockholders could experience significant dilution. Any debt financing obtained by us in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. If we cannot raise capital when needed we may be forced to undertake asset sales or similar measures to ensure adequate liquidity.

Cash Flows from Operating, Investing and Financing Activities

The following table presents the summary consolidated cash flow information for the years ended December 31, 2023 and 2022:

	Year Ended December 31,	
(in thousands)	2023	2022
Net cash used in operating activities	$ (16,393)	$ (61,077)
Net cash used in investing activities	(141)	(317)
Net cash provided by financing activities	1,897	1,683
Net decrease in cash and cash equivalents	$ (14,637)	$ (59,711)

Operating Activities

The decrease in net cash used in operating activities was driven primarily by a lower net loss for the year ended December 31, 2023 compared to the year ended December 31, 2022, partially offset by unfavorable timing of payments of accrued expenses.

Investing Activities

The decrease in net cash used in investing activities was driven primarily by a decrease in the purchases of computer equipment and software.

Financing Activities

Net cash provided by financing activities primarily consists of cash proceeds from the exercise of stock options granted to employees in the prior years.

Contractual Obligations, Commitments and Contingencies

As of December 31, 2023, we did not have any short-term or long-term debt, or significant long-term liabilities. Our long-term operating lease for our office space in New York, NY is immaterial as of December 31, 2023.

The Company reached settlements for certain class action lawsuits in February 2023 ending ongoing litigation, see Note 6, "Commitments and Contingent Liabilities" in the notes to the consolidated financial statements for further details. In addition, we may in the future be involved in various legal proceedings, claims and litigation that arise in the normal course of business. We accrue for estimated loss contingencies related to legal matters when available information indicates that it is probable a liability has been incurred and we can reasonably estimate the amount of that loss. In many proceedings, however, it is inherently difficult to determine whether any loss is probable or even possible or to estimate the amount of any loss. In addition, even where a loss is possible or an exposure to loss exists in excess of the liability already accrued with respect to a previously recognized loss contingency, it is often not possible to reasonably estimate the size of the possible loss or range of loss or possible additional losses or range of additional losses. Should any of our estimates and assumptions change or prove to be incorrect, it could have a material impact on our results of operations, financial position, and cash flows.

Our commercial contract arrangements generally include certain provisions requiring us to indemnify clients against liabilities if there is a breach of a client's data or if our service infringes a third party's intellectual property rights. To date, we have not incurred any material costs as a result of such indemnifications.

We have also agreed to indemnify our officers and directors for costs associated with any fees, expenses, judgments, fines and settlement amounts incurred by any of these persons in any action or proceeding to which any of those persons is, or is threatened to be, made a party by reason of the person's service as a director or officer, including any action by us, arising out of that person's services as our director or officer or that person's services provided to any other company or enterprise at our request. We maintain director and officer liability insurance coverage that would generally enable us to recover a portion of any future amounts paid. We may also be subject to indemnification obligations by law with respect to the actions of our employees under certain circumstances and in certain jurisdictions.

Off-Balance Sheet Arrangements

We do not invest in any off-balance sheet vehicles that provide liquidity, capital resources, market or credit risk support, or engage in any activities that expose us to any liability that is not reflected in our consolidated financial statements.

Critical Accounting Policies and Estimates

The Company's accounting policies are essential to understanding and interpreting the financial results reported on the consolidated financial statements. The significant accounting policies used in the preparation of the Company's consolidated financial statements are summarized in Note 2, "Summary of Significant Accounting Policies and Estimates" in the notes to the consolidated financial statements. Certain of those policies are considered to be particularly important to the presentation of the Company's financial results because they require management to make difficult, complex or subjective judgments, often as a result of matters that are inherently uncertain. The following is a discussion of these estimates:

Revenue Recognition

The Company recognizes revenues in accordance with ASC 606, "Revenue from Contracts with Customers". Revenues are recognized when the Company satisfies its performance obligation to perform its defined contractual obligations to provide virtual behavioral healthcare services. The transaction price is determined based on the consideration to which the Company will be entitled in exchange for the service rendered. To the extent the transaction price includes variable consideration, the Company estimates the amount of variable consideration that is included in the transaction price at contract inception and reassesses this estimate at each reporting date. Variable consideration is included in the transaction price if it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Company determines its estimate of variable consideration primarily based on actual historical collection experience.

Recent Accounting Pronouncements

See Note 2, "Summary of Significant Accounting Policies and Estimates" in the notes to the consolidated financial statements for information regarding recent accounting developments and their impact on our results.

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements other than statements of historical facts contained in this Annual Report on Form 10-K may be forward-looking statements. In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expects," "plans," "anticipates," "could," "intends," "targets," "projects," "contemplates," "believes," "estimates," "forecasts," "predicts," "potential" or "continue" or the negative of these terms or other similar expressions. Forward-looking statements contained in this Annual Report on Form 10-K include, but are not limited to, statements regarding our future results of operations and financial position, industry and business trends, stock-based compensation, revenue recognition, business strategy, plans and market growth.

The forward-looking statements in this Annual Report on Form 10-K and other such statements we publicly make from time to-time are only predictions. We base these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition, and results of operations. Forward-looking statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements, including, but not limited to, the important factors discussed in Part I, Item 1A, "Risk Factors" in this Annual Report on Form 10-K for the fiscal year ended December 31, 2023. The forward-looking statements in this Annual Report on Form 10-K are based upon information available to us as of the date of this Annual Report on Form 10-K, and while we believe such information forms a reasonable basis for such statements, such information may be limited or incomplete, and our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially available relevant information. These statements are inherently uncertain and investors are cautioned not to unduly rely upon these statements.

This Annual Report on Form 10-K and the documents that we reference herein and have filed as exhibits to this Annual Report on Form 10-K should be read with the understanding that our actual future results, levels of activity, performance and achievements may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements. These forward-looking statements speak only as of the date of this Annual Report on Form 10-K. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained in this Annual Report on Form 10-K or any forward-looking statements we may publicly make from time-to-time, whether as a result of any new information, future events or otherwise.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We had cash and cash equivalents totaling $123.9 million and $138.5 million as of December 31, 2023 and December 31, 2022, respectively. Cash and cash equivalents are held for a variety of growth and investments as well as working capital purposes. We do not have any indebtedness for borrowed money outstanding.

We do not believe that a hypothetical increase or decrease of 100 basis points in interest rates would have a material effect on our business, financial condition or results of operations. However, our earnings on cash equivalents are subject to market risk due to changes in interest rates.

Foreign Currency Exchange Risk

To date, a substantial majority of our revenue from customer arrangements has been denominated in U.S. dollars. We have limited operations outside the United States. Accordingly, we believe we do not have a material exposure to foreign currency risk. In the future, we may choose to focus on international expansion, which may increase our exposure to foreign currency exchange risk.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Talkspace, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Talkspace Inc. (the Company) as of December 31, 2023 and 2022, the related consolidated statements of operations, shareholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 2023, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2023, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 13, 2024 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the account or disclosure to which it relates.

	Estimation of transaction price and variable consideration for revenue recognition
Description of the Matter	As discussed in Note 2 of the consolidated financial statements, the Company recognizes revenues from contracted insurance payors and employee assistance organizations ("Payor") at a point in time based on contracted rates, net of implicit price concessions, as virtual therapy or psychiatry session is rendered ("payor revenues"). The Company estimates the amount of variable consideration that is included in the transaction price mainly by estimating claims denials by insurance payor, primarily based on actual historical collection experience by insurance payor. For the year ended December 31, 2023, payor revenues were $80.8 million. Auditing management's determination of transaction price including variable consideration was complex and judgmental due to significant data inputs and subjective assumptions utilized in the process. In determining transaction price, management develops estimates based on actual historical collection experience by insurance payor.

How We Addressed the Matter in Our Audit	To test the estimate of variable consideration, our audit procedures also included, among others, assessing the methodology used and testing the underlying data used by the Company in its analysis. We compared the collection rates used by management to historical collection trends and evaluated whether changes in the Company’s business model, payors mix, and other factors would affect the estimate of variable consideration. We assessed the historical accuracy of management’s estimate and performed sensitivity analyses to evaluate the changes in variable consideration that would result from changes in the expected collection rates used and the corresponding effect on revenues.

/s/ Kost Forer Gabbay & Kasierer
A Member of EY Global

We have served as the Company’s auditor since 2014.

Tel-Aviv, Israel
March 13, 2024

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Talkspace, Inc.

Opinion on Internal Control Over Financial Reporting

We have audited Talkspace Inc.'s internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Talkspace Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Talkspace Inc. as of December 31, 2023 and 2022, the related consolidated statements of operations, shareholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 2023, and the related notes and our report dated March 13, 2024 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying management's report on internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Kost Forer Gabbay & Kasierer
A Member of EY Global

Tel-Aviv, Israel
March 13, 2024

TALKSPACE, INC.
CONSOLIDATED BALANCE SHEETS
U.S. dollars in thousands (except share and per share data)

	December 31,	
	2023	2022
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 123,908	$ 138,545
Accounts receivable, net	10,174	9,640
Other current assets	5,718	4,372
Total current assets	139,800	152,557
Property and equipment, net	314	677
Intangible assets, net	1,786	2,529
Other long-term assets	321	491
Total assets	$ 142,221	$ 156,254
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 6,111	$ 6,461
Deferred revenues	3,069	4,355
Accrued expenses and other current liabilities	12,468	16,502
Total current liabilities	21,648	27,318
Warrant liabilities	1,842	939
Other long-term liabilities	85	461
Total liabilities	23,575	28,718
Commitments and contingencies (Note 6)		
STOCKHOLDERS' EQUITY:		
Common stock of $0.0001 par value — Authorized: 1,000,000,000 shares at December 31, 2023 and 2022; Issued and outstanding: 168,428,856 and 161,155,030 shares at December 31, 2023 and 2022, respectively	16	16
Additional paid-in capital	389,014	378,722
Accumulated deficit	(270,384)	(251,202)
Total stockholders' equity	118,646	127,536
Total liabilities and stockholders' equity	$ 142,221	$ 156,254

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

TALKSPACE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
U.S. dollars in thousands (except share and per share data)

	Year Ended December 31, 2023	2022	2021
Revenues	$ 150,045	$ 119,567	$ 113,671
Cost of revenues	75,665	59,229	46,899
Gross profit	74,380	60,338	66,772
Operating expenses:			
Research and development, net	17,571	21,659	15,919
Clinical operations, net	6,159	6,591	9,365
Sales and marketing	52,544	72,842	100,641
General and administrative	21,315	36,270	34,770
Impairment of goodwill	—	6,134	—
Total operating expenses	97,589	143,496	160,695
Operating loss	(23,209)	(83,158)	(93,923)
Financial (income), net	(4,245)	(3,740)	(31,228)
Loss before taxes on income	(18,964)	(79,418)	(62,695)
Taxes on income	218	254	47
Net loss	$ (19,182)	$ (79,672)	$ (62,742)
Net loss per share:			
Basic and diluted net loss per share	$ (0.12)	$ (0.51)	$ (0.72)
Weighted average number of common shares used in computing basic and diluted net loss per share	165,039,920	156,885,256	86,775,948

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

TALKSPACE, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
U.S. dollars in thousands (except share and per share data)

	Convertible Preferred Stock		Common Stock				
	Number of Shares Outstanding	Amount	Number of Shares Outstanding	Amount	Additional paid-in capital	Accumulated deficit	Total
Balance as of January 1, 2021	94,582,550	$ 111,282	13,413,431	$ 1	$ 9,889	$ (108,788)	$ (98,898)
Exercise of stock options	—	—	3,627,127	*	2,098	—	2,098
Restricted stock units vested, net of tax	—	—	282,415	*	(491)	—	(491)
Stock-based compensation	—	—	—	—	27,405	—	27,405
Issuance of warrants	—	—	—	—	125	—	125
Common stock issued related to exercise of warrants	—	—	98,871	*	609	—	609
Acquisition of warrants	—	—	—	—	27,945	—	27,945
Preferred stock conversion	(94,582,550)	(111,282)	94,582,550	10	111,272	—	111,282
Issuance of common stock in connection with Business Combination and PIPE offering, net of issuance costs	—	—	40,858,053	4	184,936	—	184,940
Net loss	—	—	—	—	—	(62,742)	(62,742)
Balance as of December 31, 2021	—	—	152,862,447	15	363,788	(171,530)	192,273
Exercise of stock options	—	—	5,331,634	1	3,180	—	3,181
Restricted stock units vested, net of tax			2,960,949	*	(362)	—	(362)
Stock-based compensation	—	—	—	—	12,116	—	12,116
Net loss	—	—	—	—	—	(79,672)	(79,672)
Balance as of December 31, 2022	—	—	161,155,030	16	378,722	(251,202)	127,536
Exercise of stock options	—	—	4,592,195	*	2,707	—	2,707
Restricted stock units vested, net of tax	—	—	2,681,631	*	(810)	—	(810)
Stock-based compensation	—	—	—	—	8,395	—	8,395
Net loss	—	—	—	—	—	(19,182)	(19,182)
Balance as of December 31, 2023	—	$ —	168,428,856	$ 16	$ 389,014	$ (270,384)	$ 118,646

* Represents an amount lower than $1

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

TALKSPACE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
U.S. dollars in thousands

	Year Ended December 31, 2023	2022	2021
Cash flows from operating activities:			
Net loss	$ (19,182)	$ (79,672)	$ (62,742)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	1,196	1,357	1,973
Amortization of debt issuance costs	—	—	175
Stock-based compensation	8,395	12,116	27,405
Remeasurement of warrant liabilities	903	(3,131)	(31,784)
Impairment of goodwill	—	6,134	—
(Increase) decrease in accounts receivable	(534)	(4,126)	402
(Increase) decrease in other current assets	(1,346)	5,080	(8,053)
(Decrease) increase in accounts payable	(350)	(968)	503
(Decrease) increase in deferred revenues	(1,286)	(2,831)	2,014
(Decrease) increase in accrued expenses and other current liabilities	(4,034)	4,862	4,396
Other	(155)	102	—
Net cash used in operating activities	(16,393)	(61,077)	(65,711)
Cash flows from investing activities:			
Purchase of property and equipment	(151)	(350)	(663)
Proceeds from sale of property and equipment	10	33	—
Net cash used in investing activities	(141)	(317)	(663)
Cash flows from financing activities:			
(Payments) proceeds from reverse capitalization, net of transaction costs	—	(645)	249,334
Proceeds from exercise of stock options	2,707	3,181	2,098
Payments for employee taxes withheld related to vested stock-based awards	(810)	(853)	—
Proceeds from borrowings	—	—	6,000
Repayment of borrowings	—	—	(6,000)
Payment of debt issuance costs	—	—	(50)
Net cash provided by financing activities	1,897	1,683	251,382
Net (decrease) increase in cash and cash equivalents	(14,637)	(59,711)	185,008
Cash and cash equivalents at the beginning of the year	138,545	198,256	13,248
Cash and cash equivalents at the end of the year	$ 123,908	$ 138,545	$ 198,256
Supplemental cash flow data:			
Cash paid during the year for interest	$ —	$ 68	$ 538
Cash paid during the year for income taxes	$ 219	$ 122	$ —
Non-cash investing activity:			
Lease liabilities arising from obtaining right-of-use assets	$ —	$ 466	$ —
Non-cash financing activity:			
Employee taxes withheld related to restricted stock units vested	$ —	$ —	$ 491
Conversion of preferred stock to common stock	$ —	$ —	$ 111,282

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

TALKSPACE, INC.
Notes to Consolidated Financial Statements

NOTE 1. DESCRIPTION OF ORGANIZATION AND BUSINESS OPERATIONS

Talkspace, Inc. (together with its consolidated subsidiaries, the “Company” or “Talkspace”) is a leading behavioral healthcare company enabled by a purpose-built technology platform. Talkspace provides individuals and licensed therapists, psychologists and psychiatrists with an online platform for one-on-one therapy delivered via messaging, audio and video. The Company offers convenient and affordable access to a fully credentialed network of highly qualified providers. Since its inception, the Company has connected millions of patients with licensed behavioral health providers across a wide and growing spectrum of care through virtual counseling, psychotherapy, and psychiatry.

Talkspace was originally incorporated as Hudson Executive Investment Corp. (“HEC”), a special purpose acquisition company, for the purpose of entering into a business combination with one or more businesses or entities. On January 12, 2021, HEC, entered into an Agreement and Plan of Merger, dated as of January 12, 2021 (the “Merger Agreement”), with Groop Internet Platform, Inc. (“Old Talkspace”), Tailwind Merger Sub I, Inc., a Delaware corporation and a direct wholly owned subsidiary of HEC (“First Merger Sub”), and Tailwind Merger Sub II, LLC, a Delaware limited liability company (“Second Merger Sub”). On June 22, 2021, as contemplated by the Merger Agreement, First Merger Sub merged with and into Old Talkspace (the “First Merger”) with Old Talkspace surviving the First Merger, and immediately following the First Merger and as part of the same overall transaction as the First Merger, Old Talkspace merged with and into Second Merger Sub, with Second Merger Sub surviving the merger as a wholly owned subsidiary of HEC. The Company refers to this transaction as the Business Combination. In connection with the Business Combination, HEC filed the Certificate of Incorporation and changed its name to “Talkspace, Inc.”

The Company's principal executive office is located in New York, NY. The Company's subsidiaries are Talkspace LLC and its wholly-owned subsidiary Talkspace Network LLC, and Groop Internet Platform LTD. In addition, the Company holds a variable interest in one professional association and eight professional corporations, which have been established pursuant to the requirements of their respective domestic jurisdiction governing the corporate practice of medicine. See Note 12, “Variable Interest Entities,” in the notes to the consolidated financial statements for further details.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

Basis of Presentation

The consolidated financial statements and accompanying notes have been prepared in conformity with U.S. generally accepted accounting principles (“U.S. GAAP”). In management’s opinion, the consolidated financial statements reflect all adjustments of a normal recurring nature that are necessary for a fair presentation of the results for the periods presented.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates, judgments, and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, together with amounts disclosed in the related notes to the consolidated financial statements. The Company’s significant estimates and assumptions used in these consolidated financial statements include, but are not limited to, the recognition and disclosure of contingent liabilities, revenue recognition, stock-based compensation awards and the fair value of warrant liabilities. The Company bases its estimates on historical factors, current circumstances and the experience and judgment of management. The Company evaluates its assumptions on an ongoing basis. The Company's management believes that the estimates, judgments, and assumptions used are reasonable based on the information available at the time they are made. Estimates, by their nature, are based on judgment and available information, therefore, actual results could be materially different from these estimates.

Consolidation

The Company consolidates all subsidiaries in which it has a controlling financial interest, as well as any VIEs where the Company is deemed to be the primary beneficiary. Intercompany transactions and balances have been eliminated in the preparation of the consolidated financial statements.

Operating Segments

The Company operates its business as a single segment and as one reporting unit, which is how the chief operating decision maker, the Company's Chief Executive Officer, reviews financial performance and allocates resources.

Financial statements in U.S. dollars

The majority of the Company's operations are based in the United States. Most of the Company's revenues and costs are denominated in United States dollars ("dollar"). The Company's management believes that the dollar is the primary currency of the economic environment in which the Company and each of its subsidiaries operate. Thus, the dollar is the Company's functional and reporting currency.

Accordingly, non-dollar denominated transactions and balances have been re-measured into the functional currency in accordance with ASC 830, "Foreign Currency Matters". These transactions were not material for the years ended December 31, 2023, 2022 and 2021.

Cash and cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to cash, with original maturities of three months or less at the date acquired. The Company's cash and cash equivalents generally consist of bank deposits and investments in money market funds.

The Company's cash and cash equivalents are invested in major banks in the United States. Generally, these cash and cash equivalents and deposits may be redeemed upon demand. The Company deposits may exceed federally insured limits, however management believes that the financial institutions that hold the Company's and its subsidiaries' cash and cash equivalents are institutions with high credit standing, and accordingly, minimal credit risk exists with respect to these assets.

Property and equipment, net

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method over the average useful lives of the assets. The following table presents the average useful life used for the Company's fixed assets:

	Average Useful Life (years)
Computers and software	3
Furniture and equipment	5

Property and equipment, net was immaterial as of December 31, 2023 and 2022 and the related depreciation expense was immaterial for the years ended December 31, 2023, 2022 and 2021.

Internal-use Software

In accordance with ASC 350-40, Internal Use Software, the Company capitalizes certain internal use software development costs associated with creating and enhancing internally developed software related to its platform. Software development activities generally consist of three stages (i) the preliminary project stage, (ii) the application development stage, and (iii) the post-implementation stage. Costs incurred in the preliminary project stage and post-implementation stage of software development, or maintenance and development expenses that do not meet the qualification for capitalization are expensed as incurred. Costs incurred in the application development stage are capitalized. The costs of significant upgrades and enhancements are capitalized, according to the criteria for each project stage discussed above, if it is probable that the expenditure will result in additional functionality. Additional functionality means that the software modifications enable the software to perform tasks that it previously was not capable of performing. Capitalized costs include employee-related costs, inclusive of non-cash stock compensation expense for employees who are directly associated with and who devote time to software projects. These costs are amortized on a straight-line basis over the estimated useful life of the software. Capitalized costs for internal-use software were immaterial for the years ending December 31, 2023 and 2022.

Leases

The Company accounts for its leases in accordance with ASC 842, "Leases". The right-of-use ("ROU") asset represents the Company's right to use an underlying asset for the lease term and the lease liability represents an obligation to make payments based on the present value of lease payments over the lease term. The Company uses incremental borrowing rates based on the estimated rate of interest for collateralized borrowing over a similar term of the lease payments at commencement date. The lease term includes options to extend or terminate the lease when it is reasonably certain these will be exercised.

The Company has elected not to record operating lease ROU assets and lease liabilities for leases with an initial term of 12 months or less. The Company also elected the practical expedient to not separate lease and non-lease components for its leases. The Company's lease assets and liabilities were immaterial as of December 31, 2023 and 2022.

Goodwill

Goodwill reflects the excess of the consideration transferred, including the fair value of any contingent consideration and any non-controlling interest in the acquiree, over the assigned fair values of the identifiable net assets acquired. Goodwill is not amortized, and is tested for impairment at least on an annual basis. The Company operates as one reporting unit and the fair value of the reporting unit is estimated using quoted market prices of the Company's stock in active markets. The Company tests goodwill for impairment annually in the fourth quarter and whenever events or changes in circumstances indicate the carrying amount of goodwill may not be recoverable. When testing goodwill for impairment, the Company may first perform a qualitative assessment. If the Company determines it is not more likely than not the reporting unit's fair value is less than its carrying value, then no further analysis is necessary. If the Company determines that it is more likely than not that the fair value of its reporting unit is less than its carrying amount, then the quantitative impairment test will be performed. The Company may elect to bypass the qualitative assessment and proceed directly to performing a quantitative analysis. Under the quantitative impairment test, if the carrying amount of the Company's reporting unit exceeds its fair value, the Company will recognize an impairment loss in an amount equal to that excess but limited to the total amount of goodwill.

For the year ended December 31, 2022, the Company recorded a goodwill impairment charge of $6.1 million. No impairment charges were incurred for the years ending December 31, 2023 and 2021.

Intangible Assets

Acquired identifiable finite-lived intangible assets are amortized on a straight-line basis over the estimated useful lives of the assets. The basis of amortization approximates the pattern in which the assets are utilized, over their estimated useful lives. The Company routinely reviews the remaining estimated useful lives of finite-lived intangible assets. In cases where the Company reduces the estimated useful life for any asset, the remaining unamortized balance is amortized or depreciated over the revised estimated useful life. See Note 4, "Intangible Assets, net" in the notes to the consolidated financial statements for further details.

Impairment of long-lived assets and intangible assets subject to amortization, including ROU lease asset

Property and equipment, intangible assets and ROU lease assets are reviewed for impairment in accordance with ASC 360, "Accounting for the Impairment or Disposal of Long-Lived Assets", whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. If indicators are present, management performs a recoverability test by comparing the sum of the estimated undiscounted future cash flows attributable to the asset to its carrying amount. If the undiscounted cash flows used in the test for recoverability are less than the carrying amount of the asset, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. There were no impairment charges related to long-lived assets for the years ended December 31, 2023, 2022 or 2021.

Revenue recognition

The Company recognizes revenue in accordance with ASC 606, "Revenue from Contracts with Customers", when the Company satisfies its performance obligation to perform its defined contractual obligations to provide virtual behavioral healthcare services. Revenue is recognized in an amount that reflects the consideration that the Company will be entitled in exchange for the service rendered. To the extent the transaction price includes variable consideration, the Company estimates the amount of variable consideration that is included in the transaction price. Variable consideration is included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Through its platform, Talkspace serves:

- Health insurance plans and employee assistance programs ("Payor") who offer their insured members access to the Company's platform at in-network reimbursement rates.
- Direct-to-Enterprise clients ("DTE") who offer their enterprise members access to the Company's platform while their enterprise is under an active contract with Talkspace.
- Individual subscribers ("Consumer") who subscribe directly to the Company's platform.

Payor
The Company contracts with health insurance plans and employee assistance programs to provide therapy and psychiatry services to their eligible covered members. Revenue is recognized at a point in time, as virtual therapy or psychiatry sessions are rendered. The transaction price is determined based on contracted rates and includes variable consideration in the form of implicit price concessions. The Company determines the total transaction price, including an estimate of variable consideration, at contract inception and reassesses this estimate at each reporting date. The Company estimates the amount of variable consideration that is included in the transaction price primarily based on actual historical collection experience for each Payor. Revenue is presented net of implicit price concessions. Contracts include annual evergreen clauses and generally may be terminated by either party typically upon a minimum 60-day advance notice.

DTE
The Company contracts with enterprises to provide access to the Company's therapist platform for their enterprise members, primarily based on a per-member-per-month access fee model. To the extent the transaction price includes variable consideration, revenue is recognized using the variable consideration allocation exception, or, if the allocation exception is not met, the Company recognizes revenue ratably based on estimates of the variable consideration to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequent resolved. The majority of the contracts typically range in length from one to three years and are generally non-cancelable during the initial contractual term.

Consumer
The Company also generates revenues from the sale of monthly, quarterly, bi-annual and annual membership subscriptions to the Company's therapy platform as well as supplementary a la carte offerings directly to individual consumers through a subscription plan. The Company recognizes consumer revenues ratably over the subscription period, beginning when therapy services commence. The Company recognizes revenues from supplementary a la carte offerings at a point in time, as virtual therapy sessions are rendered. Members may cancel their subscription at any time and will receive a pro-rata refund for the subscription price. The transaction price from member subscription revenue and supplementary a la carte offerings includes variable consideration in the form of refunds. Revenue is presented net of refunds. The Company estimates the refund liability for the variable consideration portion of the transaction price primarily based on historical experience. The refund liability is recorded within the "Accrued expenses and other current liabilities" line item in the consolidated balance sheets. The refund liability was immaterial as of December 31, 2023 and 2022.

Accounts Receivable

Accounts receivables are stated net of credit losses allowance. The Company is exposed to credit losses primarily through its contracts with Payor and DTE clients. The Company's methodology for estimating credit loss is based on historical collection experience, customer creditworthiness, current and future economic condition and market condition. Additionally, specific allowance amounts are established to record the appropriate provision for customers that have a higher probability of default. Accounts receivables are written off after all reasonable means to collect the full amount have been exhausted. Credit losses were immaterial for the years ended December 31, 2023, 2022 and 2021.

Deferred Revenue

The Company records deferred revenues when cash payments from customers are received in advance of the Company's performance obligations to provide services. As of December 31, 2023, deferred revenue related mainly to Consumer subscriptions. The Company expects to satisfy the majority of its performance obligations associated with deferred revenue within one year or less.

Stock-based compensation

The Company accounts for stock-based compensation in accordance with ASC 718, “Compensation - Stock Compensation”. Compensation costs for share-based awards are measured at the fair value on the grant date and recognized as expense using the straight-line method for service-based awards over the requisite service period.

The fair value of stock options is determined using the Black-Scholes-Merton option pricing model. The option-pricing model requires a number of assumptions, of which the most significant is the expected stock price volatility and the expected option term. Expected volatility is calculated based upon the Company's historical share price movements as well as similar traded companies’ historical share price movements as adequate historical experience is not available to provide a reasonable estimate based only on the Company's share price. Expected term is calculated based on the simplified method as adequate historical experience is not available to provide a reasonable estimate. The simplified method will continue to apply until enough historical experience is available to provide a reasonable estimate of the expected term. The risk-free interest rate is calculated based on the yield from U.S. Treasury zero-coupon bonds with an equivalent term. The Company has historically not paid dividends and has no foreseeable plans to pay dividends.

The fair value of restricted stock units is measured as the grant-date closing price of the Company’s common stock.

The Company recognizes forfeitures of awards as they occur.

Determination of Fair Value of our Common Stock prior to the Business Combination

Due to the absence of an active market for our shares of common stock prior to the Business Combination, the grant-date fair market value of the common shares underlying stock options was historically determined by management and approved by the Company’s board of directors. Because there was no public market for the Company’s common shares, the Board of Directors exercised reasonable judgment and considered a number of objective and subjective factors to determine the best estimate of the fair market value, which included important developments in the Company’s operations, the prices at which the Company sold shares of its convertible preferred shares, the rights, preferences and privileges of the Company’s convertible preferred shares relative to those of the Company’s common shares, actual operating results, financial performance and the lack of marketability of the Company’s common shares.

Employee Benefit Plan

The Company has established a 401(k) plan that qualifies as a deferred compensation arrangement under Section 401 of the Internal Revenue Code. All U.S. employees over the age of 21 are eligible to participate in the plan. The Company contributes 100% of eligible employee’s elective deferral up to 4% of eligible earnings. The Company's matching contributions to participants’ accounts were immaterial for the years ended December 31, 2023, 2022 and 2021.

Fair value of financial instruments

The Company applies ASC 820, “Fair Value Measurements and Disclosures”. Under this standard, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date.

In determining fair value, the Company uses various valuation approaches. ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs used to measure fair value to the extent that relevant observable inputs are not available. An entity develops unobservable inputs using the best information available in the circumstances, which might include the entity's own data, taking into account all information about market participant assumptions that is reasonably available.

Three levels of inputs may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets of liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Income taxes

The Company accounts for income taxes in accordance with ASC 740, "Income Taxes". The net deferred tax assets assume sufficient future earnings for their realization, as well as the continued application of currently enacted tax rates. Included in net deferred tax assets is a valuation allowance for deferred tax assets, where management believes it is more-likely-than-not that the deferred tax assets will not be realized in the relevant jurisdiction. If the Company determines that a deferred tax asset will not be realizable, an adjustment to the deferred tax asset will result in a reduction of net earnings at that time. Accrued interest and penalties are included within the related tax asset or liability in the accompanying consolidated financial statements.

The Company follows the provisions in ASC 740 and the guidance related to accounting for uncertainty in income taxes. ASC 740 contains a two-step approach to recognizing and measuring a liability for uncertain tax positions. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. The Company's policy is to recognize interest related to unrecognized tax benefits as interest expense and penalties as operating expenses.

The Company does not provide deferred tax liabilities when it intends to reinvest earnings of a foreign subsidiary indefinitely or if distributed, no tax liability will be imposed. Undistributed earnings of a foreign subsidiary and unrecognized deferred tax liability related to such earnings are immaterial as of December 31, 2023.

As of December 31, 2023 and 2022 the Company did not record any provision for uncertain tax positions. The Company does not anticipate that the assessment will significantly increase or decrease within the next 12 months. No accrued interest or penalties were accrued as of December 31, 2023 and 2022.

Net loss per share

The Company’s basic net loss per share is calculated by dividing net loss attributable to ordinary shareholders by the weighted-average number of shares of common stock outstanding for the period, without consideration of potentially dilutive securities. The diluted net loss per share is calculated by giving effect to all potentially dilutive securities outstanding for the period using the treasury share method or the if-converted method based on the nature of such securities. Diluted net loss per share is the same as basic net loss per share in periods when the effects of potentially dilutive shares of shares of common stock are anti-dilutive.

Recently Issued and Recently Adopted Accounting Pronouncements

In November 2023, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*, which requires public entities to disclose information about their reportable segments’ significant expenses and other segment items on an interim and annual basis. Public entities with a single reportable segment are required to apply the disclosure requirements in ASU 2023-07, as well as all existing segment disclosures and reconciliation requirements in ASC 280 on an interim and annual basis. ASU 2023-07 is effective for fiscal years beginning after December 15, 2023, and for interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted. The Company is currently evaluating the impact of adopting ASU 2023-07.

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*, which requires public entities, on an annual basis, to provide disclosure of specific categories in the rate reconciliation, as well as disclosure of income taxes paid disaggregated by jurisdiction. ASU 2023-09 is effective for fiscal years beginning after December 15, 2024, with early adoption permitted. The Company is currently evaluating the impact of adopting ASU 2023-09.

NOTE 3. REVENUE RECOGNITION

The following table presents the Company's revenues from sales to unaffiliated customers disaggregated by revenue source:

	Year Ended December 31,		
(in thousands)	2023	2022	2021
Revenues from sales to unaffiliated customers:			
Payor	$ 80,823	$ 36,168	$ 22,272
DTE	33,614	28,241	$ 16,642
Consumer	35,608	55,158	74,757
Total	$ 150,045	$ 119,567	$ 113,671

For the years ended December 31, 2023, 2022 and 2021, the majority of the Company's revenues were generated from customers located in the United States.

For the year ended December 31, 2023, two customers represented 10% or more of total revenue. For the year ended December 31, 2022, two customers represented 10% or more of total revenue. No single customer represented 10% or more of total revenue for the year ended December 31, 2021.

Accounts Receivable

The Company had receivables related to revenue from DTE clients of $7.8 million and $7.4 million at December 31, 2023 and December 31, 2022, respectively. As of December 31, 2023 and 2022, the balance of receivables related to revenue from Payor clients was $2.4 million and $2.2 million, respectively.

As of December 31, 2023, no single customer represented 10% or more of the accounts receivable balance. As of December 31, 2022, one customer represented 10% of the accounts receivable balance.

Deferred Revenue

For the year ended December 31, 2023 and 2022, the Company recognized revenues of $2.8 million and $6.2 million, respectively, that were included in deferred revenues at the beginning of the year. As of December 31, 2023, deferred revenue mainly related to the Company's Consumer subscription business.

NOTE 4. INTANGIBLE ASSETS, NET

Intangible assets are comprised of the following:

	As of December 31,	
(in thousands)	2023	2022
Intangible assets with finite lives:		
Acquired technology	$ 3,201	$ 3,201
Customer relationship	1,350	1,350
Non-Competition agreement	939	939
	5,490	5,490
Accumulated amortization:		
Acquired technology	1,415	968
Customer relationship	1,350	1,350
Non-Competition agreement	939	643
	3,704	2,961
Intangible assets, net	$ 1,786	$ 2,529

Amortization expense for intangible assets was $0.7 million for the year ended December 31, 2023 ($0.9 million and $1.8 million for the years ended December 31, 2022 and 2021, respectively). Amortization related to intangible assets for acquired technology was included in cost of revenues and amortization related to intangible assets for customer relationships was included in sales and marketing expenses in the Company's consolidated statement of operations for the periods presented.

Future amortization that will be charged to expense over the remaining life of the acquired technology intangible asset as of December 31, 2023 is as follows:

December 31,		*In thousands*
2024	$	446
2025		446
2026		446
2027		448
	$	1,786

NOTE 5. FAIR VALUE MEASUREMENT

The carrying value of the Company's cash, cash equivalents, accounts receivable, other current assets, accounts payable, and accrued liabilities approximate fair value because of the relatively short-term nature of the underlying assets or liabilities. Money market funds are classified within Level 1 of the fair value hierarchy because these assets are valued based on quoted market prices in active markets.

The Company assumed Public Warrants as a result of the Business Combination and also issued equity warrants to certain consultants. The Company determined these warrants met the criteria to be classified as equity in accordance with ASC 815-40. The Company valued these warrants using the instrument's publicly listed trading price on the date of acquisition or issuance, where applicable, and included it in additional paid-in capital within stockholder's equity. This is considered to be a non-recurring Level 1 measurement due to the use of an observable market quote in an active market.

In June 2021, the Company also assumed Private Placement Warrants which are accounted for as liabilities in accordance with ASC 815-40 and are presented within warrant liabilities in the accompanying consolidated balance sheets. The warrant liabilities were measured at fair value at inception and thereafter on a recurring, quarterly basis, with changes in fair value presented within financial (income), net, in the consolidated statement of operations. The Private Placement Warrants were valued using the Black-Scholes-Merton Model, which is considered to be a Level 3 fair value measurement. The primary unobservable input utilized in determining the fair value of the Private Placement Warrants is the implied volatility from trading prices of the Company's Public Warrants, significant increases (decreases) in this input in isolation would have resulted in a significantly higher (lower) fair value measurement.

The following were the inputs utilized in determining the fair value of the Private Placement Warrants as of December 31, 2023 and 2022:

	Years Ended December 31,	
	2023	**2022**
Dividend yield (1)	0%	0%
Expected volatility (2)	61.10%	93.00%
Risk-free interest rate (3)	4.13%	4.17%
Time to maturity (years)	2.47	3.47

(1) No dividends were paid for the years ending December 31, 2023 and 2022.

(2) The expected volatility is based on the volatility implied by backsolving to the Public Warrants' price as of the valuation date.

(3) The risk -free interest rate is based on the yield from U.S. Treasury bonds with an equivalent term to the time to maturity of the warrants.

Assets and Liabilities Measured at Fair Value

The Company's assets and liabilities, recorded at fair value on a recurring basis, as of December 31, 2023 and 2022, have been categorized based upon the fair value hierarchy as follows:

	Fair Value Measurements as of December 31, 2023			
(in thousands)	Level 1	Level 2	Level 3	Total
Assets				
Cash	$ 1,078	$ —	$ —	$ 1,078
Cash equivalents				
Money market funds	122,830	—	—	122,830
Total cash and cash equivalents	$ 123,908	$ —	$ —	$ 123,908
Liabilities				
Private Placement Warrants	—	—	1,842	1,842
Total Warrant Liabilities	$ —	$ —	$ 1,842	$ 1,842

	Fair Value Measurements as of December 31, 2022			
(in thousands)	Level 1	Level 2	Level 3	Total
Assets				
Cash	$ 118,038	$ —	$ —	$ 118,038
Cash equivalents				
Money market funds	20,507	—	—	20,507
Total cash and cash equivalents	$ 138,545	$ —	$ —	$ 138,545
Liabilities				
Private Placement Warrants	—	—	939	939
Total Warrant Liabilities	$ —	$ —	$ 939	$ 939

The following table presents changes in Level 3 liabilities measured at fair value on a recurring basis for the years ended December 31, 2023 and 2022:

	Level 3 Liabilities Year Ended December 31, 2023		
(in thousands)	Beginning Balance	Change in Fair Value	Ending Balance
Private Placement Warrants	$ 939	$ 903	$ 1,842

	Level 3 Liabilities Year Ended December 31, 2022		
(in thousands)	Beginning Balance	Change in fair Value	Ending Balance
Private Placement Warrants	$ 4,070	$ (3,131)	$ 939

NOTE 6. COMMITMENTS AND CONTINGENT LIABILITIES

Litigation

In January 2022, the Company and certain of its current and former officers and directors were named as defendants in securities class action complaints filed in the United States District Court for the Southern District of New York under the case headings: (1) Baron v. Talkspace et al., No. 22-cv-00163 (S.D.N.Y.) and (2) Valdez v. Talkspace et al., No. 22-cv-00840 (S.D.N.Y.), which were subsequently consolidated under the caption In re Talkspace, Inc. Securities Litigation, No. 22-cv-00163 (S.D.N.Y) (the “Securities Action”). The Securities Action asserts violations of sections 10(b), 14(a) and 20(a) of the Securities Exchange Act of 1934 and SEC Rules 10b-5 and 14a-9 promulgated thereunder. These actions generally relate to public disclosures and statements by the Company in connection with its merger with Hudson Executive Investment Corp. (“HEIC”).

In December 2022, the Company’s subsidiary Tailwind Merger Sub II, LLC, certain of the Company’s current and former directors and officers, and others were named as defendants in a putative class action complaint filed in the Delaware Court of Chancery under the case caption Valdez v. Braunstein, et al., C.A. No. 2022-1148 (Del. Ch.) (the “Delaware Action”).

The Delaware Action asserts claims for breach of fiduciary duty and aiding and abetting breach of fiduciary duty relating to the merger with HEIC, among other things, based on many of the same facts at issue in the Securities Action. The complaint seeks, among other things, damages on behalf of putative class members who did not redeem their shares in connection with the Company's merger with HEIC.

In February 2023, the Company resolved the Securities Action and the Delaware Action through mediation. The settlement resolves these litigations with respect to all named defendants (the "Securities Settlement"). On June 30, 2023, the court entered an order preliminarily approving the Securities Settlement. On October 30, 2023, the court granted final approval to the Securities Settlement in all respects. The defendants have not admitted any liability or wrongdoing in connection with the Securities Settlement and have entered into the Securities Settlement solely to avoid the costs, risks, distraction, and uncertainties of continued litigation of the Securities Action and Delaware Action.

In June and July 2022, two individuals filed stockholder derivative lawsuits on behalf of Talkspace in the United States District Court for the Southern District of New York under the case captions: (1) Odsvall v. Oren Frank et al., No. 22-cv-05016 (S.D.N.Y.) and (2) Nayman v. Berg, et al., No. 22-cv-06258 (S.D.N.Y.), which were subsequently consolidated under the caption In re Talkspace Stockholder Derivative Litigation, No. 22-cv-05016 (S.D.N.Y.) in September 2022 (the "Derivative Action"). The Derivative Action named certain of the Company's current and former officers and directors as defendants and the Company as a nominal defendant. The Derivative Action asserted claims for violations of federal securities laws, breach of fiduciary duty, and aiding and abetting breaches of fiduciary duty relating to the merger with HEIC, among other things, based on many of the same facts at issue in the Securities Action.

In February 2023 the parties reached an agreement in principle to resolve the Derivative Action with respect to all named defendants in exchange for certain changes to the Company's Corporate Governance environment, including the declassification of the Company's board of directors, creation of a management-level disclosure committee, enhancements to the responsibilities and duties of the Company's Audit Committee, the addition of independent directors, enhancements to employee compliance training and retention of an internal controls consultant. The declassification of the Company's board of directors was put forth as a proposal at the Company's 2023 Annual Shareholder Meeting, but it wasn't approved by the general shareholder vote. On May 18, 2023, the parties entered into a Stipulation of Settlement and Release Agreement (the "Stipulation") that sets forth the terms and conditions for the proposed settlement and dismissal with prejudice of the Derivative Action (the "Derivative Settlement"). On June 30, 2023, the court entered an order preliminarily approving the Stipulation and proposed Derivative Settlement and scheduling a hearing for August 16, 2023 to determine whether to give final approval to the Derivative Settlement. On August 16, 2023, the court granted final approval to the Derivative Settlement in all respects. The defendants have not admitted any liability or wrongdoing in connection with the Derivative Settlement and have entered into the Derivative Settlement solely to avoid the costs, risks, distraction, and uncertainties of continued litigation of the Derivative Action.

In addition to the foregoing, the Company may in the future be involved in various legal proceedings, claims and litigation that arise in the normal course of business. The Company accrues for estimated loss contingencies related to legal matters when available information indicates that it is probable a liability has been incurred and the Company can reasonably estimate the amount of that loss. In many proceedings, however, it is inherently difficult to determine whether any loss is probable or even possible or to estimate the amount of any loss. In addition, even where a loss is possible or an exposure to loss exists in excess of the liability already accrued with respect to a previously recognized loss contingency, it is often not possible to reasonably estimate the size of the possible loss or range of loss or possible additional losses or range of additional losses.

Warranties and Indemnification

The Company's arrangements generally include certain provisions for indemnifying clients against liabilities if there is a breach of a client's data or if the Company's service infringes a third party's intellectual property rights. To date, the Company has not incurred any material costs as a result of such indemnifications. The Company has also agreed to indemnify its directors and executive officers for costs associated with any fees, expenses, judgments, fines and settlement amounts incurred by any of these persons in any action or proceeding to which any of those persons is, or is threatened to be, made a party by reason of the person's service as a director or officer, including any action by the Company, arising out of that person's services as a director or officer or that person's services provided to any other company or enterprise at the Company's request. The Company maintains director and officer liability insurance coverage that would generally enable it to recover a portion of any future amounts paid. The Company may also be subject to indemnification obligations by law with respect to the actions of its employees under certain circumstances and in certain jurisdictions.

NOTE 7. CAPITAL STOCK

The Company's authorized capital stock consists of (a) 1,000,000,000 shares of common stock, par value $0.0001 per share; and (b) 100,000,000 shares of preferred stock, par value $0.0001 per share. As of December 31, 2023 and 2022 there were 12,780,000 Private Placement Warrants and 21,350,000 Public Warrants to purchase the Company's common stock at an exercise price of $11.50 per share. As of December 31, 2023 and 2022, no shares of preferred stock were issued or outstanding.

NOTE 8. SHARE-BASED COMPENSATION

In June 2021, the Company adopted the 2021 Incentive Award Plan (the "2021 Plan") under which the Company may grant cash and equity incentive awards to officers, employees, directors, consultants and service providers in order to attract, motivate and retain the talent. The 2021 Plan replaced the Company's previous stock compensation plan.

All stock-based awards are measured based on the grant date fair value and are recognized on a straight-line basis in the Company's consolidated statement of operations over the requisite service period (generally requiring a four-year vesting period).

Stock Options

Stock options generally vest over a four-year period and are exercisable a maximum period of ten years. A summary of the Company's stock option activity for the year ended December 31, 2023 is as follows:

	Year Ended December 31, 2023			
	Number of options	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value [1] *(in thousands)*
Outstanding at beginning of year	16,876,326	$ 2.03	7.26	$ 1,135
Granted	1,293,045	1.21		
Exercised	(4,592,195)	0.59		
Forfeited	(3,018,603)	3.18		
Outstanding at end of year [2]	10,558,573	$ 2.23	7.18	$ 11,774
Exercisable at end of year [2]	7,147,389	$ 2.11	6.54	$ 8,289

(1) The aggregate intrinsic value of options outstanding at end of the year and options exercisable at end of the year does not include 2,514,361 and 1,643,117, respectively, of stock options that are out of the money.

(2) Excludes 650,000 fully-vested stock options with an exercise price of $11.50 issued in June 2021 to a consultant.

The weighted average grant-date fair value of stock options granted to employees during the years ended December 31, 2023 was $0.74 per share ($0.88 and $3.81 per share for the years ended December 31, 2022 and 2021, respectively).

The fair value for options granted for the years ended December 31, 2023, 2022 and 2021 was estimated on the date of grant using a Black-Scholes-Merton options pricing model with the following weighted average assumptions:

	Years Ended December 31,		
	2023	2022	2021
Dividend yield [1]	0%	0%	0%
Expected volatility [2]	58.63% - 68.40%	66.80%-86.13%	65.00%-75.23%
Risk-free interest rate [3]	3.70%-4.22%	1.76%-4.11%	0.66%-1.39%
Expected term (years) [4]	5.23 - 6.25	5.07-6.25	5.27-6.25

(1) No dividends were paid during the years ending December 31, 2023, 2022 and 2021.

(2) The expected volatility was calculated based upon historical stock price movements of the Company and similar publicly traded peer companies over the most recent periods ending on the grant date, equal to the expected term of the options, as adequate historical experience is not available to provide a reasonable estimate.

(3) The risk-free interest rate is based on the yield from U.S. treasury bonds with an equivalent term to the expected term of the options.

(4) The expected term of stock options granted is calculated using the simplified method for "plain vanilla" stock options awards.

As of December 31, 2023, there was $4.8 million of total unrecognized compensation cost related to non-vested stock options that are expected to be recognized over a period of up to 4.2 years.

Restricted Stock Units

Restricted Stock Units ("RSUs") typically vest over a four-year period. The following table summarizes the activity for RSUs for the year ended December 31, 2023:

	Year Ended December 31, 2023	
	Number of restricted stock units	Weighted average grant-date fair value
Nonvested at beginning of year	9,127,051	$ 1.46
Granted	5,198,971	$ 1.13
Vested	(3,190,804)	$ 1.40
Forfeited	(2,150,391)	$ 1.42
Nonvested at end of year	8,984,827	$ 1.30

The total fair value of RSUs vested during the year ended December 31, 2023 was $5.0 million ($3.7 million and $1.1 million for the years ended December 31, 2022 and 2021, respectively)

As of December 31, 2023, there was $11.0 million of total unrecognized compensation cost related to non-vested RSUs that are expected to be recognized over a period of up to 4.2 years.

The following table sets forth the total share-based compensation expense related to stock options and RSUs included in the respective components of operating expenses in the consolidated statement of operations:

	Year Ended December 31,		
(in thousands)	2023	2022	2021
Research and development, net	$ 2,463	$ 2,550	$ 3,102
Clinical Operations, net	455	549	1,711
Sales and Marketing	1,722	3,090	6,089
General and administrative	3,755	5,927	16,503
Total stock-based compensation expense	$ 8,395	$ 12,116	$ 27,405

The Company recognized $15.2 million in additional share-based compensation expense during the year ended December 31, 2021 as a result of the Business Combination. Additionally, the Company recognized $3.8 million in share-based compensation expense as a result of the modification of Mr. and Ms. Frank's equity awards during the year ended December 31, 2021, in connection with their departure from the Company.

NOTE 9. NET LOSS PER SHARE

The following table sets forth the computation of basic and diluted net loss per share attributable to common stockholders for the years ended December 31, 2023, 2022 and 2021:

	Year Ended December 31,		
(in thousands except share and per share data)	2023	2022	2021
Net loss	$ (19,182)	$ (79,672)	$ (62,742)
Weighted-average shares used to compute net loss per share:			
Basic and diluted	165,039,920	156,885,256	86,775,948
Net loss per share:			
Basic and diluted	$ (0.12)	$ (0.51)	$ (0.72)

For the year ended December 31, 2023, the following were excluded from the calculation of diluted loss per share since each would have had an anti-dilutive effect given the Company’s net loss: 10,558,573 stock options, 8,984,827 restricted stock units, 12,780,000 Private Placement Warrants and 21,350,000 Public Warrants to purchase the Company’s common stock.

For the year ended December 31, 2022, the following were excluded from the calculation of diluted loss per share since each would have had an anti-dilutive effect given the Company’s net loss: 17,526,326 stock options, 9,127,051 restricted stock units, 12,780,000 Private Placement Warrants and 21,350,000 Public Warrants to purchase the Company’s common stock.

For the year ended December 31, 2021, the following were excluded from the calculation of diluted loss per share since each would have had an anti-dilutive effect given the Company's net loss: 19,494,861 stock options, 2,330,094 restricted stock units, 12,780,000 Private Placement Warrants and 21,350,000 Public Warrants to purchase the Company's common stock.

NOTE 10. TAXES ON INCOME

The Company and its subsidiaries file income tax returns in the U.S. federal, and various states and foreign jurisdictions. The Company assessed its uncertain tax positions and determined that it has no uncertain tax positions at December 31, 2023.

A reconciliation of the Company's statutory income tax rate to the Company's effective income tax rate is as follows:

	Year ended December 31,		
(in thousands)	2023	2022	2021
Loss before income taxes	$ (18,964)	$ (79,418)	$ (62,695)
Statutory tax rate	21 %	21 %	21 %
Federal taxes	(3,982)	(16,678)	(13,166)
Increase (decrease) in effective tax rate due to:			
State taxes, net of federal benefit	276	(4,079)	(2,500)
Impairment of goodwill	—	1,288	—
Permanent differences	897	83	(1,492)
Other Adjustments	(373)	(6,669)	94
Valuation allowance	3,400	26,309	17,111
Actual income taxes	$ 218	$ 254	$ 47

The main reconciling item between the statutory tax rate of the Company and the effective tax rate is the recognition of valuation allowance in respect of deferred taxes relating to accumulated net operating losses carried forward due to the uncertainty of the realization of such deferred taxes.

(Loss) income before taxes is attributable to the following tax jurisdictions:

	Year Ended December 31,		
(in thousands)	2023	2022	2021
U.S. operations	$ (19,576)	$ (79,788)	$ (62,902)
Foreign operations	612	370	207
	$ (18,964)	$ (79,418)	$ (62,695)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows:

	As of December 31,	
(in thousands)	2023	2022
Net deferred tax assets:		
Net operating loss carryforwards	$ 70,701	$ 64,644
Stock based compensation	2,892	4,098
Fixed assets	378	375
Other	45	1,499
Total gross deferred tax assets, net	74,016	70,616
Valuation allowance	(74,016)	(70,616)
Net deferred tax assets		
Deferred tax liabilities (long term):		
Warrants	—	—
Net deferred tax assets	$ —	$ —

Realization of the future tax benefits is dependent on the Company's ability to generate sufficient taxable income within the carryforward period. A valuation allowance is provided for deferred tax assets when it is "more likely than not" that some portion of the deferred tax asset will not be realized. Because of the Company's recent history of operating losses, management believes the recognition of the deferred tax assets arising from the above-mentioned future tax benefits is currently not more likely than not to be realized and, accordingly, has provided a full valuation allowance. A valuation allowance has been recorded for the net deferred tax assets at December 31, 2023 and 2022.

The Company maintains a full valuation allowance on its net deferred tax assets. The assessment regarding whether a valuation allowance is required considers both positive and negative evidence when determining whether it is more likely than not that deferred tax assets are recoverable. In making this assessment, significant weight is given to evidence that can be objectively verified. Management considered the Company's cumulative loss in recent years and forecasted losses in the near term as significant negative evidence. Based upon a review of the four sources of income identified within ASC 740, management determined that the negative evidence outweighed the positive evidence and that a full valuation allowance on the net deferred tax assets will be maintained. Management will continue to assess the realizability of our deferred tax assets going forward and will adjust the valuation allowance as needed. The Company's valuation allowance increased by $3.4 million during the year ended December 31, 2023 primarily due to increases in its net operating loss carryforwards.

At December 31, 2023, the Company has federal and state net operating loss carryovers ("NOL") of approximately $282.5 million and $246.9 million, respectively, which are available to reduce future taxable income. The NOL carryforwards begin to expire in 2032 and may become subject to annual limitation in the event of certain cumulative changes in the ownership interest of significant stockholders over a three-year period in excess of 50%, as defined under I.R.C. Section 382. This could limit the amount of tax attributes that can be utilized annually to offset future taxable income or future tax liabilities. The federal losses generated from 2018 onward do not expire.

The Company is subject to U.S. federal and state and Israeli income taxes with varying statutes of limitations. The Company is not currently under examination by any income tax authority, nor has it been notified that an examination is contemplated. The Company is no longer subject to U.S. federal, state or local income tax examinations by the tax authorities for years before 2019. The Israel subsidiary tax assessments filed by the Company through the year 2017 are considered closed.

NOTE 11. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities are comprised of the following:

	As of December 31,	
(in thousands)	2023	2022
Employee compensation	$ 7,269	$ 5,290
User acquisition	1,525	2,256
Professional fees	626	543
Litigation costs	—	5,500
Other	3,048	2,913
Accrued expenses and other current liabilities	$ 12,468	$ 16,502

NOTE 12. VARIABLE INTEREST ENTITIES ("VIEs")

In the second quarter of 2022, the Company completed a transition with respect to its relationship with its providers, transitioning to a structure whereby Talkspace LLC has entered into various agreements with a Texas professional association entity (Talkspace Provider Network, PA or "TPN"), which in turn contracts with our other affiliated professional entities ("PC entities"), physicians, therapists, and other licensed professionals for clinical and professional services provided to the Company's members. Talkspace LLC is party to various Management Services Agreements ("MSAs") with TPN as well the PC entities as part of this transition. The Company believes the transition to a structure where it operates under various MSAs with professional associations and professional corporations authorized by state law to contract with affiliated professionals to delivery teletherapy services to its members, helps ensure the Company is able to comply with all applicable regulatory requirements, including the corporate practice of medicine and fee-splitting laws, that are necessarily implicated by engaging in telehealth care that can only be delivered by physicians. The Company is continuing to transition its current agreements with its clients, members and other business partners to TPN or the PC entities, where applicable.

Pursuant to the MSAs, Talkspace LLC is the managing entity (the "Manager") and provides management and administrative resources and services essential to the operations of TPN and the PC entities and receives a management fee for these services and reimbursement of expenses incurred. TPN and the PC entities in turn have the obligation under the MSAs to engage all licensed physicians and other health professionals to provide behavioral healthcare services to the Company's members. In addition, to the extent that TPN or the PC entities lack sufficient funds to meet their obligations, the Manager may, at its sole discretion, advance funds to TPN or the PC entities to cover these obligations. Such advances would be considered loans made by Manager and should be repaid as per the terms of the management agreement. No such advances have been made by the Manager to TPN or the PC entities for years ended December 31, 2023 and 2022.

The Company holds a variable interest in TPN and the PC entities. The Company evaluates whether an entity in which it has a variable interest is considered a VIE. VIEs are generally entities that have either a total equity investment that is insufficient to permit the entity to finance its activities without additional subordinated financial support, or whose equity investors lack the characteristics of a controlling financial interest (i.e., ability to direct the activities of the entity that most significantly impact the entity's economic performance through voting rights and a right to receive the expected residual returns of the entity or an obligation to absorb the expected losses of the entity).

Under the provisions of ASC 810, "Consolidation", an entity consolidates a VIE if it is determined to be the primary beneficiary of the VIE. The primary beneficiary has both (a) the power to direct the activities of the VIE that most significantly impact the entity's economic performance, and (b) the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

The Company also determined that it is able to direct the activities of TPN and the PC entities that most significantly impact their economic performance and it funds and absorbs all losses of these VIEs resulting in the Company being the primary beneficiary of these entities. Accordingly, the Company consolidates these VIEs.

The following table details the assets and liabilities of the VIEs as of December 31, 2023 and 2022. The assets and liabilities in the table below are presented prior to consolidation and thus a portion of these assets and liabilities are eliminated in consolidation.

(in thousands)	December 31, 2023	December 31, 2022
ASSETS		
Cash and cash equivalents	$ 167	$ 883
Accounts receivable	4,031	1,716
Other assets	11,493	4,813
Total Assets	$ 15,691	$ 7,412
LIABILITIES		
Accrued expenses and other current liabilities	2,831	3,758
Total Liabilities	$ 2,831	$ 3,758

NOTE 13. SUBSEQUENT EVENT

Share Repurchase Program

On February 22, 2024, the Company announced that its Board of Directors has approved a share repurchase program which authorizes the repurchase of up to $15 million of the currently outstanding shares of the Company's common stock over a period of twenty-four months beginning on March 1, 2024 (the "Repurchase Program"). Under the Repurchase Program, the Company may repurchase shares through various methods, including open market purchases and privately-negotiated transactions, or otherwise in accordance with applicable federal securities laws, including Rule 10b-18 of the Securities Exchange Act of 1934 (the "Exchange Act"). Such purchases will be at times and in amounts as the Company deems appropriate, based on factors such as price, market conditions, corporate and regulatory requirements, constraints specified in any Rule 10b5-1 trading plans, alternative investment opportunities and other business considerations.

The Repurchase Program does not obligate the Company to repurchase any dollar amount or number of shares, and may be suspended or terminated at any time.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

In connection with the preparation of this report, an evaluation was carried out by certain members of Company management, with the participation of the Chief Executive Officer and our Chief Financial Officer of the effectiveness of the Company's disclosure controls and procedures (as defined in Securities and Exchange Commission's ("SEC") Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act")), as of December 31, 2023. Disclosure controls and procedures are designed to ensure that information required to be disclosed in 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, and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosures. Based upon that evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2023.

Management also believes that the consolidated financial statements in this Annual Report on Form 10-K present, in all material aspects, the company's financial condition as reported, in conformity with U.S. Generally Accepted Accounting Principles ("US GAAP").

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and the dispositions of our assets; (2) provide reasonable assurance that our transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that our receipts and expenditures are being made only in accordance with appropriate authorizations; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision of and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we assessed the effectiveness of our internal control over financial reporting as of December 31, 2023, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control—Integrated Framework (2013)*. Based upon that evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2023.

The Company's independent registered public accounting firm, Kost Forer Gabbay & Kasierer, A Member of EY Global, which audited our consolidated financial statements included in this Form 10-K, has audited the effectiveness of the Company's internal control over financial reporting as of December 31, 2023, and has issued an attestation, which appears in their report above.

Changes in Internal Control Over Financial Reporting

As previously reported in Item 9A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2022, as of that fiscal year-end, we had ineffective controls with respect to certain information technology general controls (ITGCs) and, as a result, certain business process controls (automated and IT-dependent manual controls) that were dependent on the ineffective ITGCs, or that use data produced from systems impacted by the ineffective ITGCs, were deemed ineffective.

We also had a material weakness in connection with our process to monitor and provide oversight over the testing and assessment of the design and operating effectiveness of internal control over financial reporting in a timely manner.

As previously reported, we have over time been implementing improvements to our control system with the goal of remediating these material weaknesses in internal control over financial reporting by December 31, 2023. During the fiscal quarter ended December 31, 2023, we completed our remediation plan. As a result, management has determined that, as of December 31, 2023, there are no longer any material weaknesses in our internal control over financial reporting. Among the aggregate improvements we have made, we have:

- hired additional personnel with appropriate technical skill sets;
- developed an execution plan and resourcing to test controls and providing timely feedback of any deficiencies noted to complete and maintain remediation;
- established a training program for the entire organization to support ongoing execution of internal controls and adherence to control activities;
- actively monitored (and continue to monitor) corrective actions and providing status reporting to leadership on the progress.

As a result of the aggregate effect of the foregoing improvements and after testing both the design and operating effectiveness of the redesigned controls, management has determined that, as of December 31, 2023, our previously reported material weaknesses in internal control over financial reporting have been remediated.

Item 9B. OTHER INFORMATION

During the fiscal quarter ended December 31, 2023, no director or officer of the Company adopted or terminated a “Rule 10b5-1 trading arrangement” or “non-Rule 10b5-1 trading arrangement,” as the terms are defined in Item 408(a) of Regulation S-K.

Item 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not Applicable.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is incorporated by reference to the definitive Proxy Statement for our 2024 Annual Meeting of Stockholders, which will be filed with the SEC no later than 120 days after December 31, 2023.

Item 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to the definitive Proxy Statement for our 2024 Annual Meeting of Stockholders, which will be filed with the SEC no later than 120 days after December 31, 2023.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated by reference to the definitive Proxy Statement for our 2024 Annual Meeting of Stockholders, which will be filed with the SEC no later than 120 days after December 31, 2023.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated by reference to the definitive Proxy Statement for our 2024 Annual Meeting of Stockholders, which will be filed with the SEC no later than 120 days after December 31, 2023.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is incorporated by reference to the definitive Proxy Statement for our 2024 Annual Meeting of Stockholders, which will be filed with the SEC no later than 120 days after December 31, 2023.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)

(1) Our Consolidated Financial Statements are listed in the Index to Consolidated Financial Statements and Supplemental Data filed as part of this Form 10-K. See Item 8 (pages 60 to 78)

(2) Financial Statement Schedules
Not Applicable

(3) The exhibits which are filed with this Form 10-K or are incorporated herein by reference are set forth in the Exhibit Index (pages 83 to 84)

(b) Exhibits
See the Exhibit Index included hereinafter on pages 83 to 84

(c) Financial Statement Schedules excluded from the annual report to stockholders
None

Item 16. FORM 10-K SUMMARY

None.

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed/ Furnished Herewith
		Form	File No.	Exhibit	Filing Date	
2.1+	Agreement and Plan of Merger, dated as of January 12, 2021, by and among Hudson Executive Investment Corp., Tailwind Merger Sub I, Inc., Tailwind Merger Sub II, LLC, and Groop Internet Platform, Inc. (d/b/a Talkspace).	S-4	333-252638	2.1	2/2/21	
3.1	Second Amended and Restated Certificate of Incorporation of Talkspace, Inc.	8-K/A	001-39314	3.1	6/23/21	
3.2	Bylaws of Talkspace, Inc.	8-K/A	001-39314	3.2	6/23/21	
4.1	Warrant Agreement, dated as of June 8, 2020, by and between Continental Stock Transfer & Trust Company and Hudson Executive Investment Corp.	8-K	001-39314	4.1	6/11/20	
4.2	Specimen Warrant Certificate of the Registrant.	S-1/A	333-238583	4.3	6/5/20	
4.3	Specimen Common Stock Certificate.	S-4/A	333-252638	4.5	5/20/21	
4.4	Description of Common Stock.	10-K	001-39314	4.4	2/25/22	
10.1†	2021 Incentive Award Plan.	S-8	333-259165	99.1	8/30/21	
10.2†	2021 Employee Stock Purchase Plan.	S-8	333-259165	99.2	8/30/21	
10.3†	2014 Stock Incentive Plan.	S-8	333-259165	99.3	8/30/21	
10.4†	Form of Indemnification Agreement.	8-K	001-39314	10.1	6/23/21	
10.5	Amended and Restated Registration Rights Agreement, by and among Talkspace, Inc. and the holders party thereto.	8-K	001-39314	10.2	6/23/21	
10.6†	Non-Employee Director Compensation Program.	8-K	001-39314	10.3	6/23/21	
10.7†	Form of Stock Option Agreement under the Talkspace, Inc. 2021 Incentive Award Plan.	8-K	001-39314	10.7(a)	6/23/21	
10.8†	Form of Restricted Stock Unit Agreement under the Talkspace, Inc. 2021 Incentive Award Plan.	8-K	001-39314	10.7(b)	6/23/21	
10.9†	Executive Severance Plan.	8-K	001-39314	10.9	6/23/21	
10.10+	Credit and Security Agreement, dated as of March 15, 2021, by and among Talkspace Network LLC, Groop Internet Platform, Inc. and JPMorgan Chase Bank, N.A.	S-4/A	333-252638	10.19	4/6/21	
10.11†	Employment Agreement, dated July 2, 2021, between the Company and Jennifer Fulk.	10-Q	001-39314	10.14	8/9/21	
10.12†	Retention Agreement, dated December 6, 2021 by and between the Company and Jennifer Fulk.	8-K	001-39314	10.1	12/10/21	
10.16†	Employment Offer Letter, dated as of June 22, 2021, by and between Talkspace, Inc. and Gil Margolin.	10-K	001-39314	10.16	2/25/22	
10.17†	Employment Offer Letter, dated as of June 22, 2021, by and between Talkspace, Inc. and Samara Braunstein.	10-K	001-39314	10.17	2/25/22	
10.18†	Employment Offer Letter, dated as of June 22, 2021, by and between Talkspace, Inc. and John C. Reilly.	10-K	001-39314	10.18	2/25/22	
10.19†	Retention Agreement, dated as of December 6, 2021, by and between Talkspace, Inc. and Gil Margolin.	10-K	001-39314	10.19	2/25/22	
10.20†	Retention Agreement, dated as of December 6,2021, by and between Talkspace, Inc. and Samara Braunstein.	10-K	001-39314	10.20	2/25/22	
10.21†	Retention Agreement, dated as of December 6, 2021, by and between Talkspace, Inc. and John C. Reilly.	10-K	001-39314	10.21	2/25/22	
10.22†	Employment Offer Letter, dated as of November 9, 2022, by and between Talkspace, Inc. and Jon R. Cohen.	10-K	001-39314	10.22	3/10/23	
10.23†	Employment Offer Letter, dated as of August 11, 2023, by and between Talkspace, Inc. and Nikole Benders-Hadi.					*
21.1	List of Subsidiaries of Talkspace, Inc.					*
23.1	Consent of Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, Independent Registered Public Accounting Firm.					*
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).					*
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a).					*
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350.					**
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350.					**
97.1	Talkspace, Inc. Clawback Policy.					*

101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.	*
101.SCH	Inline XBRL Taxonomy Extension Schema With Embedded Linkbase Documents	*
104	Cover Page Interactive Data File (as formatted as Inline XBRL and contained in Exhibit 101).	*

* Filed herewith.

** Furnished herewith.

† Indicates management contract or compensatory plan.

\+ Schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Registrant agrees to furnish supplementally a copy of any omitted schedule or exhibit to the SEC upon request.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TALKSPACE, INC.

Date: March 13, 2024	By:	/s/ Jon R. Cohen Jon R. Cohen Chief Executive Officer
Date: March 13, 2024	By:	/s/ Jennifer Fulk Jennifer Fulk Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ Jon R. Cohen **Jon R. Cohen**	Chief Executive Officer and Director (Principal Executive Officer)	March 13, 2024
/s/ Jennifer Fulk **Jennifer Fulk**	Chief Financial Officer (Principal Financial and Accounting Officer)	March 13, 2024
/s/ Douglas Braunstein **Douglas Braunstein**	Chairman of the Board	March 13, 2024
/s/ Erez Shachar **Erez Shachar**	Director	March 13, 2024
/s/ Curtis Warfield **Curtis Warfield**	Director	March 13, 2024
/s/ Jacqueline Yeaney **Jacqueline Yeaney**	Director	March 13, 2024
/s/ Michael Hansen **Michael Hansen**	Director	March 13, 2024
/s/ Madhu Pawar **Madhu Pawar**	Director	March 13, 2024
/s/ Liat Ben-Zur **Liat Ben-Zur**	Director	March 13, 2024
/s/ Swati Abbott **Swati Abbott**	Director	March 13, 2024

August 11, 2023

Dear Nikole,

We are very pleased to offer you ("**you**" or "**Employee**") the position of Chief Medical Officer (this "Position") with Talkspace LLC (the "**Company**" or "**Talkspace**"), with an anticipated start date of November 15, 2023 ("**Start Date**"). This offer of at-will employment is conditioned on your satisfactory completion of certain requirements, as explained in this letter. Your employment is subject to the terms and conditions set forth in this letter, which override anything communicated to you, orally or in writing, during your interview or as part of any other communication, about your employment with Talkspace LLC.

A. Position Responsibilities, and Supervision.

As an employee in this Position, you will be classified as exempt and not entitled to overtime compensation pursuant to applicable federal, state and local wage and hour laws. You will be subject to all applicable employment and other policies of Talkspace, as outlined in the Talkspace Handbook and elsewhere.

In this Position you will perform all duties and responsibilities that are reasonable and consistent with this Position, or as may be assigned to you by the Company from time to time. In this position you will be reporting to the Chief Executive Officer and serving as an integral member of the senior management team. You shall perform these duties professionally and competently and shall devote your full business time, attention, and best efforts to the performance of your duties and to the furtherance of Talkspace's interests.

B. Compensation and Benefits.

1. Salary and Pay Frequency. As a full-time employee you will receive an annual salary of $325,000 subject to tax and other authorized withholdings pursuant to applicable law, which will be paid semi-monthly in accordance with the Company's normal payroll procedures (your "**Base Salary**"). Talkspace reserves the right, in its sole discretion, to prospectively modify your compensation at any time and for any reason, to the extent permitted by applicable law.

2. Annual Bonus. You will be eligible for an annual bonus under the Company's annual incentive program (your "**Annual Bonus**"). Your target Annual Bonus will be equal to 45% of your annual salary. Your Annual Bonus will be awarded based on the achievement of both individual and Company goals as communicated to you by the Company on an annual basis, approved by the Chief Executive Officer and Board of Directors, and subject to the terms and conditions of the applicable annual incentive program. You will have the opportunity to achieve up to a total of 45% of your target Annual Bonus based on achieving max goals as defined by the CEO and Board of Directors. Details on assessment, tracking,

and eligibility is detailed in the Talkspace Handbook. Your 2023 target Annual Bonus will prorate at 2.5/12th of the annual amount reflecting your start date.

3. Inducement Grant. Subject to approval by the Board of Directors of Talkspace, Inc., you are eligible for and will be granted $75,000 of restricted stock units ("RSUs") in accordance with Talkspace, Inc.'s 2021 Stock Incentive Plan (the "Plan"). The Inducement Grant has annual vesting over four years; vesting at the end of each year on the anniversary of the Grant Award Date. The Grant Award Date will be December 1, 2023, the next open Company grant window.

4. Equity Award. Subject to standard approval of the Board of Directors of the Company (or a subcommittee thereof) (the "**Board**"), the Company shall grant to you equity-based compensation awards under the Talkspace, Inc. 2021 Incentive Award Plan (the "**Plan**") for the 2023 fiscal year with an aggregate approximate value equal to 2.5/12ths of your annual expected target Long Term Incentive Compensation based on a future 2024 fiscal year expectation of a full year $75,000 award level. Of such amount, 80% shall be granted in the form of a restricted stock units and 20% in the form of ISO eligible options (the "**Award**"), subject to your continued employment through the applicable grant date and subject to continued CEO and Board approval of the estimated ratio of RSU to ISOs. The number of shares of Company common stock subject to the Award will be determined by dividing the applicable the Award grant value by the average Fair Market Value (as defined in the Plan) of the Company's common stock over the five (5) trading days immediately preceding (but not including) the applicable grant date. Subject to your continued service with the Company through the applicable vesting date, the Award shall vest with respect to 25% of the shares underlying such Award, on the first anniversary of the grant date, and as to the remaining 75% of the shares underlying such Award, in substantially equal installments on each of the 12 quarterly anniversaries thereafter (the "**Vesting Schedule**"). The terms and conditions of each Award shall be set forth in one or more separate award agreement(s) in a form(s) prescribed by the Company, to be entered into by the Company and you (the "**Award Agreements**"). Except as otherwise specifically provided in this Agreement, Award(s) shall be governed in all respects by the terms of and conditions of the Plan and the applicable Award Agreement.

5. Benefits. During your employment, you will be entitled to the benefits generally made available to regular, full-time salaried employees of the Company as summarized on the attached Talkspace Benefits Overview. Talkspace reserves the right to adjust their benefits program from time to time as the Company sees fit. You will be required to review and sign the Talkspace Employee Handbook as a condition to your employment along with completing applicable immigration, payroll and tax forms.

6. Executive Severance Plan. Subject to approval by the Compensation Committee of the Board, you shall be a Tier 2 participant in the Talkspace, Inc. Executive Severance Plan (the "**Severance Plan**"), a copy of which is attached hereto as **Exhibit A**.

C. Contingencies; At-Will Employment.

1. Contingencies. This offer of employment is conditioned upon your:

i. Execution of (a) the Confidential Information, Restrictive Covenant and Work for Hire Agreement attached hereto as **Exhibit B** (the "**Restrictive Covenant Agreement**") and (b) the Company's Employee Handbook;

ii. Successful completion of a background check; and

iii. Completion of applicable immigration, payroll and tax forms, and to provide documentation of your eligibility to work in the United States, as required by the Immigration Reform and Control Act of 1986.

2. At-Will Employment. Your employment will be at-will, meaning that you or Talkspace may terminate the employment relationship at any time, with or without cause, and with or without notice. Any contrary representations that may have been made to you are superseded by this offer letter. This is the full and complete agreement between you and Talkspace on this term. Although your duties, title, compensation, and benefits, as well as Talkspace's personnel policies and procedures, may change from time to time, the "at will" nature of your employment may only be changed in an express agreement signed by you and an authorized representative of Talkspace.

D. Miscellaneous.

1. Governing Law. The validity, interpretation, enforceability, and performance of this letter shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to conflict of laws provisions thereof. Each party hereto hereby consents to the personal and exclusive jurisdiction and venue of the courts of the State of New York and expressly waives any claim of improper venue and any claim that such courts are an inconvenient forum.

2. Whole Agreement. This contract is intended by the parties to be the full and final expression of their agreement and shall not be contradicted by any prior written or oral agreement.

3. Severability. Any part, provision, representation or warranty of this Agreement which is prohibited, or which is held to be void or unenforceable shall be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof. Any part, provision, representation or warranty of this Agreement which is prohibited or unenforceable or is held to be void or unenforceable in any jurisdiction shall be ineffective, as to such jurisdiction, to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof.

4. Representations. You hereby represent and warrant the following:

i. You are currently not bound by any employment contract, restrictive covenant or other restriction preventing you from entering into employment with or carrying out your responsibilities for the Company, as set forth herein, or which is in any way inconsistent with the terms of this offer letter.

ii. Your acceptance of employment with the Company and performance of the responsibilities in your Position shall not constitute a breach of, or otherwise contravene, the terms of any employment agreement or other agreement or policy (including any valid restrictive covenants) to which you are party or otherwise bound and that you are under no other legal or contractual restriction prohibiting you from accepting employment with the Company and performing the responsibilities in your Position.

iii. You have submitted to the Company, a copy of which is annexed hereto, an email copy of Doctors on Demand's and Included Health's waiver of rights and exception to enforce the non-competition terms set forth in your Provider Agreement, which you have represented above in paragraph 4(i) and (ii).

iv. Your performance of all the terms of this Agreement and your engagement with the Company does not and will not breach any agreement to keep in confidence proprietary information, knowledge or data acquired by you in confidence or in trust prior to your engagement with the Company, and you will not disclose to the Company or induce the Company to use any confidential information or material belonging to any previous employer or others.

v. You have not brought and will not bring to the Company any materials, documents or information of any kind of a former employer or third party (other than the Company) that is subject to any use restriction and that is not generally available to the public and will not disclose to the Company nor use in connection with your employment hereunder any materials, documents, property or information belonging to a former employer or third party (other than the Company) that are not generally available to the public, absent express written authorization from such former employer or third party to do so.

vi. You currently are not, nor have ever been, included on the List of Excluded Individuals/Entities (LEIE) from Federally funded health care programs pursuant to section 1128 of the Social Security Act (and from Medicare and State health care programs under section 1156 of the Act) by the Office of Inspector General, or otherwise.

5.Entire Agreement. This letter, along with the Restrictive Covenant Agreement, sets forth the terms of your employment with the Company and supersedes any prior representations or agreements whether written or oral.

6.Assignment. This letter is personal to the Employee and shall not be assigned by the Employee. Any purported assignment by the Employee shall be null and void from the initial date of the purported assignment. The Company may assign this letter to any successor or assign (whether direct or indirect, by purchase, merger, consolidation, or otherwise) to all or substantially all of the business or assets of the Company, or to any subsidiary or affiliate of the Company. This Agreement shall inure to the benefit of the Company and permitted successors and assigns.

* * *

We are excited about the prospect of you joining our team. If you have any questions about the above details, please contact People Operations at peopleops@talkspace.com. If you wish to accept this Position, please sign below and return this letter agreement within three (3) business days; after three business days, this offer will be deemed to be withdrawn.

Very truly yours,

Jon Cohen, M.D.
Chief Executive Officer and Board Member Talkspace LLC

Acceptance of Offer

I have read and understand all the terms of the offer of employment set forth in this letter and I accept each of those terms. I also understand and agree that my employment is at-will and, with the exception of a subsequent written agreement signed by an authorized Talkspace representative, no statements or communications, whether oral or written, will modify my at-will employment status. I further understand that this letter is Talkspace's complete offer of employment to me and this letter supersedes all prior and contemporaneous understandings, agreements, representations, and warranties, both written and oral, with respect to my employment. I have not relied on any agreements or representations, express or implied, that are not set forth expressly in this letter.

By:

Name: Nikole Sara Benders-Hadi, M.D.

Date: 8/15/2023

Exhibit 21.1

Subsidiaries of Talkspace, Inc.
As of December 31, 2023

Legal Name	**Jurisdiction of Incorporation**
Talkspace LLC	Delaware
Groop Internet Platform LTD	Israel

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-3 No. 333-257686) of Talkspace, Inc.,

(2) Registration Statement (Form S-8 No. 333-270825) pertaining to the 2014 Stock Incentive Plan, 2021 Incentive Award Plan and 2021 Employee Stock Purchase Plan of Talkspace, Inc., and

(3) Registration Statement (Form S-8 No. 333-263329) pertaining to the 2014 Stock Incentive Plan, 2021 Incentive Award Plan and 2021 Employee Stock Purchase Plan of Talkspace, Inc., and

(4) Registration Statement (Form S-8 No. 333-259165) pertaining to the 2014 Stock Incentive Plan, 2021 Incentive Award Plan and 2021 Employee Stock Purchase Plan of Talkspace, Inc.;

of our reports dated March 13, 2024, with respect to the consolidated financial statements of Talkspace, Inc. and the effectiveness of internal control over financial reporting of Talkspace, Inc. included in this Annual Report (Form 10-K) of Talkspace, Inc. for the year ended December 31, 2023

/s/ Kost Forer Gabbay & Kasierer
A Member of EY Global

Tel-Aviv, Israel
March 13, 2024

Exhibit 31.1

CERTIFICATION

I, Jon R. Cohen, certify that:

1. I have reviewed this Annual Report on Form 10-K of Talkspace, Inc.;

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

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

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

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

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

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

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

Date: March 13, 2024

By: /s/ Jon R. Cohen
Jon R. Cohen
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Jennifer Fulk, certify that:

1. I have reviewed this Annual Report on Form 10-K of Talkspace, Inc.;

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

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

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

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

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

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

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

Date: March 13, 2024

By: /s/ Jennifer Fulk
Jennifer Fulk
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of Talkspace, Inc. (the "Company") for the year ended December 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Date: March 13, 2024	By:	/s/ Jon R. Cohen
		Jon R. Cohen
		Chief Executive Officer

Exhibit 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of Talkspace, Inc. (the “Company”) for the year ended December 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Date: March 13, 2024	By:	/s/ Jennifer Fulk
		Jennifer Fulk
		Chief Financial Officer

TALKSPACE, INC. CLAWBACK POLICY

1. POLICY

In accordance with the applicable rules of Rule 5608 of the Nasdaq ("Nasdaq") listing rules (the "Listing Rules") and Section 10D and Rule 10D-1 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") ("Rule 10D-1"), the Board of Directors (the "Board") of Talkspace, Inc. (the "Company") has adopted this Clawback Policy (this "Clawback Policy") to provide for the recovery of erroneously awarded incentive-based compensation from Officers of the Company.

2. APPLICABILITY

This Clawback Policy applies to all current or former "Officers" of the Company (as defined below) who received Recoverable Incentive Compensation (as defined below) during the Recoupment Period (as defined below). For purposes of this Clawback Policy, "Officers" means each individual who is or was at any time during the Recoupment Period designated by the Board (or an applicable committee thereof) as an "officer" of the Company, as defined in Rule 16a-1(f) under the Exchange Act.

3. RECOUPMENT/CLAWBACK

In the event of a Restatement (as defined below), the Compensation Committee (if composed entirely of independent directors, or in the absence of such a committee, a majority of independent directors serving on the Board) (as applicable, the "Committee") shall require a current or former Officer to reasonably promptly reimburse, repay or otherwise forfeit any Excess Incentive Compensation (as defined below) received by such Officer at any time during the three completed fiscal years immediately preceding a Restatement Determination (as defined below), including any applicable transition period that results from a change in the Company's fiscal year within or immediately following those three completed fiscal years (such period, the "Recoupment Period"). For purposes of this Clawback Policy, Recoverable Incentive Compensation (as defined below) is deemed "received" during the Company's fiscal period during which the financial reporting measure specified for the incentive compensation award is attained, even if the payment or grant of the Recoverable Incentive Compensation occurs after the end of that period.
"Excess Incentive Compensation" means, without regard to any taxes paid or payable, the amount of Recoverable Incentive Compensation that was received by the Officer based on the incorrectly reported financial results of the Company that exceeds the amount of Recoverable Incentive Compensation that otherwise would have been received by the Officer if such amount(s) had been determined based on the restated financial results of the Company, in each case, as determined by the Committee. If the Committee cannot reasonably determine the amount of Excess Incentive Compensation received by the Officer based on the information set forth or reflected in the Restatement, then it will make its determination based on a reasonable estimate of the effect of the Restatement on the Company or relevant measure (i.e., the stock price or total shareholder return). The Company must maintain documentation of that reasonable estimate and provide such documentation to Nasdaq.

"Financial Reporting Measures" means measures that are determined and presented in accordance with the accounting principles used in preparing the Company's financial statements, and any measures that are derived wholly or in part from such measures. Stock price and total shareholder return are financial reporting measures for purposes of this Clawback Policy. A Financial Reporting Measure need not be presented within the financial statements or included in a filing with the SEC.

"Incentive Compensation" means any compensation to the extent the amount is paid, earned, vested or granted based wholly or in part on the attainment of one or more Financial Reporting Measures.

"Recoverable Incentive Compensation" means all Incentive Compensation received on or after the

Effective Date by an Officer: (i) after beginning service as an Officer; (ii) while the Company has a class of securities listed on a national securities exchange or a national securities association; and (iii) during the Recoupment Period.

"Restatement" means an accounting restatement (i) due to the material noncompliance of the Company with any financial reporting requirement under the securities laws, including any required accounting restatement to correct an error in previously issued financial restatements that is material to the previously issued financial statements, or (ii) that corrects an error that is not material to previously issued financial statements, but would result in a material misstatement if the error were not corrected in the current period or left uncorrected in the current period.

"Restatement Determination" means the earlier to occur of (i) the date the Board, the Committee and/or management concludes (or reasonably should have concluded) that a Restatement is required, or (ii) the date a regulator, court or other legally authorized entity directs the Company to prepare a Restatement of a previously issued financial statement.

In the event of a Restatement Determination, the Committee shall promptly determine the amount of any Excess Incentive Compensation for each Officer in connection with the Restatement and shall promptly thereafter provide each Officer with a written notice containing the amount of Excess Incentive Compensation and a demand for repayment or return, as applicable. The Committee shall have discretion to determine the appropriate means of recovery of Excess Incentive Compensation based on all applicable facts and circumstances and taking into account the time value of money and the cost to shareholders of delaying recovery. The Committee seeks to recover any Excess Incentive Compensation reasonably promptly. The right of recovery under this Clawback Policy shall run in favor of the Company and its parents and subsidiaries.

4. ADMINISTRATION OF CLAWBACK POLICY

Administration of this Clawback Policy is incumbent on the Committee. The Committee is authorized to interpret and construe this Clawback Policy and to make all determinations necessary, appropriate, or advisable for the administration of this Clawback Policy and for the Company's compliance with the Listing Rules, Section 10D, Rule 10D-1 and any other applicable law, regulation, rule or interpretation of the SEC or Nasdaq promulgated or issued in connection therewith. Any determinations made by the Committee shall be final and binding on all affected individuals.

Notwithstanding anything set forth herein to the contrary, the Company shall not be required to seek recovery of compensation under this Clawback Policy (i) if the Committee reasonably determines that the direct expenses to be paid to a third party to recover the Excess Incentive Compensation would exceed the amount of the compensation to be recovered, making recovery impracticable, and provides all required documentation of prior reasonable attempt(s) to recover the Excess Incentive Compensation to Nasdaq, (ii) if recovery would be in violation of any home country law applicable to the Company or an Officer which law was adopted prior to November 28, 2022, *provided that,* before determining that it would be impracticable to recover any amount of Excess Incentive Compensation based on violation of home country law, the Company has obtained an opinion of home country counsel, acceptable to Nasdaq, that recovery would result in such a violation and a copy of the opinion is provided to Nasdaq, or (iii) to the extent applicable, if recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the Company, to fail to meet the requirements of 26 U.S.C. 401(a)(13) or 26 U.S.C. 411(a) and regulations thereunder. In connection with the foregoing, the Committee must also make a determination that, as a result of any or all of the foregoing, recovery under this Clawback Policy would be impracticable.

5. NO INDEMNIFICATION

None of the Company or any of its subsidiaries shall be permitted to indemnify or insure any Officer against (i) the loss of any Excess Incentive Compensation that is repaid, returned or recovered pursuant to the terms of this Clawback Policy, or (ii) any claims relating to the Company's enforcement of its rights under this Clawback Policy.

6. OTHER RECOVERY RIGHTS

This Clawback Policy shall be binding and enforceable against all Officers and, to the extent required by applicable law or guidance from the SEC or Nasdaq, their beneficiaries, heirs, executors, administrators or other legal representatives. The Committee intends that this Clawback Policy will be applied to the fullest extent required by applicable law. Any employment agreement, equity award agreement, compensatory plan or any other agreement or arrangement with an Officer shall be deemed to include, as a condition to the grant of any benefit thereunder, an agreement by the Officer to abide by the terms of this Clawback Policy. Any right of recovery under this Clawback Policy is in addition to, and not in lieu of, any other remedies or rights of recovery that may be available to the Company under applicable law, regulation or rule or pursuant to the terms of any policy of the Company or any provision in any employment agreement, equity award agreement, compensatory plan, agreement or other arrangement. Any amounts paid to the Company pursuant to Section 304 of the Sarbanes-Oxley Act of 2002 shall be considered in determining any amounts recovered under this Clawback Policy.

If an Officer fails to repay the Excess Incentive Compensation that is owed to the Company under this Clawback Policy, the Company shall take all appropriate action to recover such Excess Incentive Compensation from the Officer, and the Officer shall be required to reimburse the Company for all expenses (including legal expenses) incurred by the Company in recovering such Excess Incentive Compensation.

7. EFFECTIVENESS OF CLAWBACK POLICY

This Clawback Policy will become effective as of December 1, 2023 (the "Effective Date"), and will thereafter remain in effect for an indefinite period of time, provided, however, that this Clawback Policy may be suspended or terminated by the Board of Directors/the Committee at any time.

Effective Date: December 1, 2023