

limeade®

APPENDIX 4E  
PRELIMINARY FINAL REPORT

**LIMEADE, INC.**

For the year ended 31 December 2019

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## Limeade, Inc.

Appendix 4E

Preliminary final report

### 1. COMPANY DETAILS

Name of entity:	Limeade, Inc.
ABN:	637 017 602
Financial year ended (reporting period)	31 December 2019
Financial year ended (previous period)	31 December 2018

### 2. RESULTS FOR ANNOUNCEMENT TO THE MARKET (NOTE: ALL AMOUNTS IN USD)

	Up/(down) \$USD '000	% change	31 December 2019 \$USD '000	31 December 2018 \$USD '000
Revenue from ordinary activities	7,325	18.3%	47,443	40,118
(Loss) from ordinary activities after tax attributable to shareholders	993	31.2%	(2,194)	(3,187)
Net (Loss) attributable to shareholders	985	30.9%	(2,202)	(3,187)

### 3. DIVIDEND

The company has not declared, and does not propose to pay, any dividends for the year ended 31 December 2019 (31 December 2018:Nil). There are no dividend or dividend reinvestment plans in operation.

### 4. NET TANGIBLE ASSETS PER SECURITY

	31 December 2019 \$USD	31 December 2018 \$USD
Net tangible assets per security	.08	(.08)

Net tangible assets are defined as the net assets of Limeade, Inc., less intangible assets.

### 5. PRINCIPAL ACTIVITIES

The principal activity of Limeade, Inc. is the development and sale of enterprise employee experience software. On 20 December 2019 Limeade, Inc. listed on the ASX by means of issuing CHES Depository Interests (CDIs).

### 6. COMMENTARY ON RESULTS

Limeade is a leading provider of employee experience software solutions to enterprise customers. Through its software solutions, Limeade helps organisations better care for their employees. Limeade believes that when organisations invest in their employees, it is easier for them to attract, retain, engage and enable them to perform better. Limeade solutions are designed to elevate the employee experience and infuse care across all levels of an organisation.

## **6. COMMENTARY ON RESULTS (CONTINUED)**

### **Business summary and key performance indicators**

The key performance indicators of the financial results are as follows:

- An increase in revenue from \$40.1 million for the year ended 31 December 2018 (“2018”) to \$47.4 million for the year ended 31 December 2019 (“2019”) which is an 18.3% improvement.
- The revenue increase of \$7.3 million reflects the growth of new customers and increased sales to existing customers.
- The net loss for the year ended 31 December 2019 is \$2.2 million compared to a loss of \$3.2 million for the year ended 31 December 2018.
- The net cash provided by operating activities for year ended 31 December 2019 is \$2.8 million compared to a \$1.2 million for the year ended 31 December 2018.

Limeade continued to execute on its growth strategy with investment in sales and marketing. Sales and marketing expenses increasing 36% from \$11.6 million for the year ended 31 December 2018 to \$15.8 million for the year ended 31 December 2019.

Continued development of the Limeade platform resulted in an increase of research and development expenses growing 8% from \$13.9 million for the year ended 31 December 2018 to \$15.0 million for the year ended 31 December 2019.

The cash balance was \$32.0 million at 31 December 2019 with \$0 outstanding on the bank line of credit compared to a \$3.7 million cash balance with \$2.5 million outstanding on the bank line of credit at 31 December 2018. The bank line of credit was fully paid off following the IPO.

During the year, Limeade raised \$30.2 million in primary proceeds, net of underwriter fees and offering costs, through the issuance of 27,060,208 CDIs. Prior to the IPO, all preferred shares were converted to common shares on a 1-to-1 basis. Limeade then effected a 1-to-8 stock split of all issued and outstanding common stock. Additionally, the preferred shareholders were granted an additional amount of common stock in the amount equal to their preferred liquidation preference had there been a liquidation event as defined in the Company’s Articles of Incorporation.

## **7. DETAILS OF ENTITIES OVER WHICH CONTROL HAS BEEN GAINED OR LOST DURING THE PERIOD**

There are no entities over which control has been gained or lost during the period.

## **8. ASSOCIATES AND JOINT VENTURE ENTITIES**

There are no associate or joint venture entities.

## **9. FOREIGN ENTITY ACCOUNTING STANDARDS**

The financial statement contained within the Preliminary Financial Report have been prepared in conformity with generally accepted accounting principles in the United States of America (“U.S. GAAP”).

## 10. FINANCIAL REPORT

The following financial report included in this Appendix 4E should be read in conjunction with any public announcements made by Limeade, Inc. in accordance with the continuous disclosure obligations of the ASX listing Rules.

This Appendix 4E and the included financial information are based on the Consolidated Financial Statements and Notes of Limeade, Inc. which have been audited by Deloitte & Touche LLP with an unqualified opinion issued.

### SIGNED



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Toby Davis  
Chief Financial Officer

28 February 2020

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REPORT OF INDEPENDENT AUDITORS  
AND CONSOLIDATED FINANCIAL STATEMENTS

**LIMEADE, INC.**

For the Years Ended December 31, 2019 and 2018

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## **INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying consolidated financial statements of Limeade, Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheet as of December 31, 2019, and the related consolidated statements of operations, comprehensive loss, statement of stockholders' equity (deficit), and cash flows for the year then ended and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Limeade, Inc. and its subsidiaries as of December 31, 2019, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 2 to the financial statements, effective January 1, 2019, the Company adopted ASC 842, Leases, (Topic 842) using the optional transition method. This adoption had a material effect on the financial statements and related disclosures. Our opinion is not modified with respect to this matter.

## **Predecessor Auditors' Opinion on 2018 Financial Statements**

The financial statements of the Company as of and for the year ended December 31, 2018, were audited by other auditors whose report, dated November 22, 2019, expressed an unmodified opinion on those statements. The predecessor auditor report included an emphasis-of-matter paragraph explaining that the 2018 financial statements were restated to correct misstatements and the opinion was not modified with respect to this matter.

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

Deloitte & Touche LLP  
February 27, 2020



**Limeade, Inc.**  
**Consolidated Balance Sheets**  
(In US Dollars, in thousands)

	December 31, 2019	December 31, 2018
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 31,962	\$ 3,721
Accounts receivable, net of allowance for doubtful accounts of \$80 and \$70, respectively	7,300	8,869
Prepaid expenses	4,326	2,881
Total current assets	43,588	15,471
<b>Non-current assets</b>		
Property and equipment - net	855	\$ 957
Capitalized software development costs - net	3,966	1,795
Operating lease right-of-use assets - net	3,738	—
Goodwill	1,153	1,153
Intangible assets - net	1,377	1,753
Other non-current assets	449	352
Total assets	\$ 55,126	\$ 21,481
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities</b>		
Trade payables	\$ 3,748	\$ 5,347
Accrued compensation	3,892	4,092
Accrued expenses	5,648	5,072
Operating lease right-of-use liabilities	1,287	—
Finance lease liabilities	4	141
Deferred revenue	8,315	5,379
Customer deposits	2,094	—
Acquisition holdback	571	—
Income taxes payable	23	—
Notes payable	—	2,500
Total current liabilities	25,582	22,531
<b>Non-current liabilities</b>		
Acquisition holdback	—	\$ 571
Operating lease right-of use liabilities	2,602	—
Finance lease liabilities	—	4
Deferred tax liability	2	—
Total non-current liabilities	2,604	575
Total liabilities	28,186	23,106
<b>Commitments and contingencies - see Note 14</b>		
<b>Shareholders' equity</b>		
Redeemable convertible preferred stock	—	33,504
Common stock	—	492
Additional paid-in capital	66,407	1,607
Accumulated (deficit)	(39,467)	(37,228)
Total shareholders' (deficit) equity	26,940	(1,625)
Total Liabilities and stockholders' equity	\$ 55,126	\$ 21,481

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

**Limeade, Inc.**  
**Consolidated Statements of Operations**  
(In US Dollars, in thousands, except per share data)

	<b>For the Twelve Months Ended December 31</b>	
	2019	2018
<b>Revenue:</b>		
Subscription services	\$ 43,586	\$ 35,907
Third party services	1,878	2,929
Other	1,979	1,282
<b>Total revenues</b>	47,443	40,118
 <b>Cost of revenue</b>	 11,689	 11,205
 <b>Gross profit</b>	 35,754	 28,913
 <b>Operating expenses</b>		
Sales and marketing	15,758	11,603
Research and development	15,038	13,898
General and administrative	7,121	6,601
<b>Total operating expenses</b>	37,917	32,102
 <b>Operating loss</b>	 (2,163)	 (3,189)
 <b>Other income, net</b>	 21	 2
 Loss before income taxes	 (2,142)	 (3,187)
Provision for income taxes	52	—
Net loss	\$ (2,194)	\$ (3,187)
 <b>Basic and diluted loss per common share - see Note 10</b>		
Net loss	\$ (0.03)	\$ (0.04)
Inducement of convertible preferred stock	(0.41)	—
Net loss per share attributable to common shareholders, basic and diluted	\$ (0.44)	\$ (0.04)
 Weighted average shares of common stock outstanding, basic and diluted	 80,942	 73,910

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

**Limeade, Inc.**  
**Consolidated Statement of Comprehensive Loss**  
(In US Dollars, in thousands)

*For the Twelve Months Ended December 31*

	2019	2018
Net loss	\$ (2,194)	\$ (3,187)
Other comprehensive income (loss)—Foreign currency translation	(8)	—
Total comprehensive loss	\$ (2,202)	\$ (3,187)

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

**Limeade, Inc.**  
**Consolidated Statements of Stockholders' (Deficit) Equity**  
(In US Dollars, in thousands)

	Series C Redeemable		Series B Redeemable		Series A Redeemable		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Convertible Preferred Stock		Convertible Preferred Stock		Convertible Preferred Stock						
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
<b>BALANCE, December 31, 2017</b>	4,339,675	\$ 24,922	4,363,606	\$ 5,528	5,436,008	\$ 2,969	73,270,104	\$ 419	\$ 1,349	\$ (33,977)	\$ 1,210
Exercise of stock options and warrants	—	—	—	—	35,805	21	1,226,888	73	—	—	94
Stock-based compensation	—	—	—	—	—	—	—	—	258	—	258
Accretion of redeemable convertible preferred stock issuance costs	—	39	—	18	—	7	—	—	—	(64)	—
Net loss	—	—	—	—	—	—	—	—	—	(3,187)	(3,187)
<b>BALANCE, December 31, 2018</b>	4,339,675	24,961	4,363,606	5,546	5,471,813	2,997	74,496,992	492	1,607	(37,228)	(1,625)
Conversion of preferred shares to common	(4,339,675)	(25,000)	(4,363,606)	(5,564)	(5,471,813)	(3,005)	113,400,752	—	33,569	—	—
Inducement of convertible preferred stock	—	—	—	—	—	—	26,993,844	—	—	—	—
Common stock converted to zero par value	—	—	—	—	—	—	—	(492)	492	—	—
Proceeds from initial public offering, net of underwriting fees	—	—	—	—	—	—	27,060,208	—	32,979	—	32,979
Initial public offering costs	—	—	—	—	—	—	—	—	(2,817)	—	(2,817)
Exercise of stock options	—	—	—	—	—	—	2,897,208	—	278	—	278
Stock-based compensation	—	—	—	—	—	—	—	—	299	—	299
Accretion of redeemable convertible preferred stock issuance costs	—	39	—	18	—	8	—	—	—	(65)	—
Cumulative effect of implementation of ASC 842 - Leases	—	—	—	—	—	—	—	—	—	28	28
Loss on translation adjustments	—	—	—	—	—	—	—	—	—	(8)	(8)
Net loss	—	—	—	—	—	—	—	—	—	(2,194)	(2,194)
<b>BALANCE, December 31, 2019</b>	—	—	—	—	—	—	244,849,004	—	66,407	(39,467)	26,940

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

**Limeade, Inc.**  
**Consolidated Statements of Cash Flows**  
(In US Dollars, in thousands)

	From Data	
	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	(2,194)	\$ (3,187)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	1,413	1,220
Amortization of operating lease-right-of-use assets	1,137	—
Stock-based compensation	299	258
Change in assets and liabilities		
Trade accounts receivable	1,569	194
Prepaid expenses and other current assets	(1,450)	680
Other non-current assets	(96)	—
Trade accounts payable	(1,708)	865
Accrued compensation	(199)	1,118
Accrued expenses and other current liabilities	147	157
Income taxes payable	23	—
Deferred revenue	2,936	(89)
Deferred tax liability	2	—
Customer deposits	2,094	—
Operating lease liabilities	(1,201)	—
Other non-current liabilities	—	(12)
Net cash provided by operating activities	<u>2,772</u>	<u>1,204</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capitalized software development costs	(2,489)	(1,147)
Purchases of property and equipment	(601)	(414)
Business combination, net of cash acquired	—	(1,910)
Net cash used in investing activities	<u>(3,090)</u>	<u>(3,471)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from initial public offering, net of underwriting fees	32,969	—
Payments of initial public offering transaction costs	(2,047)	—
Payments on principal of capital leases	(141)	(475)
Proceeds from credit facility	2,000	2,500
Principal payments on credit facility	(4,500)	—
Exercise of employee stock options	289	73
Net cash provided by financing activities	<u>28,570</u>	<u>2,098</u>
Foreign currency effect on cash and cash equivalents	(11)	—
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<u>28,241</u>	<u>(169)</u>
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>3,721</u>	<u>3,890</u>
End of year	<u><u>31,962</u></u>	<u><u>\$ 3,721</u></u>

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

**(continued)**

**Limeade, Inc.**  
**Consolidated Statements of Cash Flows**  
(In US Dollars, in thousands)

	2019	2018
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Cash paid for interest	187	77
Cash paid for taxes	27	13
NON-CASH OPERATING, INVESTING, AND FINANCING ACTIVITIES		
Accretion of redeemable convertible preferred stock issuance costs	65	64
Property and equipment included in accounts payable	17	—
Acquisition of right-of-use asset under operating lease	53	—
Initial public offering transaction costs, accrued not yet paid	770	—
Inducement of convertible preferred stock	33,128	—

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

## Notes to Consolidated Financial Statements

### Note 1 – Organization and Description of Business

Limeade, Inc. (the “Company” or “Limeade”) was incorporated in the state of Washington on February 23, 2006, and is headquartered in Bellevue, Washington. The Company provides software solutions that elevate the employee experience and help build great places to work. The Limeade platform offers employee well-being, engagement, inclusion and communications solutions in one seamless user experience. The Company generates revenue through the sale of its software solutions to customers, which are provided via the cloud under a subscription-based revenue model.

The Company has wholly owned subsidiaries in Canada and Germany that provide business development, software development, and support services.

The Company operates in a dynamic industry and accordingly, can be affected by a variety of factors. For example, management believes that changes in any of the following areas could have a significant negative effect on the Company in terms of our future financial position, results of operations or cash flows: the need for continued growth in the demand for the Company’s products and services, reliance on key personnel including the ability to attract and retain qualified employees and key personnel, competition from other companies with greater financial, technical, and marketing resources, scaling and adaptation of existing technology and network infrastructure, management of the Company’s growth, and protection of our brand and intellectual property, among other things.

**Initial Public Offering** – On December 20, 2019, Limeade successfully completed its Initial Public Offering (“IPO”) of securities and was admitted to the official list of the Australian Securities Exchange (“ASX”). As part of the IPO, the Company issued 27,060,208 shares of its common stock or 27,060,208 CHESS Depository Interests (“CDI”) shares, with the ratio of CDIs to the Company’s common stock of 1:1. The CDI shares were issued at AUD1.85 per CDI, for gross proceeds of approximately AUD50.1 million, or US\$34.2 million. The IPO proceeds, net of transaction costs of approximately AUD5.9 million, or US\$4.1 million, are being used to support the Company’s operations and growth.

#### **Conversion of Series Preferred Stock**

In addition to the shares issued as part of the IPO, all outstanding shares of preferred stock were converted into 14,175,094 shares of the Company’s common stock. These shares were then split on a 1-to-8 basis, resulting in 113,400,752 shares of common stock. As an incentive to convert their preferred shares to common stock, Series Preferred shareholders were offered 26,993,844 additional shares of common stock at an aggregate value of \$34.0 million, equivalent to what their liquidation preferences would have been in a liquidation event. These 26,993,844 additional shares of common stock were sold as part of the IPO for AUD49.9 million or US\$34.2 million, with the proceeds going to the selling shareholders.

#### **Stock Split**

Immediately before the IPO, the Company amended its Articles of Incorporation and effected a 1-to-8 stock split of all issued and outstanding common stock, including outstanding stock options. All common shares and per common share amounts for all periods presented in these consolidated financial statements and notes thereto, have been adjusted retrospectively, where applicable, to reflect the stock split. Series Preferred Stock amounts have been adjusted retrospectively only where the conversion to common stock is presented.

## Notes to Consolidated Financial Statements

Total common shares issued from the following sources during the year ended December 31, 2019 are summarized as follows:

Shares issued in primary offering	27,060,208
Shares issued upon conversion of redeemable convertible preferred stock	113,400,752
Shares issued as inducement to convert preferred shares to common	26,993,844
Shares issued upon exercise of stock options	2,897,208
Total shares issued	170,352,012

**Correction of error** – Management determined that it had omitted the accounting and reporting for capitalized software in its 2018 consolidated financial statements. The Company has corrected for the error by adjusting for the capitalization of internally developed software in the 2018 consolidated financial statements. The Company also determined that it had incorrectly recorded depreciation expense and purchases of property and equipment in the 2018 consolidated statement of cash flows. The company has corrected this error by adjusting depreciation expense and purchases of property and equipment in the 2018 consolidated cash flow statement. The affected balances presented in these financial statements are reflected in the below tabular reconciliation:

	<b>Balance at December 31, 2018</b>		
	<b>As Reported</b>	<b>Adjustment</b>	<b>As Restated</b>
	(in thousands)		
<b>Assets</b>			
Capitalized software development costs	\$ —	\$ 1,795	\$ 1,795
<b>Total assets</b>	19,686	1,795	21,481
<b>Stockholders' equity</b>			
Accumulated deficit	(39,023)	1,795	(37,228)
<b>Total stockholders' (deficit) equity</b>	(3,420)	1,795	(1,625)
<b>Total liabilities and stockholders' equity</b>	19,686	1,795	21,481
Research and development expense	15,046	(1,148)	13,898
Cost of revenues	11,069	136	11,205
<b>Net loss</b>	(4,199)	1,012	(3,187)
<b>Net cash provided by operating activities</b>	257	948	1,205
<b>Net cash used in investing activities</b>	\$ (2,523)	\$ (948)	\$ (3,471)

### Note 2 – Significant Accounting Policies

**Basis of Presentation** - The accompanying consolidated financial statements include those of the Company and its subsidiaries after elimination of all intercompany accounts and transactions. These consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America (“U.S. GAAP”).

**Use of Estimates** - The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. The significant estimates include revenue recognition, allowances for doubtful accounts, depreciable lives



## Notes to Consolidated Financial Statements

of property and equipment, assumptions used in stock-based compensation, estimates of fair value of common stock, measurement of the valuation allowance for deferred tax assets and estimates of fair value of acquired assets and liabilities. Actual results could differ from management's estimates and assumptions.

**Concentration of credit risk** – Financial instruments that potentially subject the Company to concentrations of credit risk are primarily cash and cash equivalents. The Company generally places its cash and cash equivalents and short-term investments with high-credit-quality counterparties to make sure the financial institutions are stable when the Company's deposits exceed Federal Deposit Insurance Corporation limits, and by policy, limit the amount of credit exposure to any one counterparty based on the Company's analysis of the counterparty's relative credit standing. The Company maintains its cash accounts with financial institutions where, at times, deposits exceed federal insurance limits.

Credit risk with respect to accounts receivable is dispersed based on the number of our customers. Two customers represented 29% and 25% of net accounts receivable as of December 31, 2019, and 2018 respectively. During the years ended December 31, 2019 and 2018, no customers accounted for 10% or more of total revenue.

**Foreign exchange** – The Company's consolidated financial statements are reported in U.S. dollars. The financial statements of our foreign subsidiaries with a functional currency other than U.S. dollars have been translated into U.S. dollars. Assets and liabilities of these subsidiaries are translated at the exchange rates in effect at each period-end. Income statement amounts are translated at the average exchange rate during the period. Translation adjustments resulting from this process are included in other comprehensive income.

**Cash and cash equivalents** – The Company considers all short-term cash equivalents with original maturities of three months or less to be cash equivalents.

**Accounts receivable and allowance for doubtful accounts** – Accounts receivable are recorded net of an allowance for doubtful accounts and are generally due within 30 to 60 days. The allowance for doubtful accounts reflects the Company's best estimate of losses inherent in the gross accounts receivable balance. The Company considers accounts outstanding longer than the contractual payment terms as past due. The Company determines the allowance by considering a number of factors, including the length of time accounts receivable are past due, previous loss history, a specific customer's ability to pay its obligations, and the condition of the general economy and industry as a whole. Accounts receivable ultimately deemed uncollectible are written off against their allowance in the period in which they are deemed uncollectible.

Accounts receivable include outstanding invoices issued to customers according to the terms of the Company's contractual arrangements. The Company reviews accounts receivable regularly to determine if any receivable will be potentially uncollectible.

**Prepaid expenses and other current assets** – Prepaid expenses consist of prepaid insurance premiums, various prepaid maintenance and subscription agreements for software and prepaid certification costs. Other current assets consist of miscellaneous non-trade receivables and deposits on account with a vendor.

**Property and equipment** – Property and equipment are recorded at cost, net of accumulated depreciation and amortization. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets. Computer equipment, computer software, and office furniture and equipment are generally depreciated over three years. Leasehold improvements are amortized over the shorter of the estimated useful life of the improvement or the term of the related lease. Expenditures for additions that extend the useful life of the related asset are capitalized, and expenditures for maintenance and repairs are expensed as incurred. Gains and losses from the disposal of property and equipment are reflected in the statement of operations in the year of disposition based upon the difference between proceeds received and the net book value of the disposed asset.

## Notes to Consolidated Financial Statements

**Internally developed software** - All costs related to the development of internal use software, other than those incurred during the application development stage, are expensed as incurred. Costs incurred during the application development stage are capitalized and amortized over the estimated useful life of the software, which is typically seven years. The estimated useful lives of internally developed software are reviewed frequently and adjusted as appropriate to reflect upcoming development activities that may include significant upgrades and/or enhancements to the existing functionality. Capitalized software costs are amortized on a straight-line basis over their expected economic lives. Amortization of these costs begins once the product is ready for its intended use. The amount of costs capitalized within any period is dependent on the nature of software development activities and projects in each period.

The Company capitalized \$2.5 and \$1.1 million of software development costs for the years ended December 31, 2019 and 2018, respectively. Amortization expense related to capitalized software was \$0.3 million and \$0.1 million for the years ended December 31, 2019 and 2018, respectively.

**Business acquisitions** – The Company allocates the fair value of purchase consideration to the tangible assets acquired, liabilities assumed, and intangible assets acquired based on their estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets. Significant estimates in valuing certain intangible assets include, but are not limited to, future expected cash flows from acquired users and acquired technology, useful lives, and discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. During the measurement period, the Company may record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period, any subsequent adjustments are recorded to earnings.

**Goodwill** - Goodwill represents the excess of the cost of an acquired business over the fair value of the assets acquired at the date of acquisition and is not amortized. The Company reviews goodwill for impairment at least annually or more frequently if events or changes in circumstances indicate that the carrying value of goodwill may not be recoverable. The Company has elected to first assess the qualitative factors to determine whether it is more likely than not that the fair value of the Company's single reporting unit is less than its carrying amount. Based on the qualitative assessment, if it is determined that it is more likely than not that its fair value is less than its carrying amount, the fair value of the Company's single reporting unit is compared to its carrying value. Any excess of the goodwill carrying amount over the fair value is recognized as an impairment loss, and the carrying value of goodwill is written down to fair value. As December 31, 2019 and December 31, 2018, no impairment of goodwill has been identified and there were no impairment charges for the years ended December 31, 2019 and 2018, respectively.

**Intangible assets** – Intangible assets consist of acquired customer relationships. Acquired finite-lived intangible assets are amortized over their estimated useful lives. The Company evaluates the recoverability of its intangible assets for possible impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of these assets is measured by a comparison of the carrying amounts to the future undiscounted cash flows the assets are expected to generate. If such review indicates that the carrying amount of intangible assets is not recoverable, the carrying amount of such assets is reduced to fair value. Management has determined that there was no impairment for the years ended December 31, 2019 and 2018.

**Long-Lived Assets** - The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. An impairment is recognized in the event the carrying value of such assets is not recoverable. If the carrying value is not recoverable, the fair value is determined, and an impairment is recognized for the amount by which the carrying value exceeds the fair value. Management has determined that there was no impairment for the years ended December 31, 2019 and 2018.

## Notes to Consolidated Financial Statements

**Redeemable convertible preferred stock warrants** – Freestanding warrants to purchase the Company's redeemable convertible preferred stock are classified as liabilities on the balance sheet and carried at fair value because the warrants may conditionally obligate the Company to transfer assets at some point in the future. The warrants are subject to remeasurement at each balance sheet date, and any change in fair value is recognized as other income (expense), net in the statements of operations. The Company will continue to adjust the liability for changes in fair value until the earlier of the exercise or expiration of the warrants, the completion of a deemed liquidation event, conversion of redeemable convertible preferred stock into common stock, or until the redeemable convertible preferred stockholders can no longer trigger a deemed liquidation event.

In November 2008, the Company issued warrants to purchase Series A in connection with the Company's Series A round. The warrants were convertible into 40,000 shares of Series A at an exercise price of \$0.6041 per share. The warrants were recorded as a liability on the balance sheet and were remeasured at fair value each reporting period. On November 1, 2018, 35,805 Series A shares were issued in a cashless exercise with the remaining 4,195 outstanding warrants surrendered in lieu of cash payment of \$21,483. There are no outstanding warrants as of December 31, 2019 and 2018.

**Revenue Recognition** – In May 2014, the Financial Accounting Standards Board (the "FASB") issued new accounting guidance Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers (Topic 606)* on revenue recognition. The new standard replaced ASC 605 and provides a new comprehensive revenue recognition model requiring entities to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. The Company adopted ASC 606 effective January 1, 2019 on a modified retrospective basis applied to those contracts which were not completed as of January 1, 2019. Financial results for reporting periods during 2019 are presented in compliance with the new revenue recognition standard. Historical financial results for reporting periods prior to 2019 are presented in conformity with amounts previously disclosed under the prior revenue recognition standard ASC 605. While adoption of ASC 606 did not have a material impact on the Company's financial position, results of operations or cash flows, it did impact financial statement disclosures.

The Company derives its revenues from two primary sources: (1) subscription revenues, which are comprised of fees from customers for access to the Company's software platform and (2) third party services, which are comprised of fees from customers for value-add services provided by third parties.

The Company determines revenue recognition through the following five-step framework:

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

The Company identifies performance obligations in its contracts with customers, which primarily include subscription services and professional services provided by third parties. The transaction price is determined based on the amount to which the Company expects to be entitled to in exchange for providing the promised services to the customer. The transaction price in the contract is allocated to each distinct performance obligation on a relative standalone selling price basis. Revenue is recognized when performance obligations are satisfied.

**Subscription revenues** - Subscription revenues are cloud-based subscriptions which allow customers to access the Company's software during a contractual period without taking possession of the software. The Company's subscription arrangements typically contain a contract period of one year, and can be billable in annual, quarterly, or monthly invoices. Payments received in advance of customers being

## Notes to Consolidated Financial Statements

provided access to the software are deferred. The Company recognizes revenue related to these cloud-based subscriptions ratably over the life of the subscription agreement beginning when the customer first has access to the software. Revenues from cloud-based subscriptions are included in subscription services revenues.

**Third party services revenue** - Third party services include health coaching, content subscription services, biometric data collection, and onsite screenings. These services are provided by third parties but are often contracted for and billed to the customer by the Company. The fees may be a fixed fee over for period-of- time, or on a per-use-per user basis. The Company assesses whether revenue in these transactions is recorded gross or net of the fees paid to third parties. The Company (1) identifies the goods or services to be provided to the customer; (2) assesses whether it controls each specified good or service before that good or service is transferred to the customer, and (3) assesses how much latitude the Company has in establishing pricing for those goods or services. Based on these assessments, third party revenues are recognized net of costs charged to the Company by third party providers.

Payments received in advance of third-party service performance are deferred and are recognized as the services are performed, or ratably over the contract period, depending on the service.

**Other revenue** - Other revenue includes implementation fees for subscription software and related programs, and for onsite client program managers. Payments received in advance of other revenue service performance are deferred and are recognized as the services are performed, or ratably over the contract period, depending on the service.

The Company identifies performance obligations in its contracts with customers, which may include software subscription licenses and/or related services provided by third parties. The Company determines the transaction price based on the amount of consideration it expects to receive in exchange for transferring the promised goods or services to the customer. It allocates the transaction price in the contract to each distinct performance obligation in an amount that depicts the relative amount of consideration it expects to receive in exchange for satisfying each performance obligation. Revenue is recognized when performance obligations are satisfied.

Contract payment terms for all of our contracts are typically net 30 days. The Company assesses collectability based on a number of factors including collection history and creditworthiness of the customer, and it may mitigate exposures to credit risk by requiring payments in advance. If the Company determines that collectability related to a contract is not probable, it may not record revenue until collectability becomes probable at a later date.

Revenues are recorded based on the transaction price excluding amounts collected on behalf of third parties. For example, indirect taxes which are collected and remitted to governmental authorities are excluded from revenues.

**Reseller Arrangements** - The Company also sells its products through resellers or “channel partners” who purchase services directly from the Company for future resale. Sales through channel partners are recognized upon delivery to the end customer, assuming all other revenue recognition criteria have been met. Typically, such arrangements contain monthly service periods and billings, and thus the Company’s recognition of revenue is based on a month to month contract term.

**Judgments and Estimates** - Contracts with customers often include promises to transfer multiple products and services. Determining whether products and services are considered distinct performance obligations that should be accounted for separately from one another sometimes requires judgment. The Company’s contracts often require it to perform certain setup and implementation services so that its customers can appropriately utilize its subscription products. These services are not treated as distinct performance obligations. Instead, they are combined with our subscription services and recognized ratably over the term of the customer contract. In future periods, these services may qualify as distinct performance obligations which may require further transaction price allocation and earlier recognition of revenue for a portion of customer contracts.

## Notes to Consolidated Financial Statements

Judgment is also required to determine the standalone selling price (“SSP”) for each distinct performance obligation. The Company typically has more than one SSP for each of its products and services based on customer stratification, which is based on the size of the customer, their geographic region and market segment. For cloud-based subscriptions SSP is generally observable using standalone sales and/or renewals. The Company evaluates contracts with customers that include options to purchase additional goods or services to determine whether the options give rise to a material right, which is a separate performance obligation. If the Company determines the options give rise to a material right, the revenue allocated to such right is not recognized until the option is exercised or the option expires.

Finally, the Company’s contracts with customers generally include performance or service level guarantees, which obligate the Company to certain service performance deliverables such as minimum engagement rates, minimum scores on customer satisfaction surveys and web-site uptime requirements. These guarantees are treated as variable consideration, which reduces the total transaction price for individual contracts. The Company monitors compliance with performance guarantees throughout the duration of each contract and has a history of meeting contract performance guarantees. Reserves for estimated contract performance guarantees are established based on historical performance and are recognized as a reduction of revenue and accrued liabilities on the balance sheet. The reserve liability is \$1.1 million and \$0.4 million as of December 31, 2019 and 2018 respectively.

**Assets Recognized from the Costs to Obtain a Contract with a Customer** - The Company recognizes an asset for the incremental costs of obtaining a contract with a customer if it expects the benefit of those costs to be longer than one year. The Company’s commission plans include substantive service conditions that need to be met before a commission associated with a contract (or group of contracts) is actually earned by the salesperson. In such cases, some or all of the sales commission may not be incremental costs incurred to obtain a contract with the customer since the costs were not actually incurred solely as a result of obtaining a contract with a customer. Rather, the costs were incurred as a result of obtaining a contract with a customer and the salesperson’s providing ongoing services to the entity for a substantive period. As such, these commissions are not capitalized. The Company did not have any costs that met the requirements for capitalization for the period ended December 31, 2019.

**Contract Assets** - Contract assets represent the portion of the transaction price from a contract with a customer where control has transferred, but for which the company currently does not have the contractual right to invoice. The Company reduces the gross contract asset balance for any impairments identified based on its consideration of a combination of factors including past collection experience, credit quality of the customer, age of other receivables balances due from the customer and current economic conditions. The Company did not have any Contract Assets as of December 31, 2019 or January 1, 2019.

**Deferred revenue** – Deferred revenue represents billings or payments received in advance of revenue recognition from subscription and third-party services. Deferred revenue is recognized as the revenue recognition criteria are met. The Company generally invoices customers monthly, semi-annually, or annually in advance of providing services. Deferred revenue recorded at December 31, 2019, is expected to be recognized within the next 12 months as the related services are provided.

**Customer Deposits** - Customer deposits represents payments received in advance of revenue recognition from subscription and third-party services that are subject to cancellation and refund provisions.

**Income Taxes** - The Company accounts for income taxes under the asset and liability method. The Company’s deferred tax assets and liabilities are determined based on temporary differences between the financial reporting and income tax basis of assets and liabilities and are measured using the enacted tax rates expected to apply in the years when the differences are expected to reverse. A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets will not be realized. The Company assesses its income tax positions and records income taxes based upon management’s evaluation of the facts, circumstances, and information available at the reporting date.

## Notes to Consolidated Financial Statements

The Company determines whether its uncertain tax positions are more likely than not to be sustained upon examination based on the technical merits of the position. For tax positions not meeting the more likely than not threshold, the tax amount recognized in the consolidated financial statements is reduced by the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant taxing authority. The Company does not have any uncertain tax positions as of December 31, 2019 or December 31, 2018.

**Stock-based compensation** - The Company accounts for stock-based payment awards made to employees and directors under ASC 718, *Share-Based Payments*, which requires measurement and recognition of compensation expense for all share-based payment awards based on fair value. The Company estimates the fair value of share-based payment awards using the Black-Scholes option-pricing model. The Black-Scholes model incorporates various assumptions, including expected volatility, dividend yields, risk-free interest rates, weighted-average expected lives, and estimated forfeitures of options.

Under ASC 718, share-based compensation expense is recognized based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. The Company recognizes compensation expense for all share-based payment awards made to employees and directors using a straight-line method, generally over a service period of four years.

Compensation expense for share-based payments made to non-employees is recognized over the period in which services are provided. In addition, the fair value of share-based payments made to non-employees is re-measured at each reporting date, and compensation expense is adjusted to the current fair value until the services are completed, or if earlier, the date at which a performance commitment, as that term is defined, is reached.

**Initial Public Offering transaction costs** - Initial public offering transactions costs of \$2.8 million, primarily consisting of legal, accounting, and other fees related to the IPO, were offset against proceeds upon the closing of the IPO on December 20, 2019.

**Research and development expenses** - Research and development expenses include payroll, employee benefits, and other headcount-related costs associated with product development. Research and development costs are expensed as incurred.

**Contingencies** - A loss contingency is recorded if it is probable and the amount of the loss can be reasonably estimated. The Company assesses, among other factors, the probability of an adverse outcome and its ability to make a reasonable estimate of the ultimate loss

**Leases** - The Company determines if an arrangement is a lease at inception, and leases are classified at commencement as either operating or finance leases. Right-of-use ("ROU") assets and lease liabilities are recognized at commencement date based on the present value of the future minimum lease payments over the lease term. Operating lease ROU assets are presented separately in long-term assets and finance lease ROU assets are included in property and equipment, net on the consolidated balance sheets. As most of the Company's operating leases do not provide an implicit rate, management uses its incremental borrowing rate in determining the present value of future payments. This rate is an estimate of the collateralized borrowing rate it would incur on our future lease payments over a similar term based on the information available at commencement date. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that it will exercise that option. At December 31, 2019 the Company did not include any options to extend leases in its lease terms as it was not reasonably certain to exercise them.

The Company utilizes certain practical expedients and policy elections available under the lease accounting standard. For example, it does not record right-of-use assets or lease liabilities for leases with terms of 12 months or less, and it combines lease and non-lease components for contracts containing real estate leases.

## Notes to Consolidated Financial Statements

Right-of-use assets are subject to evaluation for impairment or disposal on a basis consistent with other long-lived assets.

**Recently accounting pronouncements adopted** - The Company adopted ASC 842, *Leases (Topic 842)* on January 1, 2019 using the optional transition method described in ASU 2018-11, *Leases - Targeted Improvements*. Under the optional transition method, the Company recognized the cumulative effect of initially applying the guidance as an adjustment to the operating lease right-of-use assets and operating lease liabilities on our consolidated balance sheet on January 1, 2019 without retrospective application to comparative periods.

The new lease standard requires lessees to recognize right-of-use assets and lease liabilities on the balance sheet for operating leases, and also requires additional quantitative and qualitative disclosures to enable users of the financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. In adopting ASC 842, we utilized certain practical expedients available under the standard. These practical expedients include waiving reassessment of conclusions reached under the previous lease standard as to whether contracts contain leases and not recording right-of-use assets or lease liabilities for leases with terms of 12 months or less.

The cumulative effect of the changes made to the consolidated January 1, 2019 balance sheet resulting from the adoption of ASC 842 was as follows (in thousands):

	<b>December 31, As Reported</b>	<b>Adjustment</b>	<b>January 1, 2019 As Adjusted</b>
		(in thousands)	
<b>Assets</b>			
Prepaid expenses	\$ 2,881	\$ (6)	\$ 2,875
Operating lease right-of-use assets - net	—	4,822	4,822
<b>Liabilities and stockholders' equity</b>			
Operating lease right-of-use liabilities, current	—	1,203	1,203
Operating lease right-of-use liabilities, non-current	—	3,834	3,834
Accrued expenses	5,072	(249)	4,823
Accumulated deficit	\$ (39,023)	\$ 28	\$ (38,995)

**Recent accounting pronouncements not yet adopted** - In August 2018, the FASB issued ASU 2018-15, *Intangibles - Goodwill and Other-Internal-Use Software* ("ASU 2018-15"), which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This guidance is effective for interim and annual reporting periods beginning after December 15, 2019, and early adoption is permitted. The Company does not expect that this ASU will have a material impact on its consolidated financial statements.

### Note 3 – Business Combination

On August 27, 2018, the Company completed a business combination of Sitrion, Inc. (Sitrion). This included all issued and outstanding shares of Sitrion Systems GmbH, and its employee communications and productivity solution. The acquisition will enable the Company to provide an integrated platform solution that elevates the employee experience in one seamless user experience. The primary reason for the acquisition was to acquire customer contracts and the assembled workforce held by Sitrion. The

## Notes to Consolidated Financial Statements

Company acquired Sitrion for a total purchase price of \$2.6 million. The purchase price consisted of cash of \$2.0 million and contingent consideration related to acquisition holdback of \$0.6 million due February 2020. The total transaction related expenses were \$0.4 million and have been recorded within general and administrative operating expenses on the consolidated statement of operations. The financial results of Sitrion Systems GmbH have been included in the consolidated financial statements from the date of the acquisition.

The Company has accounted for this acquisition as a business combination. The method requires, among other things, that assets acquired and liabilities assumed in a business combination be recognized at their fair values as of the acquisition date.

The fair values of the assets acquired and liabilities assumed by major class in the acquisition of Sitrion were recognized as follows (in thousands):

Assets acquired:	
Cash	\$ 89
Current Assets	989
Other Assets	80
Acquired intangible assets	1,878
Goodwill	1,153
Total assets acquired	<u>4,189</u>
Liabilities assumed:	
Deferred revenue	511
Current liabilities	1,106
Total liabilities assumed	<u>1,617</u>
Net assets acquired	<u>\$ 2,572</u>

The fair values assigned to tangible assets acquired, liabilities assumed and identifiable intangible assets are based on management's estimates and assumptions. The excess of purchase consideration over the fair value of net tangible and identifiable intangible assets acquired was recorded as goodwill. The goodwill balance is primarily attributed to the cross-selling opportunities, cost synergies, and a knowledgeable and experienced workforce which play an important role in the integration of the acquired customers. The goodwill balance is not deductible for U.S. income tax purposes.

The Company has identified \$1.9 million of customer relationships that represent identifiable acquired intangible assets and has estimated a useful life of five years. Customer relationships represent the fair value of projected cash flows that will be derived from the sale of products to Sitrion's existing customers based on existing, in-process, and future versions of the underlying technology. Amortization expense from acquired intangible assets for the year ended December 31, 2019 and 2018, were \$0.4 million and \$0.1 million, respectively, and were included in general and administrative expenses.



## Notes to Consolidated Financial Statements

Estimated amortization expense for acquired intangible assets for the remaining four years ending December 31 are as follows (in thousands):

2020	\$	376
2021		376
2022		376
2023		<u>249</u>
Total estimated amortization expense	\$	<u>1,377</u>

### Note 4 – Fair Value Measurements

U.S. GAAP has established a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs.

The three levels of inputs used to measure fair value are as follows:

**Level 1** – Valuations based on quoted prices for identical assets and liabilities in active markets.

**Level 2** – Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or inputs that are observable or can be corroborated by observable market data.

**Level 3** – Valuations based on unobservable inputs reflecting the Company's assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

The Company's cash and cash equivalents are classified as Level 1. The carrying amounts of accounts receivable, net, accounts payable, accrued expenses, and deferred revenue approximate their fair values and are classified within Level 1.

## Notes to Consolidated Financial Statements

### Note 5 – Property and Equipment

Property and equipment consists of the following as of December 31 (in thousands):

	<u>2019</u>	<u>2018</u>
Computer equipment and software	\$ 4,247	\$ 3,989
Furniture and equipment	646	596
Leasehold improvements	604	294
Total	<u>5,497</u>	<u>4,879</u>
Less accumulated depreciation and amortization	<u>(4,642)</u>	<u>(3,922)</u>
Total property and equipment, net	<u>\$ 855</u>	<u>957</u>

At December 31, 2019 and 2018, computer equipment and software includes assets under capital leases totaling \$2.6 million and \$2.6 million, respectively. Accumulated depreciation and amortization for assets under capital leases at December 31, 2019 and 2018 is \$2.5 million and \$2.4 million, respectively. Depreciation and amortization expense for property and equipment was \$0.7 million and \$1.1 million, respectively, for the years ended December 31, 2019 and 2018.

### Note 6 – Intangible Assets

#### Finite-lived intangible assets

Finite-live intangible assets as of December 31, 2019 consisted of the following (in thousands):

	<u>Average Useful Life (Years)</u>	<u>Gross</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Customer relationships	5	\$ 1,878	\$ (501)	\$ 1,377

Amortization expense for finite-live intangible assets for the years ended December 31, 2019 and 2018 was \$0.4 million and \$0.1 million, respectively.

### Note 7 – Employee Savings Plan

In September 2011, the Company adopted a retirement plan (the Plan) under Section 401(k) of the Internal Revenue Code. The Plan covers substantially all employees of the Company who meet minimum age and service requirements and allows for participants to defer a portion of their annual compensation on a pre-tax basis subject to annual regulatory contribution limitations. Plan assets are held separately from those of the Company in funds under the control of a third-party trustee. The Company has the ability to make matching and discretionary contributions to the Plan. During the years ended December 31, 2019 and 2018, the Company did not make any contributions to the Plan.

## Notes to Consolidated Financial Statements

### Note 8 – Revenue From Contracts With Customers

**Disclosures Related to Contracts with Customers** - Timing may differ between the satisfaction of performance obligations and the invoicing and collection of amounts related to contracts with customers. Liabilities are recorded for amounts that are collected in advance of the satisfaction of performance obligations. To the extent a contract exists, as defined by ASC 606, these liabilities are classified as current and non-current deferred revenue. To the extent that a contract does not exist, these liabilities are classified as contract liabilities. Contract liabilities are transferred to deferred revenue at the point in time when the criteria that establish the existence of a contract are met. As of December 31, 2019, the Company had no contract liabilities.

**Deferred Revenue** - A summary of the activity impacting deferred revenue balances during the year ended December 31, 2019 is presented below (in thousands):

	<b>Deferred Revenue</b>	
Balance as of December 31, 2018	\$	5,379
Revenue recognized		(47,443)
Additional amounts deferred		50,379
Balance as of December 31, 2019	\$	8,315

Deferred revenue at December 31 is comprised of (in thousands):

	<b>2019</b>		<b>2018</b>	
Subscription services	\$	7,931	\$	5,097
Third party services	\$	169	\$	243
Other		215		39
Total deferred revenue	\$	8,315	\$	5,379

At December 31, 2019 and December 31, 2018, deferred revenue relates to amounts received from customers in advance of revenue recognition.

## Notes to Consolidated Financial Statements

### Note 9 - Income Taxes

Domestic and foreign components of loss before income tax are as follows (in thousands):

	December 31	
	2019	2018
Domestic	\$ (1,631)	\$ (2,874)
Foreign	(512)	(313)
<b>Total</b>	<b>\$ (2,143)</b>	<b>\$ (3,187)</b>

Major components of the income tax provision are as follows (in thousands):

	December 31	
	2019	2018
<b>Current</b>		
Federal	\$ —	\$ —
State	47	12
Foreign	3	—
Total current income tax provision	50	12
<b>Deferred</b>		
Federal	2	—
State	—	—
Foreign	—	—
Total deferred income tax provision	2	—
<b>Total</b>	<b>\$ 52</b>	<b>\$ 12</b>

Reconciliation of Provision (Benefit) for Income Taxes (in thousands)

	December 31	
	2019	2018
Tax at statutory rate	\$ (447)	\$ (882)
State taxes	37	12
Stock based compensation	59	54
Federal Tax Credits	433	(480)
Foreign Rate Differential	35	16
Deferred	168	207
Change in Valuation Allowance	(281)	1,052
Other	48	33
<b>Total</b>	<b>\$ 52</b>	<b>\$ 12</b>

## Notes to Consolidated Financial Statements

**Operating loss carryforwards** - At December 31, 2019 and 2018, the Company had federal net operating loss carryforwards of approximately \$31.9 million and \$30.7 million, respectively, which may be used to offset future taxable income. The carryforwards, excluding \$4.5 million of operating loss carryforwards that are indefinite-lived, will expire starting in 2028. The Company's ability to utilize its carryforwards is dependent on generating sufficient taxable income prior to their expiration. A full valuation allowance has been established to reflect the uncertainty of generating future taxable income necessary to realize the Company's tax loss carryforwards and other deferred tax assets.

Current tax laws impose substantial restrictions on the utilization of net operating loss carryforwards in the event of an ownership change, as defined by Section 382 of the Internal Revenue Code. Since the losses incurred are fully reserved by valuation allowance, any limitation related to Section 382 will not have a material impact on the financial statement. The limitation on net operating loss carryforwards could impact the deferred tax asset and corresponding valuation allowance in the income tax footnote.

**Deferred Tax Assets and Liabilities** - Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows (in thousands):

	December 31	
	2019	2018
Deferred tax assets:		
Federal net operating loss carryforward (NOL)	\$ 7,512	\$ 7,062
Nondeductible reserves	574	243
Research and development credit carryforward	2,050	2,565
Lease liabilities	826	—
Other	133	111
Total deferred tax assets	11,095	9,981
Deferred tax liabilities:		
Software development costs	(905)	(408)
Right-of-use assets	(792)	—
Other	(182)	—
Total deferred tax liabilities	(1,879)	(408)
Net deferred tax assets before valuation allowance	9,216	9,573
Valuation allowance	(9,218)	(9,573)
Net deferred tax liability	\$ (2)	\$ —
Net operating loss carryforward	31,947	30,731

The Company adheres to requirements for uncertain tax positions, which had no financial statement impact to the Company upon adoption due to the existing valuation allowance on deferred tax assets. The Company files income tax returns in the U.S. federal and several state jurisdictions. As of December 31, 2019 and 2018, there is no accrued interest or penalties recorded in the consolidated financial statements.

Due to the Company's net operating loss and tax credit carryforwards, all federal and state tax returns are subject to tax examinations since the Company's inception.

## Notes to Consolidated Financial Statements

### Note 10 - Net Loss Per Share

Net loss per share is computed by dividing the net loss for the years ended December 31, 2019 and 2018 by the weighted-average number of shares outstanding during the years. The Company excluded the effect of stock options from the computation of the net loss per share because including them would have had an anti-dilutive effect.

The following table presents the losses and the shares used in calculating the net loss per share for the years ended December 31 (in thousands, except per share amounts):

	2019	2018
Numerator:		
Net loss	\$ (2,194)	\$ (3,187)
Inducement of convertible preferred stock	(33,128)	—
Net loss attributable to common shareholders	\$ (35,322)	\$ (3,187)
Denominator:		
Weighted-average common shares outstanding-basic	80,942	73,910
Dilutive effect of share equivalents resulting from stock options, common stock warrants and convertible preferred shares (as converted)	—	—
Weighted-average common shares outstanding-diluted	80,942	73,910
Net loss	\$ (0.03)	\$ (0.04)
Inducement of convertible preferred stock	(0.41)	—
Net loss per common share, basic and diluted	\$ (0.44)	\$ (0.04)

## Notes to Consolidated Financial Statements

### Note 11 – Shareholders' Equity

The Company is authorized to issue two classes of stock designated as common stock and preferred stock. On December 19, 2019, immediately prior to the IPO, the Board of Directors approved the Amended and Restated Articles of Incorporation, which increased the authorized capital stock from 42,467,357 shares, consisting of 28,000,000 shares of common stock, \$0.0001 par value per share, and 14,467,357 shares of convertible preferred stock, \$0.0001 par value per share, to authorized capital stock of 560,000,000 shares, consisting of 550,000,000 shares of common stock with no par value per share, and 10,000,000 shares of preferred stock with no par value per share.

**Preferred stock** - Immediately prior to the completion of the IPO, all outstanding shares of preferred stock were converted into 14,175,094 shares of the Company's common stock. These shares were then split on a 1-to-8 basis, resulting in 113,400,752 shares of common stock. As an inducement to convert their shares to common stock, Series Preferred shareholders were offered 26,993,844 additional shares of common stock at an aggregate value of \$34.0 million, equivalent to what their liquidation preferences would have been in a liquidation event as defined in the Company's Articles of Incorporation. No shares of preferred stock were outstanding as of December 31, 2019.

At December 31, 2018, there were 14,175,094 shares of preferred stock issued and outstanding, consisting of 5,471,813 shares of Series A redeemable convertible preferred stock, 4,363,606 shares of Series B redeemable convertible preferred stock, and 4,339,675 shares of Series C redeemable convertible preferred stock (the "Preferred Stock").

**Dividends** - The holders of Series A, Series B, and Series C Preferred Stock have preferential rights to dividends at the rate of \$0.0483, \$0.1046, and \$0.4609, respectively, per share per annum, when and if declared, over common stockholders, if approved by the Board of Directors. All dividends are subject to adjustment for any Recapitalization Event, as defined in the Certificate of Incorporation. The right to receive dividends is not cumulative. As of December 31, 2019, and December 31, 2018, no dividends had been declared.

**Liquidation preference** - In the event of a deemed liquidation, as defined, the holders of Series A, Series B, and Series C have preferential rights over common stock to liquidation payments of \$0.6041, \$1.3078, and \$5.7608 per share, respectively, plus all declared but unpaid dividends on such shares, if any. If upon any such deemed liquidation the assets of the Company are insufficient to pay the holders of Preferred Stock the full amounts of preference, Preferred Stock holders will have liquidation rights that are proportionate to one another.

After the payment of the full preference amounts to holders of the Company's Preferred Stock, the entire remaining assets and funds available for distribution shall be distributed pro rata among the holders of the Company's common stock, Series A, Series B, and Series C based upon the number of shares of common stock held by each (the holders of the Preferred Stock being deemed to hold that number of shares of common stock their Series A, Series B, or Series C shares then convert into).

**Redemption** - Shares of Preferred Stock are only redeemable upon an actual or deemed liquidation event and upon the election of 65% of the holders of the then-outstanding shares of Preferred Stock (voting as a single class) or the majority of the then-outstanding Series C Preferred Stock holders. If elected, the redemption will be funded with the proceeds received in the liquidation event. Issuance costs related to Preferred Stock are being accreted via a charge to accumulated deficit.

**Voting rights** - Holders of Preferred Stock are entitled to the number of votes equal to the number of shares of common stock into which their preferred shares could be converted and have voting rights equal to holders of common stock.

**Conversion** - At any time after the date of issuance, each share of Preferred Stock at the option of the holder shall be converted to common stock of the Company using the conversion rate provided in the

## Notes to Consolidated Financial Statements

Company's Certificate of Incorporation (a ratio of 1-to-1 prior to the stock split and IPO), or automatically upon the closing of a) an equity financing in which shares of Common Stock, or other securities representing Common Stock, are sold in a public offering outside the United States, or b) a qualified initial public offering pursuant to an effective registration statement under the Securities Act of 1933 with an aggregate offering price to the public of at least \$17.28 per share and aggregate proceeds of \$30 million. Under automatic conversion scenario a) in addition to receiving common stock using the conversion rate provided in the Company's Certificate of Incorporation, the preferred stock holder will receive additional shares of Common Stock equivalent to the aggregate amounts that would be payable to the preferred stock holder in a deemed liquidation event.

Prior to the Company's initial public offering, all issued and outstanding shares of Preferred Stock was converted to Common Stock.

**Common stock** - At December 31, 2019, there were 244,849,004 shares of common stock issued and outstanding. At December 31, 2018, there were 74,496,992 shares of common stock issued and outstanding.

Common stock of the Company has no preferences or privileges and is not redeemable. Holders of common stock of the Company are entitled to one vote for each share of common stock held.

**Common shares reserved for future issuance** - The following shares of common stock have been reserved for future issuance as of December 31, 2019 and December 31, 2018. Shares outstanding as of December 31, 2018 have been restated to reflect the 1-to-8 stock split discussed in Note 11.

	2019	2018
Common stock options outstanding	19,433,408	20,456,216
Common stock options available for grant	46,822,211	5,143,240
Shares issuable upon conversion of outstanding redeemable convertible preferred stock	—	113,400,752
Total common shares reserved for future issuance	66,255,619	139,000,208

### Note 12 – Stock-Based Compensation

Effective December 20, 2019 the company adopted the 2019 Omnibus Incentive Plan (the 2019 Plan) and terminated the Company's authority to grant new awards under the 2016 Stock Plan (the 2016 Plan). The 2019 Plan has a total of 46,822,211 shares reserved and available for issuance to employees, directors, and consultants through incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock grants, restricted stock unit grants, performance grants, and other grants. The Board of Directors determines the option exercise price and generally grants stock options at exercise prices that equal or exceed the fair value of the common stock on the date of grant. The terms of the options may not exceed ten years. Vesting terms are determined by the Board of Directors and generally vest over four years, with 25% vesting after 12 months and 75% vesting ratably over the remaining 36 months.

The 2016 Plan and 2006 Plan are stockholder approved plans that authorized shares of the Company's common stock for issuance to employees, directors, and consultants through incentive stock options, non-statutory stock options, or stock purchase right agreements. The Board of Directors determined the option exercise price and generally granted stock options at exercise prices that equal or exceed the fair value of the common stock on the date of grant. The terms of the options may not exceed ten years. Vesting terms generally vest over four years, with 25% vesting after 12 months and 75% vesting ratably



## Notes to Consolidated Financial Statements

over the remaining 36 months. In the first quarter of 2016, the Company terminated the authority to grant new awards under the 2006 Plan.

The 2019, 2016 and 2006 Stock Plans allow for the exercise of stock options at any time after the grant date (early exercise). Shares granted in an early exercise which have yet to vest are subject to a Company repurchase option at the original exercise price. As the shares vest, they are released from the Company repurchase option. Proceeds received by the Company upon an early exercise are recorded as a liability until the underlying shares are released from the repurchase option. As of December 31, 2019 and 2018, 76,352 and 0 options have been early exercised under the Stock Plan.

In determining the fair value of stock options granted to employees and directors, the following assumptions were used in the Black-Scholes option-pricing model for the years ended December 31 2019 and 2018, respectively:

	2019	2018
Estimated per share value of common stock	\$0.20	\$0.20
Risk-free interest rates	1.39% - 2.44%	2.75% - 3.08%
Expected term (in years)	5.47 - 6.08	5.65 - 6.08
Dividend rate	—%	—%
Volatility	48.86% - 49.66%	49.08% - 50.89%

The estimated per share value of common stock was based on a third-party valuation until the IPO. The risk-free interest rates are based on the implied yield currently available in U.S. Treasury securities at maturity with an equivalent term. The Company estimates the weighted-average expected life of the options to employees based on past option exercise behavior and expectations about future behavior. Forfeiture rates were derived from historical employee termination behavior. Volatility is based on the average volatility of stock prices for a group of similar publicly traded companies. The Company has not declared or paid dividends in the past and does not currently expect to do so in the foreseeable future.

The impact on results of operations of recording stock-based compensation expense for the years ended December 31 was as follows (in thousands):

	2019	2018
Cost of revenue	\$ 50	\$ 46
Sales and marketing	95	62
Research and development	90	84
General and administrative	64	66
	\$ 299	\$ 258

## Notes to Consolidated Financial Statements

The following table summarizes stock option activity under the Plan for the year ended December 31, 2019:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2018	20,456,216	\$ 0.12	<u>7.00</u>	
Options granted	6,398,000	0.20		
Options forfeited	(4,523,600)	0.14		
Options exercised	<u>(2,897,208)</u>	<u>0.10</u>		
Outstanding at Dec 31, 2019	<u>19,433,408</u>	<u>\$ 1.10</u>	<u>7.38</u>	<u>\$ 21,545,992</u>
Options vested or expected to vest at December 31, 2019	<u>17,818,096</u>	<u>\$ 0.14</u>	<u>7.23</u>	<u>\$ 19,775,549</u>
Exercisable at December 2019	<u>10,983,320</u>	<u>\$ 0.12</u>	<u>6.17</u>	<u>\$ 12,359,053</u>

At December 31, 2019 and December 31, 2018, total compensation cost related to stock options granted to employees under the Plan but not yet recognized was \$0.5 million and \$0.5 million respectively, net of estimated forfeitures. This cost will be amortized on the straight-line method over a weighted-average period of approximately 1.1 years and 1.1 years, respectively. The aggregate intrinsic value represents the difference between the exercise price of the underlying options and the fair value of our common stock for the number of options that were in-the-money at year end. The Company issues new shares of common stock upon exercise of stock options.

The following table summarizes certain information about stock options for the periods ended December 31:

	2019	2018
Weighted average grant date fair value for options granted during the period	\$ 0.10	\$ 0.07
Options in the money at period-end	19,433,408	20,016,216
Aggregate intrinsic value of options exercised	\$ 3,354,269	\$ 145,808

### Note 13 – Leases

The Company's leasing arrangements are primarily for corporate offices and automobiles. The Company has lease agreements that include lease components (e.g., fixed rent) and non-lease components (e.g., common area maintenance), which are accounted for as a single component, as management has elected the practical expedient to group lease and non-lease components. Management also elected the practical expedient to keep leases with an initial term of 12 months or less off the balance sheet and recognize the associated lease payments in the consolidated statements of operations on a straight-line

## Notes to Consolidated Financial Statements

basis over the lease term. Our leases have remaining lease terms of 1 to 5 years, some of which include options to extend the lease term for up to an additional 5 years.

As our leases do not provide an implicit rate, management uses the Company's incremental borrowing rate based on the information available at the lease commencement date in determining the present value of the lease payments. For those leases that existed as of January 1, 2019, we used our incremental borrowing rate based on information available at that date. The Company applies a portfolio approach for determining the incremental borrowing rate based on the applicable lease terms and the current economic environment.

Weighted average remaining lease term (in years) for operation leases	3.5
Weighted average discount rate	6.0 %

The components of the Company's lease expense for the year ended ended December 31, 2019 were as follows (in thousands):

Operating lease costs	\$	1,849
Finance leases		133
Interest on lease liabilities		2
Total lease costs	<u>\$</u>	<u>1,984</u>

The following table presents the Company's future lease payments for long-term operating leases as of December 31, 2019:

Period:	<u>Operating Leases</u>	<u>Finance Leases</u>
	(in thousands)	
2020	\$ 1,475	4
2021	1,030	—
2022	962	—
2023	813	—
Thereafter	18	—
Total	<u>\$ 4,298</u>	<u>\$ 4</u>
Less: Imputed interest	(409)	—
Total operation lease liabilities	<u>\$ 3,889</u>	<u>\$ 4</u>

Cash paid for operating lease liabilities for the year ended December 31, 2019 was \$1.5 million. The Company recorded \$0.1 million in non-cash increases to right-of-use assets and operating leases for leases that commenced or were modified during the year ended December 31, 2019.

Under ASC 840, the previous lease standard, total rent expense, net of sublease income, under operating leases was approximately \$1.1 million for the year ended ended December 31, 2018.

## Notes to Consolidated Financial Statements

### Note 14 – Commitments and Contingencies

**Litigation** - The Company is not aware of any pending legal proceedings that individually or in the aggregate would have a material adverse effect on the Company's business, operating results, or financial conditions. The Company may in the future be party to litigation arising in the ordinary course of business. Such claims, even if not meritorious, could result in the expenditure of significant financial and managerial resources.

**Guarantees and other** - The Company includes indemnification provisions in its contracts entered into with customers and business partners. Generally, these provisions require the Company to defend claims arising out of its products' infringement of third-party intellectual property rights, breach of contractual obligations, and/or unlawful or otherwise culpable conduct. The indemnity obligations generally cover damages, costs, and attorneys' fees arising out of such claims. In most (but not all) cases, the total liability under such provisions is limited to either the value of the contract or a specified, agreed-upon amount. In some cases, the total liability under such provisions is not specified. In many (but not all) cases, the term of the indemnity provision is perpetual. While the maximum potential amount of future payments the Company could be required to make under all the indemnification provisions is unlimited, the Company believes the estimated fair value of these provisions is minimal, as these provisions have never been triggered.

### Note 15 – Debt

**Loan and Security Agreement** - The Company has a loan and security agreement with Comerica Bank ("Lender") that consists of a \$15.0 million revolving credit facility (the "Credit Facility"), which is subject to borrowing base limitations, and all outstanding amounts become due and payable on the maturity date of December 31, 2020. The obligations under the Credit Facility are collateralized by substantially all assets of the Company, including intellectual property, receivables and other tangible and intangible assets.

The Credit Facility includes several affirmative and negative covenants, including a requirement that the Company maintain minimum annual contract values and minimum liquidity, and observe restrictions on dispositions of property, changes in its business, mergers or acquisitions, incurring indebtedness, and distributions or investments. Written consent of the Lender is required to pay dividends to shareholders. As of December 31, 2019, the Company was in compliance with all covenants of the Credit Facility.

Interest on outstanding borrowings is at Comerica Bank's Prime Rate plus 0.5% (5.25% and 5.75% at December 31, 2019 and December 31, 2018, respectively). Outstanding borrowings were \$2.5 million at December 31, 2018. The Credit Facility was paid off in December 2019 and no balance was outstanding as of December 31, 2019.

### Note 16 – Subsequent Events

On February 27, 2020, the Company paid the acquisition holdback of \$0.6 million related to the acquisition of Sitrion.