

limeade®

APPENDIX 4E  
PRELIMINARY FINAL REPORT

**LIMEADE, INC.**

For the year ended 31 December 2020

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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 2020
Financial year ended (previous period)	31 December 2019

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

	Up/(down) \$USD '000	% change	31 December 2020 \$USD '000	31 December 2019 \$USD '000
Revenue from ordinary activities	9,142	19.3%	56,585	47,443
(Loss) from ordinary activities after tax attributable to shareholders	1,752	86.9%	(265)	(2,017)
Net (Loss) attributable to shareholders	1,552	76.6%	(473)	(2,025)

### 3. DIVIDEND

The Company has not declared, and does not propose to pay, any dividends for the year ended 31 December 2020. There are no dividend or dividend reinvestment plans in operation.

### 4. NET TANGIBLE ASSETS PER SECURITY

	31 December 2020 \$USD	31 December 2019 \$USD
Net tangible assets per security	0.08	0.08

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 Depositary Interests (CDIs).

### 6. COMMENTARY ON RESULTS

#### Business summary and key performance indicators

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

- An increase in revenue from \$47.4 million for the year ended 31 December 2019 ("2019") to \$56.6 million for the year ended 31 December 2020 ("2020") which is an 19.3% improvement.

- The revenue increase of \$9.1 million reflects the growth of new customers and increased sales to existing customers.
- The net loss for the year ended 31 December 2020 is \$0.3 million compared to a loss of \$2.0 million for the year ended 31 December 2019.
- The net cash provided by operating activities for year ended 31 December 2020 is \$3.8 million compared to \$2.8 million for the year ended 31 December 2019

The 2020 financial year presented some challenges for Limeade following the declaration of coronavirus COVID-19 global pandemic by the World Health Organization on 11 March 2020 (the “Pandemic”), with various ‘shelter in place’ directives across a number of states within the US, and partial to full lockdowns in other countries that followed. Domestic and international travel was significantly impacted, which resulted in changes to the way the Company interacted with current and prospective customers and a shift to virtual sales and marketing mediums during the year. This global uncertainty and the impact on enterprise budgeting and decision-making resulted in Limeade experiencing some delays in finalizing contracts during the year. Financial discipline, a strong balance sheet, our award-winning culture and the core Limeade value proposition carried us through the challenges of 2020.

Despite this, Limeade continued to execute on its growth strategy with investment in sales and marketing. Sales and marketing expenses increasing 14% from \$15.8 million for the year ended 31 December 2019 to \$17.9 million for the year ended 31 December 2020. Due to the Pandemic, the type of investments in sales and marketing shifted from in-person events to webinars and virtual events which proved to be a more cost-effective way of reaching customers. This was evident by an increase of 120% in the number of webinar registrants in 2020 compared with 2019.

Continued development of the Limeade platform resulted in an increase of research and development expenses by 13% from \$15.0 million for the year ended 31 December 2019 to \$17.0 million for the year ended 31 December 2020. In FY20, the Company released 560 new activities to support employee well-being and COVID-19 along with additional engagement, and inclusion activities. Additionally, 25+ key platform upgrades and global support capabilities were delivered. New capabilities focused on reaching dispersed workforces, employee listening, recognition and more. Limeade also delivered additional key partnerships highlighted by the Microsoft Teams integration.

Limeade met its IPO prospectus guidance for revenue for the year ended 31 December 2020 and materially exceeded prospectus guidance for EBITDA with a gain of \$1.2 million compared to prospectus forecast of a \$10.7 million loss. In addition, Limeade materially exceeded the prospectus forecast net loss after tax, with a loss of \$0.3 million for the year ended 31 December 2020 versus prospectus forecast of a \$12.4 million loss. In response to the uncertainty of the COVID-19 pandemic, Limeade took a more conservative approach to spending, delaying certain hiring and shifting sales and marketing spend to remote and virtual channels resulting in reduced operating expenses while maintaining revenue.

The cash balance was \$31.5 million as at 31 December 2020 with no debt compared to a \$32.0 million cash balance as at December 2019 with no debt. Limeade continues to manage cash that will be used for future growth investments in the business to improve and enhance the product and build pipeline and, ultimately, the customer base.

## **6. 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.

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

There are no associate or joint venture entities.

#### **8. 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").

#### **9. 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

25 February 2021



REPORT OF INDEPENDENT AUDITORS  
AND CONSOLIDATED FINANCIAL STATEMENTS

**LIMEADE, INC.**

For the Years Ended December 31, 2020 and 2019



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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 sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations, comprehensive loss, statement of shareholders' (deficit) equity, and cash flows for the years 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, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



**Limeade, Inc.**  
**Consolidated Balance Sheets**

*(in US Dollars, in thousands)*

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 31,497	\$ 31,962
Accounts receivable, net of allowance for doubtful accounts of \$117 and \$80, respectively	8,624	7,300
Prepaid expenses and other current assets	3,388	4,326
Total current assets	43,509	43,588
Non-current assets		
Property and equipment - net	590	855
Capitalized software development costs - net	6,302	3,966
Operating lease right-of-use assets - net	2,324	3,738
Goodwill	1,435	1,435
Intangible assets - net	1,001	1,377
Other non-current assets	361	452
Total assets	\$ 55,522	\$ 55,411
<b>Liabilities and shareholders' equity</b>		
Current liabilities		
Trade payables	\$ 4,127	\$ 3,748
Accrued compensation	2,879	3,892
Accrued expenses and other current liabilities	5,603	5,648
Operating lease right-of-use liabilities	566	1,287
Finance lease liabilities	—	4
Deferred revenue	10,089	8,315
Customer deposits	2,499	2,094
Acquisition holdback	—	571
Income taxes payable	17	23
Total current liabilities	25,780	25,582
Non-current liabilities		
Operating lease right-of use liabilities	1,806	2,602
Deferred tax liability	5	2
Total non-current liabilities	1,811	2,604
Total liabilities	27,591	28,186
<b>Commitments and contingencies (Note 13)</b>		
<b>Shareholders' equity</b>		
Common stock (\$0.0001 par value, 550,000,000 shares authorized, 247,420,156 and 244,849,004 shares issued and outstanding as of December 31, 2020 and 2019, respectively)	—	—
Additional paid-in capital	67,586	66,407
Accumulated deficit	(39,655)	(39,182)
Total shareholders' equity	27,931	27,225
<b>Total Liabilities and shareholders' equity</b>	<b>\$ 55,522</b>	<b>\$ 55,411</b>

*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>	
	2020	2019
<b>Revenue:</b>		
Subscription services	\$ 54,926	\$ 45,464
Other	1,659	1,979
<b>Total revenues</b>	<u>56,585</u>	<u>47,443</u>
<b>Cost of revenue</b>	13,268	11,689
<b>Gross profit</b>	<u>43,317</u>	<u>35,754</u>
<b>Operating expenses</b>		
Sales and marketing	17,901	15,758
Research and development	16,978	15,038
General and administrative	9,056	7,121
<b>Total operating expenses</b>	<u>43,935</u>	<u>37,917</u>
<b>Operating loss</b>	<u>(618)</u>	<u>(2,163)</u>
<b>Other income, net</b>	<u>369</u>	<u>21</u>
Loss before income taxes	(249)	(2,142)
Income tax (expense) benefit	(16)	125
Net loss	<u>\$ (265)</u>	<u>\$ (2,017)</u>
<b>Basic and diluted loss per common share (Note 9)</b>		
Net loss	\$ (0.00)	\$ (0.02)
Inducement of convertible preferred stock	—	(0.41)
Net loss per share attributable to common shareholders, basic and diluted	<u>\$ (0.00)</u>	<u>\$ (0.43)</u>
Weighted average shares of common stock outstanding, basic and diluted	<u>245,520</u>	<u>80,942</u>

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

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

	<b>For the Twelve Months Ended December 31</b>	
	<u>2020</u>	<u>2019</u>
Net loss	\$ (265)	\$ (2,017)
Other comprehensive loss — Foreign currency translation	<u>(208)</u>	<u>(8)</u>
Total comprehensive loss	<u>\$ (473)</u>	<u>\$ (2,025)</u>

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

**Limeade, Inc.**  
**Consolidated Statements of Shareholders' (Deficit) Equity**  
*(in US Dollars, in thousands, except share data)*

	Series C Redeemable		Series B Redeemable		Series A Redeemable		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Shareholders' Equity
	Convertible Preferred Stock		Convertible Preferred Stock		Convertible Preferred Stock						
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
<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	\$ (37,120)	\$ (1,517)
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	—	—	—	—	—	—	—	—	—	(2,017)	(2,017)
<b>BALANCE, December 31, 2019</b>	—	—	—	—	—	—	244,849,004	—	\$ 66,407	\$ (39,182)	\$ 27,225
Initial public offering costs	—	—	—	—	—	—	—	—	(59)	—	(59)
Exercise of stock options	—	—	—	—	—	—	2,571,152	—	316	—	316
Stock-based compensation	—	—	—	—	—	—	—	—	922	—	922
Loss on translation adjustments	—	—	—	—	—	—	—	—	—	(208)	(208)
Net loss	—	—	—	—	—	—	—	—	—	(265)	(265)
<b>BALANCE, December 31, 2020</b>	—	—	—	—	—	—	247,420,156	—	\$ 67,586	\$ (39,655)	\$ 27,931

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

**Limeade, Inc.**  
**Consolidated Statements of Cash Flows**

*(in US Dollars, in thousands)*

	<b>For the Twelve Months Ended December 31</b>	
	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (265)	\$ (2,017)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	1,489	1,413
Amortization of operating lease-right-of-use assets	1,212	1,137
Stock-based compensation	922	299
Change in assets and liabilities		
Accounts receivable	(1,323)	1,569
Prepaid expenses and other current assets	937	(1,450)
Other non-current assets	294	(96)
Trade accounts payable	471	(1,708)
Accrued compensation	(1,013)	(199)
Accrued expenses and other current liabilities	634	147
Income taxes payable	(6)	23
Deferred revenue	1,774	2,936
Deferred tax liability	3	(175)
Customer deposits	405	2,094
Operating lease liabilities	(1,517)	(1,201)
Foreign currency gains	(236)	—
Net cash provided by operating activities	3,781	2,772
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capitalized software development costs	(2,987)	(2,489)
Purchases of property and equipment	(197)	(601)
Net cash used in investing activities	(3,184)	(3,090)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from initial public offering, net of underwriters' discounts and commissions	—	32,969
Payments of initial public offering transaction costs	(829)	(2,047)
Payments on principal of capital leases	(4)	(141)
Payments on acquisition holdbacks	(571)	—
Proceeds from credit facility	—	2,000
Principal payments on credit facility	—	(4,500)
Proceeds from exercise of stock options	316	289
Net cash (used in) provided by financing activities	(1,088)	28,570
Foreign currency effect on cash and cash equivalents	26	(11)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(465)</b>	<b>28,241</b>
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	31,962	3,721
End of year	\$ 31,497	\$ 31,962

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

**Limeade, Inc.**  
**Consolidated Statements of Cash Flows**

*(in US Dollars, in thousands)*

	2020	2019
<b>SUPPLEMENTAL CASH FLOW DISCLOSURES:</b>		
Cash paid for interest	—	187
Cash paid for taxes	3	27
<b>NON-CASH OPERATING, INVESTING, AND FINANCING ACTIVITIES</b>		
Accretion of redeemable convertible preferred stock issuance costs	—	65
Property and equipment included in accounts payable	25	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

#### Description of Business

Limeade, Inc. (the “Company”, “Limeade”, “Management”, or “we”) 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, and a branch registered in Australia. These entities provide business development, software development, and support services.

#### Certain Significant Risks and Uncertainties

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.

The COVID-19 pandemic is having widespread, rapidly evolving, and unpredictable impacts on global society, economies, financial markets, and business practices. In view of the rapidly changing business environment, unprecedented market volatility and heightened degree of uncertainty resulting from COVID-19, we are currently unable to fully determine its future impact on our business. However, we are monitoring the progression of the pandemic and its potential effect on our financial position, results of operations, and cash flows.

#### 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. As part of the IPO, the Company issued 27,060,208 shares of its common stock or 27,060,208 CHESS Depositary Interests (“CDI”) shares, with the ratio of CDI shares 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 AUD6.0 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

## Notes to Consolidated Financial Statements

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.

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	<u>2,897,208</u>
Total shares issued as of December 31, 2019	<u><u>170,352,012</u></u>

### Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements. Specifically, third party services revenue was separately disclosed on the income statement in the prior year financial statements and has been combined with subscription revenues under the "Subscription services" line on the income statement in the current year financial statements to conform with the current year presentation. This reclassification had no impact on the previously disclosed 2019 revenue, net loss, or loss per share.

### Correction of Errors

In connection with the preparation of our consolidated financial statements, we determined that we did not properly identify a deferred tax liability related to certain acquired intangible assets associated with the acquisition of Sitrion in 2018. While we believe the amounts are immaterial to the consolidated financial statements, we have restated the amounts previously reported to record the deferred tax liability, the related impact on goodwill, and the subsequent tax benefit in the provision for income taxes. The affected balances presented in these financial statements are reflected in the below tabular reconciliation:

## Notes to Consolidated Financial Statements

<i>(in thousands)</i>	Year Ended December 31, 2019		
	As Previously Reported	Adjustment	As Restated
Goodwill	\$ 1,153	\$ 282	\$ 1,435
Other non-current assets	449	3	452
Total assets	55,126	285	55,411
Accumulated deficit	(39,467)	285	(39,182)
Total shareholders' equity	26,940	285	27,225
Provision for income taxes	52	(177)	(125)
Net loss	(2,194)	177	(2,017)
Net loss per share	\$ (0.44)	\$ 0.00	\$ (0.43)

In addition to the changes above, accumulated deficit and total shareholders' equity (deficit) for the year ended December 31, 2018 were adjusted by \$108 thousand, resulting in restated balances as of January 1, 2019 of \$37.1 million and \$(1.5) million, respectively, in the Statement of Shareholders' Equity. We also restated other deferred tax assets, other deferred tax liabilities, the associated valuation allowance, and the reconciliation of provision (benefit) for income taxes to reflect the adjustments shown above within **Note 8 – Income Taxes**.

### 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, useful lives of property and equipment and capitalized software development costs, 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.

The COVID-19 pandemic has introduced significant additional uncertainty with respect to estimates, judgments and assumptions, which may materially impact the estimates previously listed, among others.



## Notes to Consolidated Financial Statements

### 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 25% and 29% of net accounts receivable as of December 31, 2020, and 2019, respectively. During the years ended December 31, 2020 and 2019, no customers accounted for 10% or more of total revenue.

### Foreign Currency Translation

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 75 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.

### 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

## Notes to Consolidated Financial Statements

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 internally developed 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 \$3.0 and \$2.5 million of internally developed software costs for the years ended December 31, 2020 and 2019, respectively. Amortization expense related to capitalized software was \$0.7 million and \$0.3 million for the years ended December 31, 2020 and 2019, respectively.

### 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 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 value as a basis for determining whether we need to perform the quantitative two-step impairment test. Only if we determine, based on qualitative assessment, that it is more likely than not that a reporting unit's fair value is less than its carrying value will we calculate the fair value of the reporting unit. We would then test goodwill for impairment by first comparing the book value of net assets to the fair value of the reporting unit. As December 31, 2020 and December 31, 2019, no impairment of goodwill has been identified and there were no impairment charges for the years ended December 31, 2020 and 2019, 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, 2020 and 2019.

### 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, 2020 and 2019.

## Notes to Consolidated Financial Statements

### Revenue Recognition

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 fees from customers for value-add services provided by third parties and (2) other revenues, which are comprised of fees from customers for implementation services and onsite client program managers.

#### ***Subscription Revenue***

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 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.

Subscription revenues also include third party services such as health coaching and content subscription services, which are often contracted for and billed to the customer by the Company. Revenue associated with these arrangements is recognized net of costs charged to the Company by the third party providers and is generally recognized on a ratable basis over the contract period.

#### ***Other Revenue***

Other revenue includes implementation fees for subscription software and related programs, as well as other services such as onsite client program managers, biometric data collection, and onsite screenings. 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.

#### ***Performance Obligations***

The Company identifies performance obligations in its contracts with customers, which primarily include software subscription licenses, implementation costs, onsite management fees. 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.

#### ***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.

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

## Notes to Consolidated Financial Statements

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 \$1.6 million and \$1.1 million as of December 31, 2020 and 2019, 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 years ended December 31, 2020 and 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, 2020 or December 31, 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, 2020, 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.

## Notes to Consolidated Financial Statements

### 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.

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, 2020 or December 31, 2019.

### Share-based Compensation

The Company accounts for stock-based payment awards made to employees and directors under Accounting Standards Codification ("ASC") *Share-Based Payments* ("ASC 718"), 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.

Effective 1/1/2020 the Company adopted ASU 2018-7, *Compensation-Stock Compensation; Improvements to Nonemployee Share-Based Payment Accounting* ("Topic 718") which conforms the accounting for non-employees to the accounting treatment for employees. The new standard replaces using a fair value as of each reporting date with the use of the calculated fair value as of the grant date. The implementation of Topic 718 provides for the use of the fair market value as of the adoption date, rather than using the value as of the original grant date. The Company utilizes the Black-Scholes option pricing model and uses the simplified method to determine expected term because of lack of sufficient exercise history.

Share-based compensation cost for RSUs is recognized on a straight-line basis in the consolidated statements of operations over the period during which the participant is required to perform services in exchange for the award, based on the fair value of the underlying common stock on the date of grant. The vesting period of each RSU grant is generally four years and share based compensation is adjusted for the impact of estimated forfeitures.

## Notes to Consolidated Financial Statements

### Initial Public Offering Transaction Costs

Initial public offering transactions costs of \$2.8 million and \$0.1 million in 2019 and 2020, respectively, 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.

### 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, 2020 the Company included an option to extend the lease for our German office in the lease term. The impact to the consolidated financial statements was not considered material.

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

### 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.

### Recently Adopted Accounting Pronouncements

The Company adopted 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, effective January 1, 2020. ASU 2018-15 did not have a material impact on the consolidated financial statements.

Effective 1/1/2020 the Company adopted ASU 2018-7, *Compensation-Stock Compensation; Improvements to Nonemployee Share-Based Payment Accounting* ("Topic 718") which conforms the accounting for non-

## Notes to Consolidated Financial Statements

employees to the accounting treatment for employees. The new standard replaces using a fair value as of each reporting date with the use of the calculated fair value as of the grant date. The implementation of Topic 718 provides for the use of the fair market value as of the adoption date, rather than using the value as of the original grant date. The Company utilizes the Black-Sholes option pricing model and uses the simplified method to determine expected term because of lack of sufficient exercise history.

Effective January 1, 2019 the Company adopted ASC 842, *Leases* ("ASC 842") 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):

<i>(in thousands)</i>	<b>December 31, 2018</b>	<b>Adjustment</b>	<b>January 1, 2019</b>
	<b>As Reported</b>	<b>Adjustment</b>	<b>As Adjusted</b>
<b>Assets</b>			
Prepaid expenses	\$ 2,881	\$ (6)	\$ 2,875
Operating lease right-of-use assets - net	—	4,822	4,822
<b>Liabilities and shareholders' 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	(37,228)	28	(37,200)

### NOTE 3 – 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:

## Notes to Consolidated Financial Statements

**Level 1** – Quoted prices in active markets for identical assets and liabilities

**Level 2** – Observable inputs other than quoted prices included in Level 1

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

The Company's cash and cash equivalents are classified as Level 1.

### NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of December 31:

<i>(in thousands)</i>	2020	2019
Computer equipment and software	\$ 4,126	\$ 4,247
Furniture and equipment	660	646
Leasehold improvements	604	604
Total	5,390	5,497
Less accumulated depreciation and amortization	(4,800)	(4,642)
Total property and equipment, net	\$ 590	\$ 855

Depreciation and amortization expense for property and equipment was \$0.5 million and \$0.7 million, respectively, for the years ended December 31, 2020 and 2019.

### NOTE 5 – INTANGIBLE ASSETS

Finite-lived intangible assets consisted of the following:

		December 31, 2020		
<i>(in thousands)</i>	Average Useful Life (Years)	Gross	Accumulated Amortization	Net
Customer relationships	5	\$ 1,878	\$ (877)	\$ 1,001

		December 31, 2019		
<i>(in thousands)</i>	Average Useful Life (Years)	Gross	Accumulated Amortization	Net
Customer relationships	5	\$ 1,878	\$ (501)	\$ 1,377

Amortization expense for finite-lived intangible assets for the years ended December 31, 2020 and 2019 was \$0.4 million and \$0.4 million, respectively.



## NOTE 6 – 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.

In October of 2020 the Company amended the 401(k) Plan to include an employer matching contribution retroactive to January 1, 2020, with 100% immediate vesting. The Company will make matching contributions of 50% to each participant's before-tax and Roth elective contributions, limited to 3% of the participant's compensation each pay period for each employee who has met the match contribution eligibility criteria. The amount accrued related to the Company matching contribution was \$0.7 million and included in Accrued Compensation as of December 31, 2020.

## NOTE 7 – DEFERRED REVENUE

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 Topic 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, 2020 and 2019, the Company had no contract liabilities.

A summary of the activity impacting deferred revenue balances during the year ended December 31, 2020 is presented below:

<i>(in thousands)</i>	December 31	
	2020	2019
Beginning balance	\$ 8,315	\$ 5,379
Revenue recognized	(56,585)	(47,443)
Additional amounts deferred	58,359	50,379
Ending balance	\$ 10,089	\$ 8,315

## Notes to Consolidated Financial Statements

### NOTE 8 – INCOME TAXES

Domestic and foreign components of loss before income tax are as follows:

<i>(in thousands)</i>	December 31	
	2020	2019
Domestic	\$ 1,316	\$ (1,631)
Foreign	(1,565)	(511)
Total	\$ (249)	\$ (2,142)

Major components of the income tax provision are as follows:

<i>(in thousands)</i>	December 31	
	2020	2019
Current		
Federal	\$ —	\$ —
State	13	47
Foreign	—	3
Total current income tax provision	\$ 13	\$ 50
Deferred		
Federal	3	2
State	—	—
Foreign	—	(177)
Total deferred income tax provision (benefit)	3	(175)
Total	\$ 16	\$ (125)

Reconciliation of Provision (Benefit) for Income Taxes:

<i>(in thousands)</i>	December 31	
	2020	2019
Tax at statutory rate	\$ (77)	\$ (624)
State taxes	10	37
Stock based compensation	140	59
Federal Tax Credits	(352)	433
Foreign Rate Differential	(123)	35
Deferred	(86)	123
Change in Valuation Allowance	505	(236)
Other	(1)	48
Total	\$ 16	\$ (125)

## Notes to Consolidated Financial Statements

### **Operating Loss Carryforwards**

At December 31, 2020 and 2019, the Company had federal net operating loss carryforwards of approximately \$32.6 million and \$31.9 million, respectively, which may be used to offset future taxable income. The carryforwards, excluding \$4.7 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 above.

### **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:

<i>(in thousands)</i>	December 31	
	2020	2019
Deferred tax assets:		
Net operating loss	\$ 8,191	\$ 7,512
Nondeductible reserves	685	574
Research and development credit carryforward	2,451	2,050
Lease liabilities	472	826
Other	(28)	384
Total deferred tax assets	11,771	11,346
Deferred tax liabilities:		
Software development costs	(1,406)	(905)
Right-of-use assets	(460)	(792)
Other	(291)	(388)
Total deferred tax liabilities	(2,157)	(2,085)
Net deferred tax assets before valuation allowance	9,614	9,261
Valuation allowance	(9,619)	(9,263)
Net deferred tax liability	\$ (5)	\$ (2)
Net operating loss carryforward	32,624	31,947

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

## Notes to Consolidated Financial Statements

Company files income tax returns in the U.S. federal and several state jurisdictions. As of December 31, 2020 and 2019, 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.

### NOTE 9 – NET LOSS PER SHARE

Net loss per share is computed by dividing the net loss for the years ended December 31, 2020 and 2019 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:

<i>(in thousands, except share data)</i>	2020	2019
Numerator:		
Net loss	\$ (265)	\$ (2,017)
Inducement of convertible preferred stock	—	(33,128)
Net loss attributable to common shareholders	\$ (265)	\$ (35,145)
Denominator:		
Weighted-average common shares outstanding-basic	245,520	80,942
Dilutive effect of share equivalents resulting from stock options, common stock warrants and convertible preferred shares (as converted)	—	—
Weighted-average common shares outstanding-diluted	245,520	80,942
Net loss	\$ (0.00)	\$ (0.02)
Inducement of convertible preferred stock	—	(0.41)
Net loss per common share, basic and diluted	\$ (0.00)	\$ (0.43)

### NOTE 10 – 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.

## Notes to Consolidated Financial Statements

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.

### **Common stock**

As of December 31, 2020, there were 247,420,156 shares of common stock issued and outstanding. At December 31, 2019, there were 244,849,004 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, 2020 and December 31, 2019.

	<u>2020</u>	<u>2019</u>
Common stock options and restricted stock units outstanding	22,541,749	19,433,408
Common stock and restricted stock units available for grant	<u>39,340,211</u>	<u>46,822,211</u>
Total common shares reserved for future issuance	<u><u>61,881,960</u></u>	<u><u>66,255,619</u></u>

## **NOTE 11 – SHAREHOLDERS' EQUITY AND SHARE-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 2006 Stock Plan (the "2006 Stock Plan") and 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, of which 39,340,211 and 46,822,211 shares remained available for grant as of December 31, 2020 and 2019, respectively.

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 shareholder 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 over the remaining

## Notes to Consolidated Financial Statements

36 months. In the first quarter of 2016, the Company terminated the authority to grant new awards under the 2006 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, 2020 and 2019, respectively:

	2020	2019
Estimated per share value of common stock	\$0.89 - \$1.00	\$0.20
Risk-free interest rates	0.39% - 0.54%	1.39% - 2.44%
Expected term (in years)	5.43 - 6.08	5.47 - 6.08
Dividend rate	—%	—%
Volatility	51.69% - 52.42%	48.86% - 49.66%

The estimated per share value of common stock was based on a third-party valuation until the IPO in December 2019. 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:

<i>(in thousands)</i>	2020	2019
Cost of revenue	\$ 147	\$ 50
Sales and marketing	261	95
Research and development	318	90
General and administrative	196	64
	\$ 922	\$ 299

## Notes to Consolidated Financial Statements

The following table summarizes stock option activity under the Plan for the year ended December 31, 2020:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding as of January 1, 2020	19,433,408	\$ 0.14	<u>7.38</u>	\$ 21,545,992
Options granted	6,164,000	0.90		
Options forfeited	(2,347,507)	0.24		
Options exercised	<u>(2,571,152)</u>	<u>0.12</u>		
Outstanding at Dec 31, 2020	<u>20,678,749</u>	<u>\$ 0.35</u>	<u>7.08</u>	<u>\$ 17,340,842</u>
Options vested or expected to vest at December 31, 2020	<u>18,881,241</u>	<u>\$ 0.32</u>	<u>6.91</u>	<u>\$ 16,496,550</u>
Exercisable at December 2020	<u>11,698,699</u>	<u>\$ 0.14</u>	<u>5.71</u>	<u>\$ 12,324,375</u>

At December 31, 2020 total compensation cost related to stock options granted to employees under the Plan but not yet recognized was \$1.7 million, net of estimated forfeitures. This cost will be amortized on the straight-line method over a weighted-average period of approximately 1.1 years. 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:

	2020	2019
Weighted average grant date fair value for options granted during the period	\$ 0.43	\$ 0.10
Options in the money at period-end	20,678,749	19,433,408
Aggregate intrinsic value of options exercised	\$ 2,768,320	\$ 3,354,269

## Notes to Consolidated Financial Statements

In May 2020, the Company began granting Restricted Stock Units ("RSU") under the plan. The following table summarizes the RSU activity for the twelve months ended December 31, 2020:

	Number of Shares	Weighted Average Grant Date Fair Value
Restricted stock units outstanding as of January 1, 2020	—	\$ —
Restricted stock units granted	2,006,000	\$ 0.99
Restricted stock units vested	—	\$ —
Restricted stock units forfeited	(143,000)	\$ 0.90
Restricted stock units unvested as of December 31, 2020	1,863,000	\$ 1.00

As of December 31, 2020, \$1.2 million of total unrecognized compensation cost related to RSU was expected to be recognized over a weighted average period of approximately 1.5 years.

### NOTE 12 – LEASES

The Company's leasing arrangements are primarily for corporate offices and automobiles and these arrangements have 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 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.

	2020	2019
Weighted average remaining lease term (in years) for operating leases	2.8	3.5
Weighted average discount rate	5.9 %	6.0 %

The components of the Company's lease expense for the years December were as follows:

<i>(in thousands)</i>	2020	2019
Operating lease costs	\$ 1,849	\$ 1,849
Finance lease cost	—	133
Interest on lease liabilities	—	2
Total lease costs	\$ 1,849	\$ 1,984



## Notes to Consolidated Financial Statements

Included in the operating lease expenses above are certain variable payments related to common area maintenance and property taxes. Expenses for variable payments were \$0.4 million and \$0.4 million, respectively, for the years ended December 31, 2020 and 2019.

The following table presents the Company's future lease payments for long-term operating leases as of December 31, 2020:

<i>(in thousands)</i>	<u>Operating Leases</u>
2021	\$ 686
2022	1,021
2023	868
2024	18
Thereafter	—
Total	<u>\$ 2,593</u>
Less: Imputed interest	<u>(221)</u>
Total operation lease liabilities	<u><u>\$ 2,372</u></u>

Cash paid for operating lease liabilities for the years ended December 31, 2020 and 2019 was \$1.5 million and \$1.5 million, respectfully. The Company recorded \$0.1 million in non-cash increases to right-of-use assets and operating leases for leases that commenced during the year ended December 31, 2020. Additionally, the Company recorded a \$0.3 million in non-cash decrease to right-of-use assets and operating leases for a lease in which we expect to receive a tenant improvement allowance in 2021.

### NOTE 13 – 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.

## Notes to Consolidated Financial Statements

### NOTE 14 – 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, 2022. 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 affirmative and negative covenants. As of December 31, 2020, 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% (3.75% and 5.25% at December 31, 2020 and December 31, 2019, respectively). No balance was outstanding as of December 31, 2020 and December 31, 2019.

### NOTE 15 – SUBSEQUENT EVENTS

The Company has evaluated subsequent events and transactions for potential recognition or disclosure in the consolidated financial statements through February 25, 2021, the date the consolidated financial statements were available to be issued.