



limeade®

REPORT OF INDEPENDENT AUDITORS  
AND CONSOLIDATED FINANCIAL STATEMENTS

LIMEADE, INC.

December 31, 2018 and 2017



MOSSADAMS

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## **Report of Independent Auditors**

To the Board of Directors and Shareholders  
Limeade, Inc.

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Limeade, Inc., which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations, stockholders' (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.

### ***Auditor's 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 audits 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 entity'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 entity'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. as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 1 to the financial statements, the 2018 and 2017 consolidated financial statements have been restated to correct misstatements. Our opinion is not modified with respect to this matter.

A handwritten signature in dark ink that reads "Moss Adams LLP". The signature is written in a cursive, flowing style.

Seattle, Washington  
November 22, 2019

**Limeade, Inc.**  
**Consolidated Balance Sheets (\$ in thousands)**

	December 31,	
	2018 (Restated)	2017 (Restated)
<b>ASSETS</b>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,721	\$ 3,890
Accounts receivable, net of allowance of \$70,000 in 2018 and 2017	8,869	8,819
Prepaid expenses	2,881	3,017
Total current assets	15,471	15,726
PROPERTY AND EQUIPMENT, net	957	1,435
CAPITALIZED SOFTWARE DEVELOPMENT COSTS, net	1,795	783
GOODWILL	1,153	-
INTANGIBLES	1,753	-
OTHER NONCURRENT ASSETS, net	352	140
Total assets	\$ 21,481	\$ 18,084
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
CURRENT LIABILITIES		
Accounts payable	\$ 5,347	\$ 4,457
Accrued compensation, taxes, and benefits	4,092	2,728
Accrued expenses	5,072	4,079
Capital lease payable, current portion	141	474
Deferred revenue	5,379	4,957
Notes payable	2,500	-
Total current liabilities	22,531	16,695
NON-CURRENT LIABILITIES		
Acquisition holdback	571	-
Capital lease payable, noncurrent portion	4	145
Other noncurrent liabilities	-	34
Total noncurrent liabilities	575	179
COMMITMENTS AND CONTINGENCIES (Note 14)		
STOCKHOLDERS' EQUITY		
Redeemable convertible preferred stock	33,504	33,419
Common stock	492	419
Additional paid-in capital	1,607	1,349
Accumulated deficit	(37,228)	(33,977)
Total stockholders' equity	(1,625)	1,210
Total liabilities and stockholders' equity	\$ 21,481	\$ 18,084

**Limeade, Inc.****Consolidated Statements of Operations (\$ in thousands)**

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	Years Ended December 31,	
	2018	2017
	(Restated)	(Restated)
REVENUES		
Subscription services	\$ 35,907	\$ 31,291
Third party services	2,929	2,460
Other	1,282	1,138
	<hr/>	<hr/>
Total revenues	40,118	34,889
COST OF REVENUES	<hr/> 11,205	<hr/> 10,219
GROSS PROFIT	<hr/> 28,913	<hr/> 24,670
OPERATING EXPENSES		
Sales and marketing	11,603	11,200
Research and development	13,898	10,530
General and administrative	6,601	5,357
	<hr/>	<hr/>
Total operating expenses	32,102	27,087
LOSS FROM OPERATIONS	<hr/> (3,189)	<hr/> (2,417)
OTHER INCOME (EXPENSE), net	<hr/> 2	<hr/> (47)
NET LOSS	<hr/> \$ (3,187)	<hr/> \$ (2,464)

# Limeade, Inc.

## Consolidated Statements of Stockholders' (Deficit) Equity (\$ in thousands)

	Series C Redeemable Convertible Preferred Stock		Series B Redeemable Convertible Preferred Stock		Series A Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
BALANCE, December 31, 2016	4,339,675	\$ 24,883	4,363,606	\$ 5,510	5,436,008	\$ 2,962	8,773,278	\$ 313	\$ 1,110	\$ (31,449)	\$ 3,329
Exercise of stock options and warrants	-	-	-	-	-	-	385,485	106	-	-	106
Stock-based compensation	-	-	-	-	-	-	-	-	239	-	239
Accretion of redeemable convertible preferred stock issuance costs	-	39	-	18	-	7	-	-	-	(64)	-
Net loss (restated)	-	-	-	-	-	-	-	-	-	(2,464)	(2,464)
BALANCE, December 31, 2017	4,339,675	24,922	4,363,606	5,528	5,436,008	2,969	9,158,763	419	1,349	(33,977)	1,210
Exercise of stock options and warrants	-	-	-	-	35,805	21	153,361	73	-	-	94
Stock-based compensation	-	-	-	-	-	-	-	-	258	-	258
Accretion of redeemable convertible preferred stock issuance costs	-	39	-	18	-	7	-	-	-	(64)	-
Net loss (restated)	-	-	-	-	-	-	-	-	-	(3,187)	(3,187)
BALANCE, December 31, 2018	<u>4,339,675</u>	<u>\$ 24,961</u>	<u>4,363,606</u>	<u>\$ 5,546</u>	<u>5,471,813</u>	<u>\$ 2,997</u>	<u>9,312,124</u>	<u>\$ 492</u>	<u>\$ 1,607</u>	<u>\$ (37,228)</u>	<u>\$ (1,625)</u>

**Limeade, Inc.****Consolidated Statements of Cash Flows (\$ in thousands)**

	Years Ended December 31,	
	2018	2017
	(Restated)	(Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (3,187)	\$ (2,464)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	1,220	1,214
Stock-based compensation	258	239
Change in fair value of Series A redeemable convertible preferred stock warrants	-	5
Change in assets and liabilities		
Accounts receivable, net	194	(4,141)
Prepaid expenses and other current assets	680	(1,263)
Other noncurrent assets	-	1
Accounts payable	865	2,942
Accrued compensation, taxes, and benefits	1,118	488
Accrued expenses	158	1,952
Deferred revenue	(89)	670
Other noncurrent liabilities	(12)	(43)
Net cash provided by (used in) operating activities	1,205	(400)
CASH FLOWS FROM INVESTING ACTIVITIES		
Capitalized software development costs	(1,147)	(799)
Purchases of property and equipment	(414)	(795)
Business combination, net of cash acquired of \$89	(1,910)	-
Net cash used in investing activities	(3,471)	(1,594)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital leases	(475)	(614)
Line of credit	2,500	-
Exercise of employee stock options	73	106
Net cash provided by (used in) financing activities	2,098	(508)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(168)	(2,502)
CASH AND CASH EQUIVALENTS		
Beginning of year	3,890	6,392
End of year	\$ 3,721	\$ 3,890
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Accretion of redeemable convertible preferred stock issuance costs	\$ 64	\$ 64



# Limeade, Inc.

## Notes to Consolidated Financial Statements

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### Note 1 – Description of Operations and Summary of Significant Accounting Policies

**Operations** – Limeade, Inc. (the Company or Limeade) was incorporated in the state of Washington on February 23, 2006. Limeade, Inc. is a market-leading, software company that elevates the employee experience and helps build great places to work. The Limeade, Inc. platform offers employee well-being, engagement, inclusion and communications solutions in one seamless user experience. Customers are primarily located within the United States of America.

The Company is subject to a number of risks similar to other companies in a comparable stage of development, including the need for continued growth in the demand for the Company's products and services, reliance on key personnel, competition from other companies with greater financial, technical, and marketing resources, and the risks relating to the ability to secure adequate financing. Based on the Company's current operating plan, cash on hand, expected cash from receipts from customers and draws on our \$15.0 million line of credit facility are sufficient to fund operations over at least the next 12 months. If the Company's current operating plan is not met, the Company may require additional financing, which may or may not be available on terms satisfactory to the Company.

**Correction of error** – Management determined that it had omitted the accounting and reporting for capitalized software in its 2018 and 2017 consolidated financial statements. The Company has corrected for the error through adjusting for the capitalization of internally developed software in the 2018 and 2017 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 through 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:

Balance at December 31, 2018			
	As Reported	Adjustment (in thousands)	As Restated
<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)
Balance at December 31, 2017			
	As Reported	Adjustment (in thousands)	As Restated
<b>Assets</b>			
Capitalized software development costs	\$ -	\$ 783	\$ 783
<b>Total assets</b>	17,301	783	18,084
<b>Stockholders' equity</b>			
Accumulated deficit	(34,760)	783	(33,977)
<b>Total stockholders' equity</b>	427	783	1,210
Research and development expense	11,329	(799)	10,530
Cost of revenues	10,203	16	10,219
<b>Net loss</b>	(3,247)	783	(2,464)
<b>Net cash used in operating activities</b>	(1,199)	799	(400)
<b>Net cash used in investing activities</b>	\$ (795)	\$ (799)	\$ (1,594)

## **Limeade, Inc.**

### **Notes to Consolidated Financial Statements**

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#### **Note 1 – Description of Operations and Summary of Significant Accounting Policies (continued)**

**Basis of presentation and use of estimates** – The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). The preparation of the consolidated financial statements in accordance 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 of property and equipment and internally developed software, assumptions used in stock-based compensation, estimates of fair value of warrants and 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.

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

**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.

Two customers represented 25% and 20% of net accounts receivable as of December 31, 2018 and 2017, respectively. During the years ended December 31, 2018 and 2017, no customers accounted for 10% of total revenue.

**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.

**Note 1 – Description of Operations and Summary of Significant Accounting Policies (continued)**

**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.

**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. 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 \$1.1 million and \$0.8 million of software development costs for the years ended December 31, 2018 and 2017, respectively. Amortization expense related to capitalized software was \$0.1 million in 2018 and \$.02 million in 2017.

**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** – 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 of December 31, 2018, no impairment of goodwill has been identified.

## **Limeade, Inc.**

### **Notes to Consolidated Financial Statements**

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#### **Note 1 – Description of Operations and Summary of Significant Accounting Policies (continued)**

**Intangible assets** – 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. The Company has not recorded any such impairment charges.

**Impairment of long-lived assets** – The Company evaluates long-lived assets for impairment whenever events or circumstances indicate they may not be recoverable. Recoverability is measured by comparing the carrying amount of an asset group to future undiscounted net cash flows expected to be generated. The Company groups assets for purposes of such review at the lowest level for which identifiable cash flows of the asset group are largely independent of the cash flows of the other groups of assets and liabilities. If this comparison indicates impairment, the amount of impairment to be recognized is calculated as the difference between the carrying value and the fair value of the asset group. No impairment was recognized for the years ended December 31, 2018 or 2017.

**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. At that time, the redeemable convertible preferred stock warrant liability will be reclassified to redeemable convertible preferred stock or additional paid-in capital.

**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 (2) third party services, which are comprised of fees from customers for value add services provided by third parties. The Company recognizes revenue when all of the following conditions have been satisfied:

- There is persuasive evidence of an arrangement
- The service has been or is being provided to the customer
- The collection of the related fees is reasonably assured
- The amount of the related fees to be paid by the customer is fixed or determinable

**Subscription revenues** – Subscription revenues are recognized ratably over the contract term beginning on the date at which the customer is provided access to the Company's software platform. Invoiced amounts are recorded as accounts receivable and deferred revenue or revenue, depending on whether the revenue recognition criteria have been met.

**Note 1 – Description of Operations and Summary of Significant Accounting Policies (continued)**

**Third party services** – 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 billed to the customer by the Company. The Company follows the guidance of Accounting Standards Codification (ASC) 605-45, *Principal Agent Considerations*, in assessing whether revenue in these transactions is recorded gross or net of the fees paid to third parties. Based on the nature of the services and the contractual relationship among the Company, the customer, and the third party, third party revenues are recognized net of costs charged to the Company by the third party providers.

**Multiple deliverable arrangements** – The Company enters into arrangements with multiple deliverables that generally include subscription and third-party services. The Company follows the guidance in ASC 605-25, *Multiple Element Arrangements* in accounting for these arrangements. Under this guidance, in order to treat deliverables in a multiple deliverable arrangement as separate units of accounting, the deliverables must have stand-alone value upon delivery. The Company has concluded that subscription services and third-party services all have stand-alone value due to their availability from other vendors and/or the fact that the deliverable is sold separately by the Company.

Under this guidance, when multiple deliverables in an arrangement are separated into separate units of accounting, the arrangement consideration is allocated to the identified separate units based on a relative selling price hierarchy. The Company determines the relative selling price based on its best estimate of selling price (BESP) as the Company has determined that vendor specific objective evidence of selling price (VSOE) and third-party evidence of selling price (TPE) are not available. The Company determined BESP by considering its overall pricing objectives and market conditions. Significant pricing practices taken into consideration include price lists, historical stand-alone sales, contract prices, and the size and volume of the Company's transactions. As the Company's strategies evolve, the Company may modify its pricing practices in the future, which could result in changes in relative selling prices.

The Company's customer contracts generally include performance 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. 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 component of cost of revenues and accrued liabilities in the balance sheet. As of December 31, 2018 and 2017, the reserve liability is \$0.4 million and \$0.2 million, respectively.

The Company also sells its products through re-sellers or "channel partners." Sales through channel partners are recognized upon delivery to the end customer, assuming all other revenue recognition criteria have been met.

**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, 2018, is expected to be recognized within the next 12 months as the related services are provided.

## Limeade, Inc.

### Notes to Consolidated Financial Statements

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#### Note 1 – Description of Operations and Summary of Significant Accounting Policies (continued)

**Income taxes** – Income taxes are accounted for using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement and tax basis of assets and liabilities at the applicable enacted tax rates. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The factors used to assess the likelihood of realization include the Company's forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets.

The Company follows the provisions of ASC 740-10, *Income Taxes*, relating to accounting for uncertain tax positions. The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Company does not have any uncertain tax positions as of December 31, 2018 or 2017.

**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 nonemployees is recognized over the period in which services are provided. In addition, the fair value of share-based payments made to nonemployees 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.

**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.

**Note 1 – Description of Operations and Summary of Significant Accounting Policies (continued)**

**Recently issued accounting pronouncements** – In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases*. The guidance will require lessees to put all leases on their balance sheets, whether operating or financing, while continuing to recognize the expenses on their income statements in a manner similar to current practice. The guidance states that a lessee would recognize a lease liability for the obligation to make lease payments and a right-to-use asset for the right to use the underlying asset for the lease term. The guidance will be effective for the Company beginning January 1, 2020 and early adoption is permitted. The Company is evaluating the accounting, transition and disclosure requirements of the standard. The adoption of ASU 2016-02 is not expected to have a significant impact on the Company's financial position or results of operations.

In May 2014, the FASB issued a new standard to account for revenue, ASU 2014-09. This guidance provides that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance also requires more detailed disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The guidance is effective for annual reporting periods beginning after December 15, 2018. The Company is evaluating the accounting, transition and disclosure requirements of the standard. The adoption of ASU 2014-09 is not expected to have a significant impact on the Company's financial position or results of operations.

**Subsequent events** – The Company has evaluated subsequent events and transactions for potential recognition or disclosure in the consolidated financial statements through November 22, 2019, the date the consolidated financial statements were available to be issued.

**Note 2 – 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 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.

## Limeade, Inc.

### Notes to Consolidated Financial Statements

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#### Note 2 – Business Combination (continued)

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

Cash	\$	89
Current assets		989
Other assets		80
Acquired intangible assets		<u>1,878</u>
Total identifiable assets		3,036
Deferred revenue		(511)
Other current liabilities		<u>(1,106)</u>
Total identifiable liabilities		<u>(1,617)</u>
Net assets acquired		1,419
Goodwill		<u>1,153</u>
Total consideration transferred	\$	<u><u>2,572</u></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, 2018, were \$0.1 million and was included in general and administrative expenses.



**Note 2 – Business Combination (continued)**

Estimated amortization expense for acquired intangible assets for the following five years ending December 31<sup>st</sup> are as follows (in thousands):

2019	\$	376
2020		376
2021		376
2022		376
2023		249
		<hr/>
Total estimated amortization expense	\$	<u>1,753</u>

**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:

**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.

# Limeade, Inc.

## Notes to Consolidated Financial Statements

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### Note 3 – Fair Value Measurements (continued)

In November 2008, the Company issued warrants to purchase 40,000 shares of Series A redeemable convertible preferred stock. 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 thus eliminating the Series A redeemable convertible preferred stock warrant liability. The Series A redeemable convertible preferred stock warrant liability is accounted for using Level 3 inputs. In determining the fair value of the warrant liability, the following assumptions were used in the Black-Scholes option-pricing model as of December 31, 2017:

	<u>2017</u>
Estimated per share value of common stock	\$1.11
Risk-free interest rates	0.89%
Expected term (in years)	1.1
Dividend rate	0%
Volatility	55%

The warrant liability is remeasured each reporting period in accordance with ASC 820, *Fair Value Measurement*. During the years ended December 31, 2018 and 2017, the Company recognized a gain (loss) in the fair value of the redeemable convertible preferred stock warrant liability of \$0 and \$0.005 million, respectively, within other income (loss), net on the statements of operations. As of December 31, 2018 and 2017, the redeemable convertible preferred stock warrant liability is \$0 and \$0.021 million, respectively.

A summary of the activity of the fair value of the Level 3 liability is as follows (in thousands):

	<u>Balance at January 1,</u>	<u>Net Change in Fair Value of Redeemable Convertible Preferred Stock Warrant Liability</u>	<u>Balance at December 31,</u>
Year ended December 31, 2018	<u>\$ 21</u>	<u>\$ (21)</u>	<u>\$ -</u>
Year ended December 31, 2017	<u>\$ 17</u>	<u>\$ (36)</u>	<u>\$ 21</u>

**Limeade, Inc.**  
**Notes to Consolidated Financial Statements**

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**Note 4 – Property and Equipment**

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

	2018	2017
Computer equipment and software	\$ 3,989	\$ 3,762
Furniture and equipment	596	572
Leasehold improvements	294	289
Total	4,879	4,623
Less accumulated depreciation and amortization	(3,922)	(3,188)
	<u>\$ 957</u>	<u>\$ 1,435</u>

At December 31, 2018 and 2017, computer equipment and software includes assets under capital leases totaling \$2.6 million and \$2.5 million, respectively, net of accumulated depreciation and amortization of \$2.4 million and \$2.1 million, respectively. Depreciation and amortization of property and equipment was \$1.1 million for the year ended December 31, 2018.

**Note 5 – Other Assets**

Other assets consist of deposits on leased property and equipment, costs incurred to secure patents and trademarks, and capitalized purchased technology. Patents and trademarks are amortized on a straight-line basis from the date the related technology or other assets are placed into service. Purchased technology is amortized on a straight-line basis over the estimated useful life of the technology, generally three years.

During 2015, the Company entered into an asset purchase agreement and acquired intellectual property with a total capitalized cost of \$0.4 million. The acquired intellectual property is being amortized on a straight-line basis over its estimated useful life of three years.

Costs incurred to renew or extend the lives of patents and trademarks are capitalized and amortized over the expected useful lives.

## **Limeade, Inc.**

### **Notes to Consolidated Financial Statements**

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#### **Note 6 – Accrued Compensation, Taxes, and Benefits**

Accrued compensation, taxes, and benefits consist of the following as of December 31 (in thousands):

	<u>2018</u>	<u>2017</u>
Compensation and related taxes	\$ 3,318	\$ 2,060
Compensated absences	<u>774</u>	<u>668</u>
	<u>\$ 4,092</u>	<u>\$ 2,728</u>

The Company accrues sales commissions when the customer is invoiced and pays sales commissions when payment of the invoice is received from the customer.

#### **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 regulatory limitations. The Company has the ability to make matching and discretionary contributions to the Plan. During the years ended December 31, 2018 and 2017, the Company did not make any contributions to the Plan.

#### **Note 8 – Deferred Revenue**

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

	<u>2018</u>	<u>2017</u>
Prepaid subscription services	\$ 5,136	\$ 4,645
Prepaid third party services	<u>243</u>	<u>312</u>
	<u>\$ 5,379</u>	<u>\$ 4,957</u>

At December 31, 2018 and 2017, deferred revenue relates to amounts received from customers in advance of revenue recognition.

**Note 9 – Income Taxes**

At December 31, 2018 and 2017, the Company had federal net operating loss carryforwards of approximately \$30.7 million and \$28.5 million, respectively, which may be used to offset future taxable income. The carryforwards 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. As a result, the net operating losses could be subject to substantial limitation in accordance with 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.

The effects of temporary differences and carryforwards that give rise to deferred taxes are as follows as of December 31 (in thousands):

	2018	2017
DEFERRED TAX ASSETS		
Federal net operating loss carryforward (NOL)	\$ 7,061	\$ 6,389
Nondeductible reserves	243	226
Research and development credit carryforward	2,565	2,085
Other	112	74
	<u>9,981</u>	<u>8,774</u>
Total deferred tax assets	9,981	8,774
DEFERRED TAX LIABILITIES		
Deferred tax liabilities	(408)	(176)
	<u>(9,573)</u>	<u>(8,598)</u>
	<u>\$ -</u>	<u>\$ -</u>
NOL carryforward	<u>\$ 30,731</u>	<u>\$ 28,497</u>

The valuation allowance changed by \$0.98 million and (\$2.4 million) during 2018 and 2017, respectively. Reported income tax benefit differs from the amount of income tax benefit that would result from applying domestic federal statutory income tax rates to income before taxes because of changes in the valuation allowance and permanent differences.

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, 2018 and 2017, 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.

## **Limeade, Inc.**

### **Notes to Consolidated Financial Statements**

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#### **Note 10 – Redeemable Convertible Preferred Stock**

As specified in the Amended and Restated Certificate of Incorporation, the Board of Directors has authorized 5,476,008 shares of Series A redeemable convertible preferred stock (Series A), 4,363,606 shares of Series B redeemable convertible preferred stock (Series B), and 4,627,743 shares of Series C redeemable convertible preferred stock (Series C) (together Preferred Stock). Each series of the Company's redeemable convertible preferred stock has \$0.0001 par value. At December 31, 2018 and 2017, there were 5,471,813 and 5,436,008 shares of Series A respectively, 4,363,606 shares of Series B, and 4,339,675 shares of Series C issued and outstanding.

**Dividends** – The holders of Series A, Series B, and Series C 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, 2018 and 2017, no dividends had been declared.

**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 Company's Certificate of Incorporation (currently at a ratio of one-to-one), or automatically upon the closing of an initial public offering with an aggregate offering price to the public of at least \$17.28 per share and aggregate proceeds of \$30.0 million.

**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 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. In addition, holders of Series A, Series B, and Series C voting as separate and single classes, respectively, are each entitled to elect one director to the Company's Board of Directors. Otherwise, the holders of the outstanding shares of Series A, Series B, Series C, and common stock shall vote together as a single class.

**Note 11 – Common Stock**

**Common stock** – The Board of Directors has authorized 41,935,559 shares of common stock, \$0.0001 par value. At December 31, 2018 and 2017, there were 9,312,123 and 9,158,763 shares of common stock issued and outstanding, respectively.

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. In addition, holders of common stock are voting as a separate and single class, are entitled to elect two directors to the Company's Board of Directors.

**Common shares reserved for future issuance** – The following shares of common stock have been reserved for future issuance as of December 31:

	2018	2017
Common stock options outstanding	2,557,027	2,440,842
Common stock options available for grant	642,905	1,155,799
Redeemable convertible preferred stock warrants	-	40,000
Shares issuable upon conversion of outstanding redeemable convertible preferred stock	14,175,094	14,139,289
	<u>17,375,026</u>	<u>17,775,930</u>

**Note 12 – Warrants**

In November 2008, the Company issued warrants to purchase Series A in connection with the Company's Series A round. The warrants are convertible into 40,000 shares of Series A at an exercise price of \$0.6041 per share. The warrants are recorded as a liability on the balance sheets and are remeasured at fair value each reporting period (see Note 3). 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, 2018.

**Note 13 – Stock-Based Compensation**

Effective March 16, 2016, the Company adopted the 2016 Stock Plan (the 2016 Plan) and terminated the Company's authority to grant new awards under the 2006 Stock Plan (the 2006 Plan). The 2016 Plan was subsequently amended to include a total of 2,355,179 authorized shares of the Company's common stock at December 31, 2018, for issuance to employees, directors, and consultants through incentive stock options, nonstatutory stock options, or stock purchase right agreements. 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.

## Limeade, Inc.

### Notes to Consolidated Financial Statements

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#### Note 13 – Stock-Based Compensation (continued)

The 2006 Plan is a stockholder approved plan that authorized shares of the Company's common stock for issuance to employees, directors, and consultants through incentive stock options, nonstatutory 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 36 months. In the first quarter of 2016, the Company terminated the authority to grant new awards under the 2006 Plan.

The 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, 2018 and 2017, options totaling 0 and 12,344, respectively, have been early exercised under the Stock Plan and are subject to a Company repurchase option. 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:

	2018	2017
Estimated per share value of common stock	\$1.59	\$1.11
Risk-free interest rates	2.75% - 3.08%	1.80% - 2.20%
Expected term (in years)	5.65 - 6.08	4.70 - 6.08
Dividend rate	0%	0%
Volatility	49.08% - 50.89%	41.58% - 46.50%

The estimated per share value of common stock was based on a recent third-party valuation. 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):

	2018	2017
Cost of revenue	\$ 46	\$ 27
Sales and marketing	62	53
Research and development	84	68
General and administrative	66	91
	<u>\$ 258</u>	<u>\$ 239</u>



**Limeade, Inc.**  
**Notes to Consolidated Financial Statements**

**Note 13 – Stock-Based Compensation (continued)**

The following table summarizes stock option activity under the Plan for the year ended December 31, 2018:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2017	2,440,842	\$ 0.86	<u>7.42</u>	
Options granted	933,000	1.14		
Options forfeited	(694,068)	0.99		
Options exercised	<u>(122,747)</u>	<u>0.40</u>		
Outstanding at December 31, 2018	<u>2,557,027</u>	<u>\$ 0.95</u>	<u>7.00</u>	<u>\$ 1,610,783</u>
Options vested or expected to vest at December 31, 2018	<u>2,336,060</u>	<u>\$ 0.93</u>	<u>6.78</u>	<u>\$ 1,505,843</u>
Exercisable at December 31, 2018	<u>1,607,628</u>	<u>\$ 0.85</u>	<u>5.73</u>	<u>\$ 1,170,005</u>

At December 31, 2018 and 2017, total compensation cost related to stock options granted to employees under the Plan but not yet recognized was \$0.5 million and \$0.4 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 years ended December 31:

	2018	2017
Weighted average grant date fair value for options granted during the year	\$0.57	\$0.50
Options in the money at December 31	2,502,027	2,406,592
Aggregate intrinsic value of options exercised	\$145,808	\$257,877

## Limeade, Inc.

### Notes to Consolidated Financial Statements

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#### Note 14 – Commitments and Contingencies

**Operating leases** – The Company has operating leases for office space that expire between January 2021 and October 2023. Future aggregate minimum payments under the noncancelable operating leases are as follows (in thousands):

2019	\$	1,354
2020		1,371
2021		935
2022		917
2023		782
		<hr/>
	\$	5,359
		<hr/>

Rent expense related to these leases totaled \$1.1 million and \$0.5 million for the years ended December 31, 2018 and 2017, respectively.

**Capital leases** – The Company has capital leases for certain computer equipment. future minimum payments under capital leases are as follows for the years ending December 31 (in thousands):

2019	\$	141
2020		4
		<hr/>
	\$	145
		<hr/>

Interest expense recorded related to capital leases totaled \$18 thousand and \$50 thousand for the years ended December 31, 2018 and 2017, respectively.

**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 – Line of Credit**

**Line of credit** – The Company entered into a revolving line of credit agreement in 2016 that is subject to certain financial covenants. In May 2019, the revolving line of credit agreement was amended to increase the maximum loan amount to \$15.0 million and requires a borrowing certificate and a covenant compliance certificate monthly with supporting financial information. Interest on outstanding borrowings is at Comerica Bank's Prime Rate plus 0.5%. The credit agreement expires December 31, 2020, and is secured by assets of the Company. Outstanding borrowings were \$2.5 million at December 31, 2018, and the Company is in compliance with its financial covenants.

