



REPORT OF INDEPENDENT AUDITORS  
AND CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**LIMEADE, INC.**

For the Half-Year Ended June 30, 2019 and 2018

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## **Independent Assurance Practitioner's Review Report to the Members of Limeade, Inc.**

We have reviewed the accompanying half-year financial report of Limeade, Inc., which comprises the condensed consolidated balance sheet at June 30, 2019, the condensed consolidated statement of operations, the condensed consolidated statement of stockholders' (deficit) equity and the condensed consolidated statement of cash flows for the half-year ended on that date, and a summary of significant accounting policies and other explanatory information. The consolidated entity comprises the company Limeade, Inc. and the entities it controlled at the end of the half-year or from time to time during the half-year.

### *The Directors' Responsibility for the Half-year Financial Report*

The Directors are responsible for the preparation and fair presentation of the half-year financial report and have determined that the basis of preparation described in Note 2 is appropriate to meet the recognition and measurement requirements of the accounting principles generally accepted in the United States of America ("U.S. GAAP"). The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

### *Assurance Practitioner's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2400 *Review of a Financial Report Performed by an Assurance Practitioner Who is not the Auditor of the Entity*. ASRE 2400 requires us to conclude whether anything has come to our attention that causes us to believe that the half-year financial report, taken as a whole, is not presented fairly, in all material respects, in accordance with U.S. GAAP as described in Note 2. This Standard also requires us to comply with relevant ethical requirements.

A review of a half-year financial report in accordance with ASRE 2400 is a limited assurance engagement. The assurance practitioner performs procedures, primarily consisting of making enquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with Australian Auditing Standards. Accordingly, we do not express an audit opinion on the half-year financial report.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the half-year financial report of Limeade, Inc. does not present fairly, in all material respects, the consolidated entity's financial position as at June 30, 2019 and its financial performance for the half-year ended on that date, in accordance with U.S. GAAP as described in Note 2.

### *Basis of Accounting*

Without modifying our conclusion, we draw attention to Note 2 to the half-year financial report, which describes the basis of accounting. The half-year financial report has been prepared to assist Limeade, Inc. to meet the financial reporting requirements of U.S. GAAP. As a result, the half-year financial report may not be suitable for another purpose.

*Deloitte Touche Tohmatsu*

DELOITTE TOUCHE TOHMATSU

A handwritten signature in black ink, appearing to read 'J Thorne', is positioned above the printed name and title.

Jason Thorne  
Partner  
Chartered Accountants  
Sydney, Australia  
27 November, 2019

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

**ASSETS**

	<u>June 30, 2019</u>	<u>December 31, 2018</u>
	(unaudited)	
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,315	\$ 3,721
Accounts receivable, net of allowance for doubtful accounts of \$70 and \$70, respectively	6,818	8,869
Prepaid expenses	<u>3,986</u>	<u>2,881</u>
Total current assets	13,119	15,471
<b>NON-CURRENT ASSETS</b>		
Property and equipment - net	995	957
Capitalized software development costs - net	3,062	1,795
Operating lease right-of-use assets - net	4,260	-
Goodwill	1,153	1,153
Intangible assets - net	1,565	1,753
Other non-current assets	<u>482</u>	<u>352</u>
Total assets	<u>\$ 24,636</u>	<u>\$ 21,481</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

<b>CURRENT LIABILITIES</b>		
Trade payables	\$ 3,016	\$ 5,347
Accrued compensation	2,971	4,092
Accrued expenses	6,444	5,072
Operating lease right-of-use liabilities, current	1,233	-
Finance lease liabilities, current	15	141
Deferred revenue	7,248	5,379
Acquisition holdback	571	-
Notes Payable	<u>2,750</u>	<u>2,500</u>
Total current liabilities	<u>24,248</u>	<u>22,531</u>
<b>NON-CURRENT LIABILITIES</b>		
Acquisition holdback	-	571
Operating lease right-of-use liabilities, non-current	3,216	-
Finance lease liabilities, non-current	<u>-</u>	<u>4</u>
Total non-current liabilities	<u>3,216</u>	<u>575</u>
Total liabilities	<u>27,464</u>	<u>23,106</u>
<b>COMMITMENTS AND CONTINGENCIES (Note 10)</b>		
<b>STOCKHOLDERS' (DEFICIT) EQUITY</b>		
Redeemable convertible preferred stock	33,537	33,504
Common stock	653	492
Additional paid-in capital	1,760	1,607
Accumulated (deficit)	<u>(38,778)</u>	<u>(37,228)</u>
Total stockholders' (deficit) equity	<u>(2,828)</u>	<u>(1,625)</u>
Total liabilities and stockholders' equity	<u>\$ 24,636</u>	<u>\$ 21,481</u>

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

**Limeade, Inc.**  
**Condensed Consolidated Statements of Operations**  
(In US Dollars, in thousands)

	<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>Revenue:</b>		
Subscription services	\$ 20,687	\$ 17,366
Third party services	1,096	1,170
Other	769	556
Total revenues	22,552	19,092
<b>Cost of revenue</b>	5,768	5,804
<b>Gross profit</b>	16,784	13,288
<b>Operating expenses</b>		
Sales and marketing	7,647	5,520
Research and development	7,476	7,013
General and administrative	3,197	3,065
Total operating expenses	18,320	15,598
<b>Operating loss</b>	(1,536)	(2,310)
<b>Other expense, net</b>	3	22
<b>Net loss</b>	\$ (1,539)	\$ (2,332)

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

**Limeade, Inc.**  
**Condensed Consolidated Statements of Stockholders' (Deficit) Equity**  
(In US Dollars, 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
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
<b>BALANCE, December 31, 2017</b>	<u>4,339,675</u>	<u>24,922</u>	<u>4,363,606</u>	<u>5,528</u>	<u>5,436,008</u>	<u>2,969</u>	<u>9,158,763</u>	<u>419</u>	<u>1,349</u>	<u>(33,977)</u>	<u>1,210</u>
Exercise of stock options and warrants	-	-	-	-	-	-	48,333	40	-	-	40
Stock-based compensation	-	-	-	-	-	-	-	-	149	-	149
Net loss	-	-	-	-	-	-	-	-	-	(2,332)	(2,332)
<b>BALANCE, June 30, 2018 - unaudited</b>	<u>4,339,675</u>	<u>24,922</u>	<u>4,363,606</u>	<u>5,528</u>	<u>5,436,008</u>	<u>2,969</u>	<u>9,207,096</u>	<u>459</u>	<u>1,498</u>	<u>(36,309)</u>	<u>(933)</u>
 <b>BALANCE, December 31, 2018</b>	<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>
Exercise of stock options and warrants	-	-	-	-	-	-	191,746	161	-	-	161
Stock-based compensation	-	-	-	-	-	-	-	-	153	-	153
Accretion of redeemable convertible preferred stock issuance costs	-	19	-	10	-	4	-	-	-	(33)	-
Cumulative effect of implementation of ASC 842 - Leases	-	-	-	-	-	-	-	-	-	28	28
Other	-	-	-	-	-	-	-	-	-	(6)	(6)
Net loss	-	-	-	-	-	-	-	-	-	(1,539)	(1,539)
<b>BALANCE, June 30, 2019 - unaudited</b>	<u>4,339,675</u>	<u>24,980</u>	<u>4,363,606</u>	<u>5,556</u>	<u>5,471,813</u>	<u>3,001</u>	<u>9,503,870</u>	<u>653</u>	<u>1,760</u>	<u>(38,778)</u>	<u>(2,828)</u>

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

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

	<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (1,539)	\$ (2,332)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	733	575
Amortization of operating lease-right-of-use assets	564	-
Stock-based compensation	153	149
Change in assets and liabilities		
Trade accounts receivable	2,051	3,244
Prepaid expenses and other current assets	(1,111)	919
Other non-current assets	(131)	-
Trade accounts payable	(2,331)	(1,511)
Accrued compensation	(1,120)	(153)
Accrued expenses and other current liabilities	1,621	1,378
Deferred revenue	1,870	146
Operating lease liabilities	(588)	-
Other non-current liabilities	-	(12)
Net cash provided by operating activities	<u>172</u>	<u>2,403</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capitalized software development costs	(1,397)	(495)
Purchases of property and equipment	<u>(453)</u>	<u>(148)</u>
Net cash used in investing activities	<u>(1,850)</u>	<u>(643)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on finance leases	(130)	(257)
Proceeds from credit facility	250	-
Exercise of employee stock options	<u>161</u>	<u>40</u>
Net cash provided by (used in) financing activities	<u>281</u>	<u>(217)</u>
Foreign currency effect on cash and cash equivalents	<u>(9)</u>	<u>-</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<u>(1,406)</u>	<u>1,543</u>
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>3,721</u>	<u>3,890</u>
End of year	<u>\$ 2,315</u>	<u>\$ 5,433</u>
<b>SUPPLEMENTAL CASH FLOW DISCLOSURES:</b>		
Cash paid for interest	99	12
<b>NON-CASH OPERATING, INVESTING, AND FINANCING ACTIVITIES</b>		
Accretion of redeemable convertible preferred stock issuance costs	33	-
Impact of adoption of lease accounting standards	(28)	-
Property and equipment included in accounts payable	24	-

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



**Limeade, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**(unaudited)**

**Note 1 – Nature of Operations**

Limeade, Inc. (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, a Washington Corporation, was originally incorporated in 2006 and is headquartered in Bellevue, Washington.

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

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 from the date of approval of this financial report. 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.

**Note 2 – Significant Accounting Policies**

**Interim Financial Information** - The accompanying condensed consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information. Certain information and disclosures normally included in consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. Accordingly, these condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the related notes as of and for the year ended December 31, 2018. The accompanying interim condensed consolidated balance sheet as of June 30, 2019, the condensed consolidated interim statements of operations for the six months ended June 30, 2019 and 2018, the condensed consolidated statements of shareholders (deficit) equity for the six months ended June 30, 2019 and 2018, and the condensed consolidated statements of cash flows for the six months ended June 30, 2019 and 2018, are unaudited. The unaudited interim condensed consolidated financial statements have been prepared on a basis consistent with that used to prepare the audited annual condensed consolidated financial statements and include, in the opinion of management, all adjustments, consisting of normal and recurring items, necessary for the fair presentation of the condensed consolidated financial statements. The operating results for the six months ended June 30, 2019 are not necessarily indicative of the results expected for the full year ending December 31, 2019.

**Recently adopted accounting pronouncements** - The Company adopted Accounting Standards Codification (“ASC”) 606, *Revenue from Contracts with Customers (Topic 606)* on January 1, 2019 on a modified retrospective basis. Financial results for reporting periods during 2019 are presented in compliance with the new revenue recognition standard. Historical financial results for reporting periods prior to 2019 are presented in conformity with amounts previously disclosed under the prior revenue recognition standard ASC 605. While adoption of ASC 606 did not have a material impact on the Company’s financial position, results of operations or cash flows, it did impact financial statement disclosures.

**Limeade, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**(unaudited)**

The Company adopted ASC 842, *Leases (Topic 842)* on January 1, 2019 using the optional transition method described in ASU 2018-11, *Leases - Targeted Improvements*. Under the optional transition method, the Company recognized the cumulative effect of initially applying the guidance as an adjustment to the operating lease right-of-use assets and operating lease liabilities on our condensed 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 condensed consolidated January 1, 2019 balance sheet resulting from the adoption of ASC 842 was as follows (in thousands):

	<b>December 31, 2018</b>		<b>January 1, 2019</b>
	<b>As Reported</b>	<b>Adjustment</b>	<b>As Adjusted</b>
		(in thousands)	
<b>Assets</b>			
Prepaid expenses	\$ 2,881	\$ (6)	\$ 2,875
Operating lease right-of-use assets - net	-	4,822	4,822
<b>Liabilities and stockholders' equity</b>			
Operating lease right-of-use liabilities, current	-	1,203	1,203
Operating lease right-of-use liabilities, non-current	-	3,834	3,834
Accrued expenses	5,072	(249)	4,823
Accumulated deficit	\$ (39,023)	\$ 28	\$ (38,995)

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

**Principles of Consolidation** - The accompanying condensed consolidated financial statements include those of the Company and its subsidiaries after elimination of all intercompany accounts and transactions.

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

**Limeade, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**(unaudited)**

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

**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 June 30, 2019 and December 31, 2018, no impairment of goodwill has been identified and there were no impairment charges for the six-months ended June 30, 2019 and 2018, respectively.

**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.

**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. As June 30, 2019 and December 31, 2018, no impairment has been identified and there were no impairment charges for the six-months ended June 30, 2019 and 2018, respectively.

**Income Taxes** - 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 condensed 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 June 30, 2019 or December 31, 2018.

**Limeade, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**(unaudited)**

**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 \$1.4 million of software development costs for the six months ended June 30, 2019. Amortization expense related to capitalized software was \$0.1 million and \$0.1 million for the six months ended June 30, 2019 and 2018, respectively.

**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 determines revenue recognition through the following five-step framework:

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

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

**Subscription revenues** - Subscription revenues are cloud-based subscriptions which allow customers to access the Company's software during a contractual period without taking possession of the software. The Company's subscription arrangements typically contain a contract period of one year or less, 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.

**Third party services revenue** - Third party services include health coaching, content subscription services, biometric data collection, and onsite screenings. These services are provided by third parties but are often contracted for and billed to the customer by the Company. The fees may be a fixed fee over for period-of-time, or on a per-use-per user basis. The Company assesses whether revenue in these transactions is recorded gross or net of the fees paid to third parties. The Company (1) identifies the goods or services to

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**Notes to Condensed Consolidated Financial Statements**  
**(unaudited)**

be provided to the customer; (2) assesses whether it controls each specified good or service before that good or service is transferred to the customer, and (3) assesses how much latitude the Company has in establishing pricing for those goods or services. Based on these assessments, third party revenues are recognized net of costs charged to the Company by third party providers.

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

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

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

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

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

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

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

**Limeade, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**(unaudited)**

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

Finally, the Company's contracts with customers generally include performance or service level guarantees, which obligate the Company to certain service performance deliverables such as minimum engagement rates, minimum scores on customer satisfaction surveys and web-site uptime requirements. These guarantees are treated as variable consideration, which reduces the total transaction price for individual contracts. The Company monitors compliance with performance guarantees throughout the duration of each contract and has a history of meeting contract performance guarantees. Reserves for estimated contract performance guarantees are established based on historical performance and are recognized as a reduction of revenue and accrued liabilities in the balance sheet. As of June 30, 2019, and December 31, 2018, the reserve liability is \$0.4 million.

**Assets Recognized from the Costs to Obtain a Contract with a Customer** - The Company recognizes an asset for the incremental costs of obtaining a contract with a customer if it expects the benefit of those costs to be longer than one year. The Company's commission plans include substantive service conditions that need to be met before a commission associated with a contract (or group of contracts) is actually earned by the salesperson. In such cases, some or all of the sales commission may not be incremental costs incurred to obtain a contract with the customer since the costs were not actually incurred solely as a result of obtaining a contract with a customer. Rather, the costs were incurred as a result of obtaining a contract with a customer and the salesperson's providing ongoing services to the entity for a substantive period. As such, these commissions are not capitalized. The Company did not have any costs that met the requirements for capitalization for the period ended June 30, 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 June 30, 2019 or January 1, 2019.

**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 condensed 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

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extend or terminate the lease when it is reasonably certain that it will exercise that option. At June 30, 2019 the Company did not include any options to extend leases in its lease terms as it was not reasonably certain to exercise them.

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

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

**Note 3 – Business Combination**

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

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

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

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

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

The Company has identified \$1.9 million of customer relationships that represent identifiable acquired intangible assets and has estimated a useful life of five years. Customer relationships represent the fair value of projected cash flows that will be derived from the sale of products to Sitrion's existing customers based on existing, in-process, and future versions of the underlying technology

**Note 4 – Revenue From Contracts With Customers**

**Disclosures Related to Contracts with Customers** - Timing may differ between the satisfaction of performance obligations and the invoicing and collection of amounts related to contracts with customers. Liabilities are recorded for amounts that are collected in advance of the satisfaction of performance obligations. To the extent a contract exists, as defined by ASC 606, these liabilities are classified as current and non-current deferred revenue. To the extent that a contract does not exist, these liabilities are classified as contract liabilities. Contract liabilities are transferred to deferred revenue at the point in time when the criteria that establish the existence of a contract are met. As of June 30, 2019, the Company had no contract liabilities.



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**Deferred Revenue** - A summary of the activity impacting deferred revenue balances during the six months ended June 30, 2019 is presented below (in thousands):

	<b>Deferred Revenue</b>
Balance at December 31, 2018	\$ 5,379
Revenue recognized	(20,584)
Additional amounts deferred	22,453
Balance at June 30, 2019	<u>\$ 7,248</u>

Deferred revenue at June 30, 2019 and December 31, 2018 is comprised of (in thousands):

	<u><b>2019</b></u>	<u><b>2018</b></u>
	unaudited	
Subscription services	\$ 6,690	\$ 5,097
Third party services	197	243
Other	361	39
Total deferred revenue	<u>\$ 7,248</u>	<u>\$ 5,379</u>

At June 30, 2019 and December 31, 2018, deferred revenue relates to amounts received from customers in advance of revenue recognition.

**Note 5 – Intangible Assets**

**Finite-lived intangible assets**

Finite-live intangible assets as of June 30, 2019 consisted of the following (in thousands):

	Average Useful Life (Years)	Gross	Accumulated Amortization	Net
Customer relationships	5	\$ 1,878	\$ (313)	\$ 1,565

Amortization expense for finite-live intangible asset for the six months ended June 30, 2019 and 2018 was \$0.2 million and \$0.1 million, respectively.

**Note 6 – Preferred Stock**

**Preferred stock** - The Board of Directors has authorized 14,467,357 shares of preferred stock with a \$0.0001 par value. At June 30, 2019 and December 31, 2018, there were 14,175,094 shares of preferred stock issued and outstanding, consisting of 5,471,813 shares of Series A redeemable convertible preferred stock, 4,363,606 shares of Series B redeemable convertible preferred stock, and 4,339,675 shares of Series C redeemable convertible preferred stock (the "Preferred Stock").

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**Dividends** - The holders of Series A, Series B, and Series C Preferred Stock have preferential rights to dividends at the rate of \$0.0483, \$0.1046, and \$0.4609, respectively, per share per annum, when and if declared, over common stockholders, if approved by the Board of Directors. All dividends are subject to adjustment for any Recapitalization Event, as defined in the Certificate of Incorporation. The right to receive dividends is not cumulative. As of June 30, 2019, and December 31, 2018, 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 a qualified initial public offering with an aggregate offering price to the public of at least \$17.28 per share and aggregate proceeds of \$30 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 Preferred Stock holders. If elected, the redemption will be funded with the proceeds received in the liquidation event. Issuance costs related to Preferred Stock are being accreted via a charge to accumulated deficit.

**Voting rights** - Holders of Preferred Stock are entitled to the number of votes equal to the number of shares of common stock into which their preferred shares could be converted and have voting rights equal to holders of common stock. In addition, holders of Series A, Series B, and Series C Preferred Stock 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 Preferred Stock, and common stock shall vote together as a single class.

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**Note 7 – Common Stock**

**Common stock** - The Board of Directors has authorized 28,000,000 shares of common stock with a \$0.0001 par value. At June 30, 2019 and December 31, 2018, there were 9,503,870 and 9,312,124 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 June 30, 2019 and December 31, 2018:

	<u>2019</u>	<u>2018</u>
Common stock options outstanding	2,609,936	2,557,027
Common stock options available for grant	1,385,707	642,905
Shares issuable upon conversion of outstanding redeemable convertible preferred stock	<u>14,175,094</u>	<u>14,175,094</u>
Total common shares reserved for future issuance	<u>18,170,737</u>	<u>17,375,026</u>

**Note 8 – 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 3,455,179 authorized shares of the Company's common stock at June 30, 2019, for issuance to employees, directors, and consultants through incentive stock options, non-statutory 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.

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

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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 June 30, 2019, and December 31, 2018 no options have been early exercised under the Stock Plan.

In determining the fair value of stock options granted to employees and directors, the following assumptions were used in the Black-Scholes option-pricing model for the six-months ended June 30, 2019 and 2018, respectively:

	2019	2018
Estimated per share value of common stock	\$1.59	\$1.59
Risk-free interest rates	2.41% - 2.43%	2.75% - 3.08%
Expected term (in years)	5.47 - 6.08	5.65 - 6.08
Dividend rate	0%	0%
Volatility	48.86% - 49.04%	49.08% - 50.89%

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 six months ended June 30 was as follows (in thousands):

	2019	2018
Cost of revenue	\$ 27	\$ 18
Sales and marketing	53	33
Research and development	45	42
General and administrative	28	56
	<u>\$ 153</u>	<u>\$ 149</u>

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The following table summarizes stock option activity under the Plan for the six months ended June 30, 2019:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2018	2,557,027	\$ 0.95	<u>7.00</u>	
Options granted	592,500	1.59		
Options forfeited	(347,844)	0.94		
Options exercised	<u>(191,747)</u>	<u>0.84</u>		
Outstanding at June 30, 2019	<u>2,609,936</u>	<u>\$ 1.10</u>	<u>7.67</u>	<u>\$ 1,240,846</u>
Options vested or expected to vest at June 30, 2019	<u>2,336,165</u>	<u>\$ 1.07</u>	<u>7.46</u>	<u>\$ 1,179,976</u>
Exercisable at June 2019	<u>1,400,689</u>	<u>\$ 0.89</u>	<u>6.30</u>	<u>\$ 956,209</u>

At June 30, 2019 and December 31, 2018, total compensation cost related to stock options granted to employees under the Plan but not yet recognized was \$0.6 million and \$0.5 million respectively, net of estimated forfeitures. This cost will be amortized on the straight-line method over a weighted-average period of approximately 1.2 years and 1.1 years, respectively. The aggregate intrinsic value represents the difference between the exercise price of the underlying options and the fair value of our common stock for the number of options that were in-the-money at year end. The Company issues new shares of common stock upon exercise of stock options.

The following table summarizes certain information about stock options for the periods ended June 30 and December 31:

	2019	2018
Weighted average grant date fair value for options granted during the period	\$ 0.78	\$ 0.57
Options in the money at period-end	1,969,436	2,502,027
Aggregate intrinsic value of options exercised	\$ 144,241	\$ 145,808

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**Note 9 – Leases**

The Company's leasing arrangements are primarily for corporate offices and automobiles. Our leases have remaining lease terms of 1 to 5 years.

The following table presents the Company's future lease payments for long-term operating leases as of June 30, 2019:

Period:	<u>Operating Leases</u>	<u>Finance Leases</u>
	(in thousands)	
Remainder of 2019	\$ 741	\$ 12
2020	1,463	3
2021	1,011	-
2022	948	-
2023	812	-
Thereafter	13	-
Total	<u>\$ 4,988</u>	<u>\$ 15</u>
Less: Imputed interest	(539)	-
Total operating lease liabilities	<u>\$ 4,449</u>	<u>\$ 15</u>

Cash paid for operating lease liabilities for the six months ended June 30, 2019 was \$0.9 million. The Company had no leases that commenced or were modified during the six months ended June 30, 2019 and did not record any non-cash increases to right-of-use assets and operating leases.

Weighted average remaining lease term (in years) for operating leases	3.9
Weighted average discount rate	6.0%

The components of the Company's lease expense for the six months ended June 30, 2019 were as follows (in thousands):

Operating lease costs	\$ 912
Finance lease cost	122
Interest on lease liabilities	2
Total lease costs	<u>\$ 1,036</u>

Under ASC 840, the previous lease standard, total rent expense, net of sublease income, under operating leases was approximately \$0.4 million for the six months ended June 30, 2018.

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**Note 10 – Commitments and Contingencies**

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

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

**Note 11 – Debt**

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

The Credit Facility includes several affirmative and negative covenants, including a requirement that the Company maintain minimum annual contract values and minimum liquidity, and observe restrictions on dispositions of property, changes in its business, mergers or acquisitions, incurring indebtedness, and distributions or investments. Written consent of the Lender is required to pay dividends to shareholders. As of June 30, 2019, the Company was in compliance with all covenants of the Credit Facility.

Interest on outstanding borrowings is at Comerica Bank's Prime Rate plus 0.5% (6.00% and 5.75% at June 30, 2019 and December 31, 2018, respectively). Outstanding borrowings were \$2.8 million and \$2.5 million at June 30, 2019 and December 31, 2018 respectively.

**Note 12 – Subsequent Events**

The Company has evaluated subsequent events and transactions for potential recognition or disclosure in the condensed consolidated financial statements through November 27, 2019, the date the condensed consolidated financial statements were available to be issued.