Zebit, Inc.

Consolidated Financial Statements
As of and for the Years Ended
December 31, 2019, 2018 and 2017

The report accompanying these financial statements was issued by
BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of
BDO International Limited, a UK company limited by guarantee.

Zebit, Inc.

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Independent Auditor's Report

Board of Directors
Zebit, Inc.
San Diego, California

We have audited the accompanying consolidated financial statements of Zebit, Inc., which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2019, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Zebit, Inc. as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As described in Note 1 to the consolidated financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

BDO USA, LLP

San Diego, California
March 2, 2020

Consolidated Financial Statements

Zebit, Inc.

Consolidated Balance Sheets

(in thousands, except share data)

December 31,		**2019**		2018
Assets				
Current assets				
Cash and cash equivalents	$	**6,515**	$	8,824
Receivables, net of allowance for doubtful accounts of $7,722 and $4,734 as of December 31, 2019 and December 31, 2018, respectively		**21,117**		13,071
Inventories		**496**		265
Prepaids and other current assets		**1,165**		367
Total current assets		**29,293**		22,527
Property and equipment, net		**60**		85
Operating lease right-of-use assets, net		**921**		1,250
Intangibles, net		**1,170**		365
Restricted cash		**390**		302
Other non-current assets		**160**		159
Total assets	$	**31,994**	$	24,688
Liabilities and stockholders' equity				
Current liabilities				
Accounts payable	$	**5,082**	$	5,165
Accrued liabilities		**3,062**		1,032
Operating lease liabilities, current portion		**372**		314
Current portion of long-term debt, net of discount		**259**		921
Convertible notes		**4,121**		-
Total current liabilities		**12,896**		7,432
Operating lease liabilities, net of current portion		**638**		1,010
SVB debt, net of current portion and discount		**281**		540
Route 66 debt, net of current portion and discount		**11,714**		7,206
Warrant liabilities		**23**		57
Total liabilities		**25,552**		16,245
Commitments and contingencies (Note 12)				
Stockholders' equity				
Convertible preferred stock, $0.0001 par value; 69,394,759 and 60,847,352 shares authorized as of December 31, 2019 and 2018, respectively; 49,761,755 and 39,650,200 issued and outstanding at December 31, 2019 and 2018, respectively (aggregate liquidation preferences of $49,762 and $39,650 as of December 31, 2019 and 2018, respectively)		**5**		4
Common stock, $0.0001 par value; 84,188,233 and 75,641,233 shares authorized as of December 31, 2019 and 2018, respectively; 16,029,022 and 1,891,223 issued and outstanding at December 31, 2019 and 2018, respectively		**2**		-
Additional paid-in capital		**64,439**		54,046
Accumulated deficit		**(58,004)**		(45,607)
Total stockholders' equity		**6,442**		8,443
Total liabilities and stockholders' equity	$	**31,994**	$	24,688

See accompanying notes to the consolidated financial statements.

Zebit, Inc.

Consolidated Statements of Operations

(in thousands)

Year ended December 31,		**2019**		2018		2017
Revenue	$	**85,485**	$	45,312	$	20,794
Cost of revenue		**63,459**		34,822		16,905
Gross Profit		**22,026**		10,490		3,889
Operating expenses:						
Provision for uncollectible accounts		**14,878**		7,214		3,789
General and administrative		**14,637**		11,559		8,005
Sales and marketing		**3,669**		1,519		1,956
Total operating expenses		**33,184**		20,292		13,750
Loss from operations		**(11,158)**		(9,802)		(9,861)
Interest and amortization of debt discount expense		**(1,545)**		(652)		(467)
Interest income		**70**		114		39
Change in fair value of warrant liabilities		**34**		34		24
Change in fair value of debt instrument		**(6)**		-		-
Other income		**225**		110		-
Loss before income taxes		**(12,380)**		(10,196)		(10,265)
Income tax provisions		**17**		10		2
Net loss	$	**(12,397)**	$	(10,206)	$	(10,267)

See accompanying notes to the consolidated financial statements.

Zebit, Inc.

Consolidated Statements of Stockholders' Equity
(in thousands, except share and par amount data)

	Convertible Preferred Stock												
	Series Seed		Series A		Series A-1		Series B		Common Stock				
	Shares	Par Amount	Shares	Par Amount	Shares	Par Amount	Shares	Par Amount	Shares	Par Amount	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
Balance at December 31, 2016	-	$ -	15,114,767	$ 1,511	-	$ -	-	$ -	1,730,000	$ 173	$ 29,123	$ (25,134)	$ 3,991
Exercise of common stock options	-	-	-	-		-	-		20,520	2	8	-	8
Stock-based compensation expense	-	-	-	-	-	-	-	-	-	-	185	-	185
Conversion of Series A to A-1	-	-	(12,094,767)	(1,209)	12,094,797	1,209	-	-	-	-	-	-	-
Net loss	-	-	-	-		-			-	-	-	(10,267)	(10,267)
Balance at December 31, 2017	-	-	3,020,000	302	12,094,767	1,209	-	-	1,750,520	175	29,316	(35,401)	(6,083)
Exercise of common stock options	-	-	-	-	-	-	-	-	140,703	14	55	-	55
Stock-based compensation expense	-	-	-	-	-	-	-	-	-	-	265	-	265
Warrants exercised	-	-	2,527	-	-	-	-	-	-	-	3	-	3
Reclassification of Series A to Series Seed	3,022,527	302	(3,022,527)	(302)	-	-	-	-	-	-	-	-	-
Reclassification of Series A-1 to Series A	-	-	12,094,767	1,209	(12,094,767)	(1,209)	-	-	-	-	-	-	-
Issuance of Series A upon conversion of notes	-	-	183,569	19	-	-	-		-	-	184	-	184
Issuance of Series B upon conversion of notes	-	-	-	-	-	-	12,368,762	1,237	-	-	12,367	-	12,368
Issuance of Series B, net of issuance costs $121,581	-	-	-	-	-	-	11,980,575	1,198	-	-	8,126	-	8,127
Issuance of warrants in connection with equity financing	-	-	-	-	-	-	-	-	-	-	3,730	-	3,730
Net loss	-	-	-	-	-	-	-	-	-	-	-	(10,206)	(10,206)
Balance at December 31, 2018	3,022,527	302	12,278,336	1,228	-	-	24,349,337	2,435	1,891,223	189	54,046	(45,607)	8,443
Stock-based compensation expense	-	-	-	-	-	-	-	-	-	-	288	-	288
Warrants exercised	-	-	-	-	-	-	-	-	14,137,799	1,414	140	-	141
Issuance of Series B up conversion of notes	-	-	-	-	-	-	5,060,268	506	-	-	5,059	-	5,060
Issuance of Series B, net of issuance costs of $146,102	-	-	-	-	-	-	5,051,287	505	-	-	4,906	-	4,907
Net loss	-	-	-	-	-	-	-	-	-	-	-	(12,397)	(12,397)
Balance at December 31, 2019	3,022,527	$ 302	12,278,336	$ 1,228	-	$ -	34,460,892	$ 3,446	16,029,022	$ 1,603	$ 64,439	$ (58,004)	$ 6,442

See accompanying notes to the consolidated financial statements

Zebit, Inc.

Consolidated Statements of Cash Flows

(in thousands)

Year ended December 31,		**2019**		2018		2017
Operating activities						
Net loss	$	**(12,397)**	$	(10,206)	$	(10,267)
Adjustments to reconcile net loss to net cash used in operating activities						
Allowance for doubtful accounts		**14,878**		7,215		3,789
Stock-based compensation expense		**288**		265		185
Gain on disposal of property and equipment		**(9)**		(2)		-
Non-cash lease expense		**329**		229		146
Non-cash interest expense		**68**		345		341
Amortization of debt issuance		**153**		49		35
Change in fair value of liabilities measured at fair value		**(20)**		(31)		(38)
Depreciation and amortization		**353**		144		19
Changes in operating assets and liabilities						
Accounts receivable		**(22,925)**		(12,924)		(9,861)
Inventories		**(230)**		(186)		(65)
Prepaid expenses and other current assets		**(797)**		(121)		(93)
Other assets		**-**		(128)		7
Accounts payable		**(83)**		2,835		1,919
Accrued liabilities		**2,030**		481		368
Operating lease liability		**(314)**		(162)		(144)
Net cash used in operating activities		**(18,676)**		(12,197)		(13,659)
Investing activities						
Purchase of property and equipment		**(7)**		(65)		(21)
Purchase or development of intangible assets		**(1,119)**		(240)		(230)
Net cash used in investing activities		**(1,126)**		(305)		(251)
Financing activities						
Principal payments on debt		**(933)**		(845)		(676)
Proceeds from debt, net of issuance costs		**4,383**		8,154		-
Proceeds for issuance of convertible notes, net of issuance cost		**9,085**		-		11,835
Proceeds from exercise of stock options		**-**		53		8
Proceeds from exercise of warrants		**141**		3		-
Proceeds from sale of preferred stock, net of issuance cost		**4,905**		11,859		-
Net cash provided by financing activities		**17,581**		19,224		11,167
Net increase (decrease) in cash, cash equivalents and restricted cash		**(2,221)**		6,722		(2,743)
Cash, cash equivalents and restricted cash at beginning of period		**9,126**		2,404		5,147
Cash, cash equivalents and restricted cash at end of period	$	**6,905**	$	9,126	$	2,404
Supplemental disclosures of cash flows information						
Cash paid for income taxes	$	**1**	$	2	$	-
Cash paid for interest	$	**1,363**	$	284	$	97
Cash paid for operating lease	$	**373**	$	195	$	160
Supplemental disclosure of non-cash investing and financing activities						
Issuance of convertible preferred stock upon convertible notes and accrued interest	$	**5,060**	$	12,552	$	-
Fair value of warrants issued in connection with credit facility	$	**-**	$	3	$	-
Assets acquired under operating lease	$	**-**	$	1,408	$	346

See accompanying notes to the consolidated financial statements.

1. Organization and Significant Accounting Policies

Description of Business

Zebit, Inc. ("Company") is an e-commerce company incorporated in 2015 in the state of Delaware. The Company's headquarters is in San Diego, California. Zebit is built to disrupt the way credit-challenged consumers shop and access products by offering a wide assortment of products that can be financed over six months with no interest, late fees, or other penalties.

Liquidity

The Company has funded its operations primarily through the issuance of preferred stock and convertible notes, as well as borrowings under debt and credit facilities. The Company has incurred losses and negative cash flows from operations since its inception. The Company recorded revenues of $85.5 million, $45.3 million and $20.8 million for the years ended December 31, 2019, 2018 and 2017, respectively. The Company recorded net losses of $12.4 million, $10.2 million and $10.3 million for the years ended December 31, 2019, 2018 and 2017, respectively, and has an accumulated deficit of $58.0 million as of December 31, 2019.

As of December 31, 2019, the Company had cash and cash equivalents of $6.5 million, and restricted cash of $390,000. Existing cash resources are not expected to be sufficient to fund forecasted future negative cash flows from operations and obligations as they become due through one year following the issuance of these financial statements, without additional funding. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effects that may result should the Company be unable to continue as a going concern. To alleviate these conditions, the Company is actively pursuing an initial public offering on the Australian Securities Exchange and, in parallel, a sale of its business in case the IPO is not successful. The Company cannot conclude that management's plan to alleviate the substantial doubt about the Company's ability to continue as a going concern through one year following the issuance of these financial statements is probable of being successfully implemented.

Financial Statement Presentation and Use of Estimates

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The Company's consolidated financial statements are prepared on a consolidated basis and include the accounts of the Zebit Be Free, 2018-1 Statutory Trust ("Zebit Be Free") for which the Company is the sole beneficial owner. Zebit Be Free was established in connection with the Company's credit facility discussed in Note 6. All transactions between Zebit, Inc. and Zebit Be Free have been eliminated in consolidation.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes. Actual results could differ materially from these estimates. On an ongoing basis, management evaluates its estimates, including those related to the accounts receivable allowance, useful lives and impairment of intangible assets and property and equipment, the fair value of a convertible debt instrument for which the fair value option

has been elected, the fair value of common stock and expense for stock-based compensation awards, the fair value of stock warrants and other equity-related instruments, and income taxes, among others. Management bases its estimates on historical experience and on various other assumptions that it believes are reasonable. Actual results could differ materially from these estimates.

Cash and Cash Equivalents

The Company considers highly-liquid investments with maturities of three months or less from the date of purchase to be cash equivalents. The Company maintains its cash in depository accounts that may exceed the Federal Deposit Insurance Corporation limits.

Restricted Cash

Restricted cash is composed of a cash reserve account required under the Company’s credit facility, which is subject to the control of the lender’s collateral agent, and a restricted cash account under the control of a trustee related to the Company’s obligation to indemnify certain parties pursuant to the Zebit Be Free trust agreement.

Inventories

Inventories consist of inventory in-transit from our vendors to our customers as the Company takes ownership of inventory at the point of shipment from the vendor’s location. All inventory in-transit is recorded at cost on the balance sheet. No substantial losses on inventory were incurred during the years ended December 31, 2019, 2018 or 2017. The Company does not estimate that any losses will be incurred on inventories and therefore had no allowance for losses on inventories as of December 31, 2019 and 2018.

Accounts Receivable, Net

Accounts receivable consist of trade receivables that are generated in the normal course of business. The Company records accounts receivable at the amount invoiced to the customer, less the down payment made by the customer at the time of order. The Company records an allowance for estimated uncollectible accounts against accounts receivable. In determining the amount of the allowance for uncollectible accounts, the Company makes estimates based on historical collection experience and current economic trends. The Company’s business primarily serves underserved customers with limited access to credit, and as such the Company experiences significant credit losses on accounts receivable. Historically, the Company's losses have been consistent with its estimates, but there can be no assurance that it will continue to experience the same credit loss rates that it has experienced in the past. Unforeseen, material financial difficulties experienced by the Company’s customers could have a material adverse financial impact on the Company.

Property and Equipment, Net

Property and equipment, net is stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful lives of the following asset categories:

Asset Category	Estimated Useful Life in Years
Computer equipment	3
Furniture and fixtures	5
Leasehold improvements	Lesser of remaining lease term or 5 years

Internal-Use Software

The Company capitalizes costs related to purchased and developed internal use software, which are included in intangible assets in the balance sheet. In accordance with authoritative guidance, capitalization of costs for the development of internal-use software begins when the application development stage is reached and ends when the post implementation stage is reached. Amortization of software is recorded using the straight-line method over the estimated useful life of the developed software, which is three years.

Operating Lease

The Company recognizes right-of use assets and leases liabilities for all lease agreements, or agreements containing a lease component, in accordance with ASC Topic 842, Leases (“ASC 842”). At inception of a lease, the Company determines the classification of the lease as either an operating lease or a finance lease. The lease liability is amortized on a straight-line basis for operating leases and is amortized using the effective interest method for finance leases. Refer to Note 12 for further information.

Revenue Recognition

The Company recognizes revenue in accordance with ASC Topic 606, Revenue from Contracts with Customers (“ASC 606”). Revenue recognition is determined using the five-step process provided in ASC 606: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and, (v) recognize revenue when (or as) the entity satisfies a performance obligation. Refer to Note 2 for further information.

Cost of Revenues

Cost of revenues consists of the purchase price of goods sold to customers, outbound shipping costs, and dropship processing fees. Dropship processing fees represent vendor charges for fulfilling orders, including receiving, inspecting, picking, packaging and preparing goods for shipment. Shipping costs for the years ended December 31, 2019, 2018 and 2017 were $2.8 million, $1.0 million, and $375,719, respectively.

Selling and Marketing Expenses

Selling and marketing expenses are expensed as incurred and consist primarily of sales and marketing employee compensation, targeted online marketing costs, such as display advertising, keyword search campaigns and social media advertising, as well as offline marketing costs such as email and radio, and broker commissions. Broker commissions are paid to partners for each prospective customer referred by the broker and underwritten and approved by Zebit.

Stock-Based Compensation

The Company has an equity incentive plan under which it has historically only granted stock options to purchase shares of the Company's common stock. The Company recognizes stock-based compensation expense based on the estimated fair value of the award on the date of grant determined using the Black-Scholes option pricing model. Stock-based compensation expense for stock option awards is amortized on a straight-line basis over the requisite service period of the award, generally four years. Forfeitures are accounted for as they occur.

Stock Warrants

The Company has issued freestanding warrants to purchase shares of stock in connection with certain debt and equity financing transactions. The warrants are recorded as liabilities at their fair value on the issuance date and are subject to revaluation at each balance sheet date. However, warrants issued for a nominal exercise price of $0.01 per share have the characteristics of a prepaid forward sale of equity and are therefore recorded as equity and not subsequently remeasured.

Fair Value Election

Pursuant to ASC 825, *Financial Instruments*, the Company elected to account for convertible notes issued in December 2019 at fair value. The Company determined to elect the fair value option due to complexity associated with various potential settlement outcomes per the terms of the notes. The Company reports interest expense as a component of the change in fair value of the notes in the statement of operations.

Fair Value Measurements

The Company uses fair value measurements for convertible notes issued in December 2019 for which the Company elected the fair value option pursuant to ASC 825, as well as for warrant liabilities. ASC 820, *Fair Value Measurement*, establishes a framework for measuring fair value and requires disclosures about fair value measurements. The standard establishes a fair value hierarchy which distinguishes between inputs that are observable in the marketplace, and therefore more objective, and those that are unobservable and therefore more subjective. Companies are required to use observable inputs when available. Additional disclosures are required for unobservable inputs.

The three levels of inputs that may be used to measure fair value are defined as follows:

> Level 1 - Observable inputs, such as quoted prices in active markets for identical assets or liabilities.
>
> Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Valuations based on unobservable inputs to the valuation methodology and including data about assumptions market participants would use in pricing the asset or liability based on the best information available under the circumstances.

Income Taxes

The Company is a C-corporation and is subject to federal and state income taxes. The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions and is subject to examination by U.S. federal tax authorities for returns filed for the prior three years and by state tax authorities for returns filed for the prior four years. In addition, during an audit, tax authorities may redetermine the correct taxable loss for a closed year to determine the correct amount of the loss carryforward deduction for the year under audit.

The Company uses the asset and liability method of accounting for income taxes in accordance with FASB ASC Topic 740, Income Taxes (“ASC 740”). Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. In accordance with ASC 740, the Company provides a valuation allowance against its deferred tax assets when circumstances indicate that it is more likely than not that its deferred tax assets will not be realized.

Operating Segment

Management has determined that the Company operates as one operating segment. The chief executive officer, who is the Company’s chief operating decision maker, reviews financial information on an aggregate basis for purposes of allocating resources and evaluating the financial performance of the Company. The Company’s revenues have been entirely sourced in the United States and all of the long-lived assets are maintained in the United States.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The ASU and its related amendments provide companies with a single model for accounting for revenue arising from contracts with customers and supersede prior revenue recognition guidance, including industry-specific revenue guidance. The core principle of the model is to recognize revenue when control of the goods or services transfers to the customer, as opposed to recognizing revenue when the risks and rewards transfer to the customer under the existing revenue guidance. The new guidance also expands disclosure requirements to help users of financial statements better understand the nature, amount, timing and uncertainty of revenue that is recognized. The guidance permits companies to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption, through a cumulative adjustment. The Company adopted this ASU using the modified retrospective transition option effective January 1, 2017. The standard was only applied to contracts that were not completed as of the

adoption date. There was no financial statement impact from the adoption and therefore no cumulative adjustment was recorded.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10)*, which addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Amongst other provisions, the standard update requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. This ASU was effective for the Company beginning January 1, 2018. The Company applies this guidance to its convertible notes issued in December 2019 for which the fair value option of ASC 825 has been elected, and records any change in fair value resulting from instrument-specific credit risk in other comprehensive income or loss. As of December 31, 2019, the adoption of this standard did not have a material impact on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which requires that a lessee recognize the assets and liabilities arising from operating leases. A lessee should recognize on its balance sheet a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. The Company adopted the new accounting standard using the modified retrospective transition option effective January 1, 2017. For transition, the Company elected a package of practical expedients which allows an entity to not reassess whether any existing or expired contracts contain leases, not reassess lease classifications for existing or expired leases, and not reassess initial direct costs for any existing leases. Upon adoption, the Company recorded a $0.3 million right-of-use asset and lease liability for the recognition of an operating lease as a right-of-use asset and lease liability. The adoption of this standard did not have a material impact on the Company's statement of operations.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326)*. The new guidance requires companies to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The standard update eliminates the probable initial recognition threshold in current GAAP and, instead, reflects an entity's current estimate of all expected credit losses over the contractual term of its financial assets. The standard update broadens the information that an entity can consider when measuring credit losses to include forward-looking information. Further, in May 2019, the FASB issued ASU 2019-05, *Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief*, which provides transition relief in the application of Topic 326 by permitting companies within the scope of Subtopic 326-20 (financial instruments measured at amortized cost) with an option to irrevocably elect the fair value option in Subtopic 825-10 for eligible instruments, upon adoption of Topic 326. These ASUs are effective for the Company beginning January 1, 2023, with early application permitted. The standard updates will be applicable to the Company's trade accounts receivable balances. The Company has not yet evaluated the impact that the standard updates could have on its financial statements.

In June 2018, the FASB issued ASU 2018-13, *Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements for fair value measurements in Topic 820, Fair Value Measurement. This standard update is effective for

the Company beginning January 1, 2020. The Company does not expect the adoption of this standard to have a material effect on its financial statements.

2. Revenue

The Company recognizes revenue in accordance with ASC Topic 606, Revenue from Contracts with Customers ("ASC 606"). Revenue recognition is determined using the five-step process provided in ASC 606: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and, (v) recognize revenue when (or as) the entity satisfies a performance obligation.

The Company sells goods to customers on its ecommerce website, including physical products as well as e-certificates. An e-certificate allows the customer to redeem the e-certificate value for the purchase of merchandise from a merchant store. The Company has determined that its performance obligations under its sales contracts with customers are to deliver the purchased goods. Accordingly, revenue is recognized at the point in time when the delivery obligation is satisfied, which is consistent with the time in which the customer obtains control of the goods. For physical products, delivery occurs when the product is physically delivered to the customer's location. For e-certificates, delivery occurs when the e-certificate is delivered to the customer's designated email address. The Company recognizes revenue as the amount of consideration the Company expects to receive in exchange for transferring the goods, which is the fixed contract price for the purchased goods.

Customer payment terms provide for payment of the contract price up to a six month period following the sale. In determining whether revenue recognition is appropriate at the time of sale, the Company assesses collectability of the contractual price it expects to be entitled to and will only recognize revenue for sales in which it has estimated that collection is probable. Based upon the Company's standards for customer creditworthiness, the Company has historically only entered into contracts with customers for which it believed collection was probable at the time of sale. The Company records an estimate of bad debt expense at the time revenue is recognized. The Company does not offer any significant rebates, coupons or other forms of concession to customers.

The Company collects a down payment upon the customer's completion of the order. The amount that the Company collects from customers prior to the delivery of goods and the recognition of revenue is recorded as a customer deposit in accrued liabilities until the goods are delivered. As of December 31, 2019 and 2018, the liability for customer deposits was not material.

In the sale of goods, the Company has determined that it is the principal in satisfying the performance obligations to customers, primarily because the Company has full latitude to source the goods from any vendor and full discretion to establish customer pricing, and the Company's vendors, who are resellers of the goods, are not visible to customers and have no contractual obligations to customers. Importantly, for e-certificates, the Company is purchasing these from vendors who have purchased and carry inventory stock of e-certificates, and the Company has a non-cancellable right during the terms of the contracts with these vendors to purchase and resell the e-certificates. As the principal in satisfying the performance obligations to customers, the

Company recognizes revenue at the gross amount of consideration it is entitled to collect from customers.

The Company also sells product warranties to customers, although such sales have not been material to date. For these sales, the Company arranges for the warranties to be provided to customers by the warrantor, and is an agent in satisfying the performance obligations for these sales. Accordingly, revenue is recognized for the amount of consideration expected to be collected from the customer, net of the amount paid or due to the warrantor for purchase of the warranties by the Company.

The Company has elected the following practical expedients permitted in the application of ASC 606.

- As the Company expects at the inception of all contracts with customers that the transaction price will be paid by the customer within twelve months of delivery of the product, the Company elects not to adjust the promised amount of consideration for the effects of any significant financing component in determining the transaction price.

- The Company elects to exclude sales and other similar taxes collected from customers from the transaction price.

The Company's revenues have been entirely sourced in the United States. The following tables shows the Company's revenues for each of the years ended December 31, 2019, 2018 and 2017 by significant product type (in thousands):

	2019	2018	2017
E-certificates	**$ 44,174**	$ 30,090	$ 15,434
Electronics	**27,127**	11,071	4,066
All other	**14,184**	4,151	1,294
Total revenue	**$ 85,485**	$ 45,312	$ 20,794

3. Property and Equipment, Net

Property and equipment, net consisted of the following (in thousands):

As of December 31,	**2019**	2018
Computer equipment	**$ 100**	$ 93
Furniture and fixtures	**51**	51
Leasehold improvements	**5**	5
Property and equipment, gross	**156**	149
Less accumulated depreciation	**(96)**	(64)
Total property and equipment, net	**$ 60**	$ 85

Depreciation expense was $34,966, $23,842 and $12,567 during the year ended December 31, 2019, 2018 and 2017, respectively.

4. Intangible Assets, Net

Intangible assets consisted of the following (in thousands):

As of December 31,		**2019**		2018
Patents and trademarks	**$**	**18**	$	18
Software (purchased or developed)		**1,397**		480
Software under development		**201**		-
Intangible, gross		**1,616**		498
Less accumulated amortization		**(446)**		(133)
Total intangibles, net	**$**	**1,170**	$	365

Amortization expense was $317,558, $119,920 and $6,880 during the years ended December 31, 2019, 2018 and 2017, respectively. As of December 31, 2019, future amortization expense for intangible assets was $549,950 in 2020, $398,983 in 2021 and $221,153 in 2022.

5. Fair Value Measurement

The Company uses fair value measurements for convertible notes issued in December 2019 ("2019 IPO Notes") for which the Company elected the fair value option pursuant to ASC 825, as well as for stock warrant liabilities. These liabilities are subject to recurring measurement and measured using Level 3 inputs per the fair value hierarchy established in ASC 820. Refer to Note 6 regarding the 2019 IPO Notes, and Note 9 regarding the stock warrants.

The fair values of these instruments as of December 31, 2019 and 2018 were as follows (in thousands):

December 31, 2019		Fair Value		Level 1		Level 2		Level 3
Liabilities								
2019 IPO notes	$	4,121	$	-	$	-	$	4,121
Warrant liabilities		23		-		-		23
Total liabilities measured at fair value	$	4,144	$	-	$	-	$	4,144

December 31, 2018	Fair Value	Level 1	Level 2	Level 3
Liabilities				
Warrant liabilities	57	-	-	57
Total liabilities measured at fair value	$ 57	$ -	$ -	$ 57

The Company did not transfer any assets or liabilities measured at fair value on a recurring basis to or from Level 3 for the years December 31, 2018, 2018 and 2017.

The changes in the fair values of these instruments for the years December 31, 2018, 2018 and 2017 was follows (in thousands):

	2019 IPO Notes	Stock Warrants
Fair value as of January 1, 2017	$ -	$ 112
Change in fair value	-	(24)
Fair value as of December 31, 2017	-	88
Issuance	-	3
Change in fair value	-	(34)
Fair value as of December 31, 2018	-	57
Issuance	4,115	-
Change in fair value	6	(34)
Fair value as of December 31, 2019	$ 4,121	$ 23

The fair value of the 2019 IPO Notes was determined to be equal to the transaction price of the notes at initial recognition. As of December 31, 2019, the Company concluded that there was no change in the fair value of the notes since initial recognition, as there were no changes in conditions that would have impacted the fair value of the notes between the issuance date of December 17, 2019 and the balance sheet measurement date of December 31, 2019, other than for interest at the annual coupon rate of 4%, which was $6,497. Reference to the initial transaction price to determine the fair value as of December 31, 2019 is a considered a Level 3 (unobservable) input. As of December 31, 2019, the difference between the fair value of the notes and the outstanding principal amount of the notes is the change in fair value associated with interest on the notes of $6,497.

The fair value of stock warrants was estimated using the Black-Scholes option pricing model. The expected term is the estimated probability weighted-average time to exit that accounts for different exit, financing, or dissolution scenarios, which is a Level 3 (unobservable) input.

The carrying amounts of the Company’s other current financial assets and liabilities are considered to be representative of their respective fair values because of the short-term nature of these instruments.

6. Debt and Credit Facilities

Silicon Valley Bank Term Debt

In December 2015, the Company entered into a Loan and Security Agreement with Silicon Valley Bank (“SVB”) which initially provided for term loans in an aggregate amount up to $1,000,000, however, if the Company subsequently obtained signed contracts with three reference customers satisfactory to SVB, the term loan amount would increase to $2,000,000. This contingency was met increasing the aggregate term loan amount to $2,000,000 (“Term A Loans”). In September 2017, the Loan and Security Agreement was amended to provide for an additional aggregate amount of term loans up to $1,000,000 (“Term B Loans”), with differing borrowing terms. Amounts borrowed and repaid may not be reborrowed. In August 2018 and April 2019, the Loan and Security Agreement was amended to restate the financial covenants, amongst certain other terms. Further, in January 2020, the Loan and Security Agreement (as amended, the “LSA”) was amended whereby SVB agreed to waive its rights and remedies with respect to financial covenant violations occurring for the measurement periods ending November 30, 2019 and December 31, 2019, and also to remove the minimum trailing-three month revenues covenant.

In April 2016, the Company drew down $1,000,000 in Term A Loans, and in June 2016 drew down an additional $1,000,000 in Term A Loans. In January 2018, the Company drew down $1,000,000 in Term B Loans.

The principal amount of the Term A Loans was due in 36 monthly installments beginning January 1, 2017. The principal amount of the Term B Loans is due in 45 monthly installments beginning May 1, 2018.

The outstanding principal amount of Term A Loans accrued interest at a floating per annum rate equal to the greater of 1.25% above the prime rate as published in the Wall Street Journal or 4.25%, and the outstanding principal amount of Term B Loans accrues interest at a floating per annum rate equal to the greater of 2.0% above the prime rate as published in the Wall Street Journal or 6.25%. Interest is payable monthly.

The LSA imposes certain covenants on the Company, including a minimum current ratio of not less than 1.37x at all times. Upon the occurrence an event of default, the lender may declare all outstanding principal and interest due and payable.

Upon entry into the original agreement with SVB, the Company issued SVB a warrant to purchase 40,000 shares of the Company’s Series A preferred stock at an exercise price of $1.00 per share, which expires on December 18, 2025. Upon entry into the amended agreement with SVB, the Company issued SVB a warrant to purchase 20,000 shares of the Company’s Series A-1 preferred stock at an exercise price of $1.00 per share, which expires on September 30, 2027. The grant-date fair values of the warrants, which were immaterial, were estimated using the Black-Scholes option pricing model and recorded in the balance sheet as warrant liabilities, with the offsetting

amounts recorded as debt discounts and amortized to interest expense over the terms of the related debt. Subsequent to the issuances of the warrants, and pursuant to the original terms of the warrant agreements, the warrant to purchase the Company's Series A preferred stock was reclassified to a warrant to purchase Series Seed, and the warrant to purchase the Company's Series A-1 preferred stock was reclassified to a warrant to purchase Series A, as the underlying classes of stock were reclassified by the Company.

As of December 31, 2019, the short-term and long-term principal balances outstanding for the Term B Loans were $266,667 and $288,889, respectively, and the short-term and long-term unamortized debt discount balance was $7,459 and $7,668, respectively. The Term A Loans had been fully repaid. The outstanding principal balance of the Term B Loans was subject to an annual interest rate of 6.75%.

Future annual principal payments under the LSA are as follows (in thousands):

Years ending December 31,		
2020	$	267
2021		267
2022		22
Total	$	556

Route 66 Credit Facility

In August 2018, the Company entered into a credit facility with Route 66 HF Holdings, LLC. The initial facility provided up to $10,000,000 in principal borrowings, subject to a borrowing base limitation of 90% of the cost of goods sold on eligible customer receivables. In September and December 2019, the facility was amended to increase the lender commitment by $2.0 million in each amendment, providing for a current lending commitment of $14.0 million, subject to the borrowing base limitation. The facility may be increased up to $75.0 million, on the terms and conditions set forth in the agreement, and at the sole and absolute discretion of the lender. The facility can be drawn upon until the day before the date that is 36 months following the closing date, or through August 13, 2021, or earlier upon an event of default or early amortization event, as defined in the agreement. All principal amounts borrowed are due 48 months from the closing date, or August 14, 2022, unless due earlier as a result of the borrowing base limitation or an event of default.

Borrowings are collateralized by all of the Company's personal property, including eligible receivables which are required to be held in a separate, wholly-owned legal entity, Zebit Be-Free 2018-1. An eligible customer receivable is one that meets the eligibility criteria of the agreement, including that the customer is a repeat customer in good standing or is a first purchase customer who has made at least two payments on their account. Customer payments on eligible receivables are required to be remitted into a lockbox account and at the end of each month the payments into the lockbox account are distributed to make the interest payment and any required principal payment with the excess amount funded to the parent company, Zebit, Inc. Outstanding borrowings bear interest, payable monthly, at a rate of 12.1% plus the one-month LIBOR rate, which shall not be less than such interest rate multiplied by a minimum commitment amount,

which increases throughout the term of the agreement. As of December 31, 2019, the interest rate applicable to the outstanding principal balance was of 13.8%.

The Company must adhere to certain covenants during the term of the agreement. Specifically, the Company must comply with a minimum liquidity ratio of not less than 1.37x at all times, which is subject to a cure period after which violation of the covenant constitutes an event of default. In addition, failure to meet financial performance covenants, including specified maximum default and delinquency rates on accounts receivable and a debt service coverage ratio, which are measured monthly, constitutes an event of default. Upon the occurrence of an event of default, the lender may immediately terminate any remaining commitment and declare all outstanding principal and interest due and payable.

As of December 31, 2019, the Company was not in compliance with the minimum liquidity ratio. In January 2020, Route 66 waived any occurrence of an event of default due to noncompliance with the minimum liquidity ratio from December 31, 2019 through March 1, 2020. Then, in February 2020, the agreement was amended to exclude the 2019 IPO Notes (see below) from the calculation of current liabilities, which is a component in the calculation of the liquidity ratio, effective beginning December 31, 2019. Further, the Company and Route 66 agreed (i) that if the Company's book of investors for the planned IPO discussed in Note 1 has not been secured by May 8, 2020, as determined in the bank's sole discretion, then Zebit shall work with Route 66 to implement a restructuring plan that will be determined shortly after the determination date, (ii) that on or before March 4, 2020, the Company shall have secured $900,000 in additional 2019 IPO Notes and on or before March 13, 2020 an additional $450,000 in funds from a vendor rebate, (iii) that the Company shall provide additional monthly performance data to the bank. In addition, the have parties entered into a service agreement whereby, if the IPO book of investors has not been secured to the satisfaction of the bank, the Company will do all things necessary and appropriate to collect the Receivables on behalf of the bank.

The Company is required to maintain a cash reserve account equal to the greater of 2% of the outstanding principal amount or $100,000, but not to exceed $500,000, which is subject to the control of the lender's collateral agent.

As of December 31, 2019, the principal balance outstanding was $12.0 million and the unamortized debt discount balance was $286,266. As of December 31, 2019 and 2018, the aggregate receivables held by Zebit Be Free pursuant to the terms of the credit facility agreement was $18.3 million and $10.1 million, respectively.

2017 Convertible Notes

From June to September of 2017, the Company issued subordinated convertible promissory notes ("2017 Notes") to certain accredited investors, whereby the Company agreed to sell and the accredited investors agreed to purchase, convertible notes in the aggregate principal amount $11,917,174. The notes bore an interest rate of 6% per annum calculated on the basis of a 365 day year, and all unpaid accrued interest and principal was due upon the earlier of 18 months from the initial closing, or upon the occurrence of an event of default and, if applicable, the note being called due and payable by the holder. Contemporaneously upon the closing of a qualified financing, as defined in the 2017 Notes, the outstanding principal of the notes and all accrued

interest would have automatically converted into shares of the Company's equity securities of the same class and series as those issued and sold in the qualified financing.

Effective May 30, 2018, concurrent with the Company's sale and issuance of Series B preferred stock to the same investors as the holders of the notes, the 2017 Notes were amended in order to induce the note holders to enter into the Series B equity financing. The amendment of the 2017 Notes required the written consent of the majority of the note holders. The conversion terms were amended to, amongst other things, provide for the automatic conversion of the notes upon completion of the Company's Series B equity financing at a conversion price of $1.00 per share and modify the class and series of stock into which the notes would convert.

Pursuant to the Securities Purchase Agreement for the Series B equity financing, each investor was assigned a pro rata allocation of the total Series B equity offering, which was the number of Series B preferred stock each individual investor was committed to purchase in the financing, and was based on the then-current proportion of ownership that each investor held in the Company. Under the amended terms of the 2017 Notes, each holder's note would automatically convert into Series B preferred stock to the extent the investor participated in the Series B equity financing for at least the investor's pro rata allocation; to the extent an investor did not participate in the Series B equity financing at their pro rata allocation, the investor would receive Series A preferred stock to the extent the investors participation in the Series B equity financing was below the investor's pro rata allocation.

2017 Notes were entered into, and subsequently amended, with existing beneficial owners of the Company, on the same terms as all other purchases or amendments of the 2017 Notes.

Between May 30, 2018 and June 11, 2018, the Company completed its Series B equity financing and the principal amount of the 2017 Notes and $635,174 of accrued interest automatically converted into 183,569 shares of Series A preferred stock and 12,368,762 shares of Series B preferred stock, at a conversion price of $1.00 per share.

June 2019 Convertible Notes

In June 2019, the Company issued subordinated convertible promissory notes ("2019 Notes") to certain accredited investors, whereby the Company agreed to sell and the accredited investors agreed to purchase, convertible notes in the aggregate principal amount $5,000,003. The 2019 Notes bore an interest rate of 5% per annum calculated on the basis of a 365 day year, and all unpaid accrued interest and principal was due upon the earlier of (i) one year from the initial closing, (ii) the consummation of a sale of the Company, or (iii) the occurrence of an event of default and, if applicable, the note being called due and payable by the holder. The outstanding principal of the 2019 Notes and all accrued interest would convert into shares of the Company's equity securities as follows: (i) upon a qualified financing, automatically into the same shares sold in the qualified financing, at a conversion price of the price per share at which shares were sold in the qualified financing, or a lower percentage of such price per share the later the qualified financing occurs (ii) upon a non-qualified financing, automatically if at least $5 million was sold, and by the consent of the individual holder or a majority of the holders if less than $5 million was sold, into shares of Series B preferred stock, at a conversion price of $1.00 per share (iii) upon an "other" financing event and the consent of the individual holder or a majority of the holders, at a conversion price of $1.00 if Series B preferred shares are elected by the holder or a

majority of the holders, and at a conversion price of the price per share at which shares are sold in the "other" financing event if the same shares sold in the financing were elected by the holder or a majority holders. In addition, upon a sale the Company, the 2019 Notes were convertible into shares of Series B preferred stock at the election of the individual holder at a conversion price of $1.00 per share. In the 2019 Notes, a qualified financing was defined as subsequent equity financing led by a new investor yielding proceeds of at least $20 million, a non-qualified financing was defined as subsequent equity financing led by then-current stockholders yielding proceeds of at least $5 million or such lesser amount as approved by a majority of the board of directors, and an "other" financing event was defined as a subsequent equity financing other than a qualified financing or non-qualified financing. 2019 Notes were entered into with existing beneficial owners of the Company, on the same terms as all other purchases of the 2019 Notes.

In September 2019, the Company completed a non-qualified financing, as defined in the 2019 Notes, and the principal amount of the notes and $60,265 of accrued interest automatically converted into 5,060,268 shares of Series B preferred stock, at the conversion price of $1.00 per share.

December 2019 IPO Convertible Notes

In December 2019, the Company issued subordinated convertible promissory notes ("2019 IPO Notes") to certain accredited investors, whereby the Company agreed to sell and the accredited investors agreed to purchase, convertible notes in the aggregate principal amount $4,114,450. The note purchase agreement entered into in conjunction with the 2019 IPO Notes permits the Company to sell additional notes to accredited investors, on the same terms and conditions, until the aggregate principal amount of all outstanding notes equals $10,000,000, on or prior to March 1, 2020. The 2019 IPO Notes bear an interest rate of 4% per annum calculated on the basis of a 365 day year. The outstanding principal, together with unpaid accrued interest (the "Outstanding Amount"), plus an amount equal to 20% of the outstanding principal is due upon the earlier of (i) December 31, 2020 or (ii) the occurrence of an event of default. Further, if upon a sale of the Company a holder does not elect to convert a note into common stock, as described below, the holder shall be entitled to receive cash equal to three times the Outstanding Amount. 2019 IPO Notes were entered into with existing beneficial owners of the Company, on the same terms as all other purchases of the 2019 IPO Notes.

The Outstanding Amount shall automatically convert into common stock upon a qualified IPO, at a conversion price per share equal to the lesser of 80% of the price per share at which shares are sold in the qualified IPO, or $1.00. In addition, upon a sale the Company, the Outstanding Amount may be converted into shares of the most senior class of stock at the election of the individual holder at a conversion price per share of the lesser of 80% of the price per fully-diluted share received in the sale, or $1.00. A qualified IPO is defined as the sale of shares of, or interests in, the common stock of the Company in a firm-commitment underwritten public offering for at least $20,000,000 in proceeds.

The Company elected to account for the 2019 IPO Notes at fair value pursuant to ASC 825, Financial Instruments. Refer to Note 1. As of December 31, 2019, the principal balance outstanding was $4,114,450, and the fair value carrying amount was $4,120,947.

7. Convertible Preferred Stock

As of December 31, 2019 and 2018, outstanding preferred stock was as follows:

December 31, 2019	Shares Authorized	Shares Issued and Outstanding		Liquidation Value Per Share		Liquidation Value (in thousands)
Series seed	3,571,472	3,022,527	$	1.00	$	3,023
Series A	15,275,880	12,278,336		1.00		12,278
Series B	50,547,407	34,460,892		1.00		34,461
Total	69,394,759	49,761,755			$	49,762

December 31, 2018	Shares Authorized	Shares Issued and Outstanding		Liquidation Value Per Share		Liquidation Value (in thousands)
Series seed	3,571,472	3,022,527	$	1.00	$	3,023
Series A	15,275,880	12,278,336		1.00		12,278
Series B	42,000,000	24,349,337		1.00		24,349
Total	60,847,352	39,650,200			$	39,650

Historical Issuances and Reclassifications of Preferred Stock

In June through August 2015, the Company completed a stock offering whereby the Company issued 10,000,001 shares of Series A preferred stock for a cash price of $1.00 per share. No warrants were issued. In connection with this financing, the Company amended and restated its Certificate of Incorporation to authorize the issuance of up to 23,000,000 shares of common stock and 13,500,000 shares of preferred stock.

In November through December 2016, the Company completed an extension of the aforementioned Series A preferred stock offering whereby the Company issued an additional 5,114,766 shares of Series A preferred stock for a cash price of $1.00 per share. The Series A preferred stock was issued with warrants to purchase a total of 511,472 shares of stock for an exercise price of $1.00. (Following a modification of the Series A warrants in May 2018, the warrants are exercisable for Series Seed preferred stock.) In connection with this financing, the Company amended and restated its Certificate of Incorporation to authorize the issuance of up to 28,500,000 shares of common stock and 19,000,000 shares of preferred stock.

In June 2017, 12,094,767 outstanding shares of Series A preferred stock were reclassified to Series A-1 preferred stock (a new series) for shares held by investors who participated in the convertible notes issued in June through July 2017. Shares of Series A preferred stock held by investors who did not participate in the convertible notes were not reclassified. Series A and Series A-1 preferred

stock have the same rights and privileges, except that Series A-1 has senior liquidation preference over Series A. In connection with this financing, the Company amended and restated its Certificate of Incorporation to authorize the issuance of up to 47,500,000 shares of common stock and 38,000,000 shares of preferred stock.

From May through June 2018, the Company completed a stock offering whereby the Company issued 11,980,575 shares of Series B preferred stock for a cash price of $1.00 per share. The Series B preferred stock was issued with warrants to purchase a total of 14,137,799 shares of stock (either Series B preferred stock or common stock, depending on the exercise trigger) for an exercise price of $0.01 per warrant share. The Company also issued 183,569 shares of Series A preferred stock and 12,368,762 shares of Series B preferred stock upon the conversion of outstanding convertible debt triggered by the Series B equity financing. In connection with the financing, the Company amended and restated its Certificate of Incorporation to authorize the issuance of up to 75,641,233 shares of common stock and 60,847,352 shares of preferred stock. Further, outstanding Series A preferred stock was reclassified to Series Seed preferred stock (a new series), and outstanding Series A-1 preferred stock was reclassified to Series A preferred stock.

In September and October 2019, the Company completed an extension of the aforementioned Series B preferred stock offering whereby the Company issued an additional 5,051,287 shares of Series B preferred stock for a cash price of $1.00 per share. No warrants were issued. The Company also issued 5,060,268 shares of Series B preferred stock upon the conversion of outstanding convertible debt triggered by the extended Series B equity financing. In connection with this financing, the Company amended and restated its Certificate of Incorporation to authorize the issuance of up to 84,188,640 shares of common stock and 69,394,759 shares of preferred stock.

Dividends

The holders of shares of preferred stock are entitled to receive dividends on a pari passu basis, out of any assets legally available therefor, prior and in preference to any declaration or payment of any dividends (payable other than in common stock or other securities and rights convertible into or entitling the holder thereby to receive, direct or indirectly, additional shares of common stock) on common stock, at the rate of $0.08 per share (appropriately adjusted for any stock split, dividend, combination or other recapitalization with respect to such shares) per annum on each outstanding share of preferred stock, payable only when, as and if declared by the Company's board of directors. Such dividends shall not be cumulative. The Company has not declared or paid any dividends in its history.

The Company cannot declare, pay or set aside any dividends on shares of common stock (other than dividends on shares of common stock payable in shares of common stock) unless the holders of the Company's preferred stock first receive, in addition to the $0.08 dividend per annum, a dividend at least equal to the dividend per share as if the preferred share had been converted into common stock.

Liquidation

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company, or a deemed liquidation event (as defined in the Company's Certificate of Incorporation), the holders of shares of preferred stock, with Series B preferred stock having preference over Series A preferred stock and Series A preferred stock having preference over Series Seed preferred stock, then outstanding shall be entitled to be paid out of the assets of the Company available for distribution to its stockholders before any payment shall be made to holders of common stock by reason of their ownership thereof, an amount per share equal to the greater of (i) the original issue price of $1.00 per share, plus any dividends declared but unpaid thereon, or (ii) such amount per share as would have been payable had all shares of preferred stock been converted into common stock prior to such liquidation, dissolution or deemed liquidation event.

If upon any liquidation, dissolution, or winding up of the Company, or a deemed liquidation event, the assets of the Company available for distribution to its stockholders are insufficient to pay the holders of preferred stock the full amount to which they would otherwise be entitled, the holders of shares of preferred stock shall share ratably in any distribution in proportion to the amount they would otherwise be entitled to receive.

Voting

On any matter presented to the stockholders of the Company for their action or consideration at any meeting of stockholders of the Company, the holders of common stock are entitled to one vote for each share of common stock held and the holders of preferred stock are entitled to one vote for each share of common stock into which the shares of the preferred stock are convertible. There shall be no cumulative voting.

The preferred stockholders voting as a separate class are entitled to elect four members of the board of directors, the common stockholders voting as a separate class are entitled to elect one member, and the preferred and common stockholders voting as a single class are entitled to elect the remaining directors.

Conversion Rights

Shares of preferred stock are convertible into common stock at the option of the holder, at any time. The initial conversion ratio is one share of common stock for each share of preferred stock converted, and is subject to adjustment in certain circumstances, including upon certain dilutive issuances, stock splits or combinations, or dividends or distributions on common stock.

Shares of preferred stock will automatically convert into common stock upon: (i) the closing of the sale of shares of common stock to the public at a price of at least $3.00 per share (subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization), in a firm-commitment underwritten public offering pursuant to an effective registration statement under the Securities Act of 1933, as amended, resulting in at least $30,000,000 of gross proceeds to the Company or (ii) an event specified by vote or written consent of the holders of a majority of the then-outstanding shares of preferred stock, voting together as a class on an as-converted basis.

Redemption Rights

The preferred stock is not mandatorily redeemable.

8. Common Stock

As of December 31, 2019, and 2018, the Company was authorized to issue up to 84,188,640 and 75,641,233 shares, respectively, of $0.0001 par value common stock, and 16,029,022 and 1,891,223 shares, respectively, were issued and outstanding.

From October through November 2019, 14,137,799 shares of the Company's common stock were issued upon the exercise of all of the warrants that had been issued in connection with the Series B equity financing in May 2018 for total proceeds of $141,378.

As of December 31, 2019, potential future issuances of common stock upon exercise of stock options or stock warrants, or conversion of preferred stock, is as follows:

Outstanding options to purchase common stock	8,440,309
Outstanding warrants to purchase common stock	568,945
Convertible preferred stock	49,761,755
2019 IPO Convertible notes (including accrued interest)	4,120,947
Total	62,891,956

The voting, dividend and liquidation rights of the holders of the common stock are subject to and qualified by the rights, powers and preferences of the holders of preferred stock.

9. Stock Warrants

The Company's preferred shares that may be issuable upon the exercise of warrants contain a contingent redemption feature, which would require the Company to transfer cash and/or other assets to the holders upon the occurrence of certain events, such as a deemed liquidation event (as defined in the Company's Certificate of Incorporation). Accordingly, the Company accounts for the Series A and Series Seed warrants as liabilities at their estimated fair values, which are subject to re-measurement at each balance sheet date. Changes in fair value of the stock warrant liabilities are recognized in the statement of operations. The Company will continue to adjust the liabilities for changes in fair value until the exercise or expiration of the stock warrants, conversion of preferred stock into common stock, or when the holders of the convertible preferred stock can no longer require redemption upon a deemed liquidation event. At that time, the warrant liabilities will be adjusted to fair value in the statements of operations with the final fair value reclassified to additional paid-in capital.

The warrants issued in the Series B preferred stock offering were issued for a nominal exercise price of $0.01 per share and have the characteristics of a prepaid forward sale of equity. The warrants do not meet the definition of a derivative under ASC 815, Derivatives and Hedging, and therefore are treated as equity. The warrants were recorded as additional paid in capital at their relative fair value at issuance and are not subsequently remeasured. The relative fair value of

the warrants was determined by allocating the transaction proceeds between the Series B preferred shares issued and the warrants issued, based on the relative fair values of the Series B preferred shares without the warrants and the warrants themselves at the time of issuance, as reflected in the statement of changes in stockholders' equity. From October through November 2019, all of the Series B warrants were exercised. Refer to Note 7 for further information.

As of December 31, 2019, and 2018, the following stock warrants were outstanding:

December 31, 2019	Number of Shares Underlying Warrants		Exercise Price Per Share
Series Seed	548,945	$	1.00
Series A	20,000	$	1.00
Total	568,945		

December 31, 2018	Number of Shares Underlying Warrants		Exercise Price Per Share
Series Seed	548,945	$	1.00
Series A	20,000	$	1.00
Series B	14,137,799	$	0.01
Total	14,706,744		

The Series Seed warrants are exercisable any time prior to expiration, with expiration occurring upon the earlier of five years from issuance, the closing of an IPO pursuant to the Securities Act of 1933, or the closing of a deemed liquidation event (as defined in the Company's Certificate of Incorporation). The Series A warrants are exercisable any time prior to expiration, with expiration occurring ten years from issuance.

10. Equity Incentive Plan

The Company's board of directors originally adopted the 2015 Stock Plan on June 17, 2015 (as amended from time to time, the "Plan"). The Plan allows the Company to grant restricted stock and stock option awards, both issuable in shares of common stock of the Company, to directors, employees and consultants of the Company. No awards have been issued pursuant to restricted stock agreements. The Plan is administered by the Company's board of directors who determines the vesting provisions, exercise price and other terms for each award. As of December 31, 2019, up to 12,493,140 shares of common stock were authorized for issuance under the Plan and 8,440,309 shares remained available for future issuance.

Currently, all employees are eligible to receive stock option awards based upon title and experience level. Option grants require the approval of the Company's board of directors and generally vest over a four-year service period, with 25% of the shares subject to an option vesting on the one-year anniversary of the grant date and the remainder vesting in equal monthly installments over the subsequent 36-month period.

The Company uses the Black-Scholes option pricing model to estimate the fair value of each option on the date of grant. The Company recognizes the estimated fair value of option awards as stock-based compensation expense using the straight-line method where the expense is recognized evenly over the total vesting period of each option. The Company accounts for forfeitures when they occur.

The following is a description of the significant assumptions used in the Black-Scholes option pricing model:

- Fair value of common stock – The fair value of the shares of common stock underlying stock options has historically been determined by the board of directors. Because there is no public market for the Company's common stock, the fair value is estimated at the time of grant using a number of variables including the common stock value of comparable, public companies, sales of the Company's preferred stock, the Company's historical and projected financial performance, general and industry-specific economic outlook, and a marketability adjustment to reflect the lack of liquidity for the Company's common stock, amongst other factors.

- Expected term – The expected term is the period that options are expected to be outstanding. As the Company does not have significant historical exercise behavior, it determines the expected life assumption using the simplified method, which is an average of the contractual option term and its vesting period.

- Expected volatility – Since the Company's stock is not traded in an active market, the Company calculates volatility by using the stock price volatility of similar, public companies for a historical period the same as the expected term of the Company's options, and averaging the volatilities of these companies.

- Risk-free interest rate – The Company bases the risk-free interest rate on the market yield in effect at the time of option grant provided from the Federal Reserve Board's statistical releases and historical publications from the U.S. Department of Treasury constant maturities rates for terms equivalent to the expected term of the option.

- Dividends – The Company has not, and does not expect to pay dividends over the expected term of options. Therefore, the Company uses an expected dividend yield of zero.

The following weighted-average assumptions were used to estimate the fair value of options granted for the years ended December 31, 2019, 2018 and 2017:

	2019	2018	2017
Common stock price	**$0.19**	$0.19	$0.40
Risk free interest rate	**2.51%**	2.90%	1.90%
Expected term (year)	**6.0**	5.9	5.9
Expected volatility	**52%**	52%	53%
Dividend rate	**0%**	0%	0%
Weighted average grant date fair value	**$0.10**	$0.10	$0.19

Following is a summary of the Company's stock option activity for the years ended December 31, 2019, 2018 and 2017:

	Number of Shares Underlying Outstanding Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December31, 2017	3,888,480	$0.39	8.6	$ -
Granted	5,298,455	$0.21		$ -
Exercised	(140,703)	$0.39		$ -
Forfeited	(604,694)	$0.26		$ -
Outstanding at December 31, 2018	8,441,538	$0.29	8.11	$ -
Granted	77,000	$0.20		$ -
Exercised	-	-		$ -
Forfeited	(78,229)	$0.29		$ -
Outstanding at December 31, 2019	8,440,309	$0.29	7.12	$ -
Exercisable at December 31, 2019	4,787,639	$0.32	6.06	$ -
Vested and expected to vest at December 31, 2019	8,118,197	$0.29	7.06	$ -

Options granted during the years ended December 31, 2019, 2018 and 2017 had a weighted average grant date fair value of $0.10, $0.10 and $0.19, respectively. Options vested during the

years ended December 31, 2019, 2018 and 2017 had an aggregate fair value of $236,706, $261,197 and $136,926, respectively.

The intrinsic value of an option is the difference between the option exercise price and fair value of the common stock. As of December 31, 2019 and 2018, the exercise prices of outstanding stock options exceeded the fair value of the common stock, therefore the intrinsic value of outstanding options was zero.

The Company recognized stock-based compensation expense for the years ended December 31, 2019, 2018 and 2017 as follows in the statements of operations (in thousands):

	2019	2018	2017
General and administrative	**$ 277**	$ 257	$ 180
Sales and marketing	**11**	8	5
Total stock-based compensation	**$ 288**	$ 265	$ 185

As of December 31, 2019, there was $379,964 of unrecognized stock-based expense to be recognized over a weighted-average remaining service period of 2.3 years.

The following table summarizes information about stock options outstanding and currently exercisable as of December 31, 2019:

Exercise Price	Number of Options	Weighted Average Remaining Contractual Life (in years)	Options Exercisable
$0.19	4,484,309	8.71	1,654,642
$0.39	1,721,500	3.40	1,720,144
$0.40	2,234,500	6.78	1,412,853
	8,440,309		4,787,639

11. Income Taxes

For the years ended December 31, 2019, 2018 and 2017, income tax expense was $17,386, $9,638 and $2,346, respectively, and consisted of the following components (in thousands):

	2019	2018	2017
Current			
Federal	$ -	$ -	$ -
State	17	10	2
Deferred			
Federal	(2,537)	(2,093)	(680)
State	(220)	(178)	432
Valuation allowance	2,757	2,271	248
Net provision	$ 17	$ 10	$ 2

The reconciliation of the effective tax rate to the statutory income tax rate was as follows:

	2019	2018	2017
U.S. federal statutory rate	21.0%	21.0%	34.0 %
State income taxes	1.7%	1.7%	(4.2)%
Nondeductible expenses	(0.4)%	(0.7)%	(0.5)%
Change in valuation allowance	(22.3)%	(22.1)%	(2.4)%
Impact of federal tax reform	0.0%	0.0%	(26.5)%
Other	(0.1)%	0.0%	(0.4)%
Effective tax rate	(0.1)%	(0.1)%	(0.0)%

Significant components of the Company's net deferred tax assets were as follows (in thousands):

As of December 31,	2019	2018
Net operating loss carryforward	$ 8,097	$ 5,962
Reserves and allowances	1,767	1,061
R&D and other tax credit carryforwards	99	99
Disallowed interest	-	99
Accrued liabilities	(54)	(81)
Other	35	41
Net deferred tax assets before valuation allowance	9,944	7,181
Valuation allowance	(9,944)	(7,181)
Net deferred tax assets	$ -	$ -

The Company has established a full valuation allowance against its net deferred tax assets due to significant uncertainty surrounding the realization of such assets considering the cumulative operating losses incurred by the Company through December 31, 2019.

The Tax Cuts and Jobs Act signed into law on December 22, 2017 reduced the U.S. corporate income tax rate from 35% to 21% effective January 1, 2018. During the year ended December 31, 2017, the Company remeasured its deferred tax assets and liabilities, however, due to the full valuation allowance, there was no impact to income tax expense.

As of December 31, 2019 and 2018, the Company does not have any unrecognized tax benefits. The Company has not recorded any material interest or penalties in its historical financial statements. Any interest or penalties incurred in future periods will be recorded as a component of income tax expense (provision).

At December 31, 2019, the Company had federal and state net operating loss carryforwards of approximately $35.2 million and $10.8 million, respectively. Federal net operating losses originating after 2017 have no expiration date, however utilization of these net operating loss carryforwards to offset future taxable income is limited to 80% of taxable income each year. The total amount of federal operating loss carryforwards originating prior to 2018, and state operating loss carryforwards, will begin to expire in 2035. Pursuant to Internal Revenue Code Sections 382 and 383, use of the Company's federal net operating loss and credit carryforwards may be limited upon a cumulative change in ownership of more than 50% within a three-year period. The Company has not performed an analysis to determine if an ownership change has occurred.

The Company's income tax returns may be subject to examination by federal and state taxing authorities. Because application of tax laws and regulations for many types of transactions is susceptible to varying interpretations, amounts reported in the consolidated financial statements could be changed later upon final determination by taxing authorities. Management believes that the Company has no uncertain tax positions that could materially affect its financial statements.

12. Commitments and Contingencies

Operating Lease

The Company recognizes right-of use assets and lease liabilities for all lease agreements, or agreements containing a lease component, in accordance with ASC Topic 842, Leases ("ASC 842"). At inception of a lease, the Company determines the classification of the lease as either an operating lease or a finance lease. The lease liability is amortized on a straight-line basis for operating leases and is amortized using the effective interest method for finance leases.

The Company has made the following policy elections in its ongoing application of ASC 842:

- For all asset classes, the Company has elected to not recognize right-of-use assets and lease liabilities for leases with a term of twelve months or less; and

- For the office space lease asset class, the Company has elected not to separate non-lease components from lease components to which they relate.

The Company currently has one lease arrangement which is for its 17,306-square foot corporate office location. The lease term is approximately four years ending in June 2022 with no renewal options. During the years ended December 31, 2019, 2018 and 2017, the Company was not party to any short-term leases.

The Company's corporate office lease is classified as an operating lease. The Company applied a discount rate of 6.25% to the minimum lease payments to determine the value of the right-of-use asset and lease liability. Unless the rate implicit in a lease is determinable, ASC 842 requires the use of the rate of interest that a lessee would pay to borrow on a collateralized basis over a similar term for a similar amount to the lease payments in a similar economic environment. The Company noted that the implicit rate in the corporate office lease was not determinable and therefore determined its incremental borrowing rate based on the Company's borrowing rate on existing collateralized debt for a similar borrowing period and amount.

Operating lease expense for the years ended December 31, 2019, 2018 and 2017 was $399,334, $268,365, and $162,008, respectively.

In July 2018, the Company terminated the lease for its previous corporate office location and entered into the four-year lease agreement for its current corporate office location. After signing the new lease, the Company entered into a sublease agreement to sublet 7,407 square feet for an 18-month period ended December 31, 2019. The monthly rental income on a straight-line basis was $11,150 and was recorded as other income, not an offset to lease expense, in the statement of operations.

As of December 31, 2019, future annual minimum lease payments for the corporate office lease were as follows (in thousands):

Years ending December 31,		
2020	$	423
2021		442
2022		225
Total lease payments		1,090
Less: imputed interest		(80)
Lease liability as of December 31, 2019	$	1,010

Employee Benefit Plan

The Company has a defined contribution 401(k) benefit plan (the "401(k) Plan") for all eligible employees. The 401(k) Plan permits participants to contribute up to the amount allowable under federal limits of annual pre-tax compensation to the 401(k) Plan. The Company matches 100% of the first 4% of the employee's contribution, which is fully vested upon contribution. The Company contributed $165,732, $126,746 and $92,171 to the 401(k) Plan for the years ended December 31, 2019, 2018 and 2017.

Litigation

In the normal course of business, the Company is at times subject to pending and threatened legal actions. In management's opinion, any potential losses resulting from the resolution of these matters will not have a material effect on the results of operations, financial position or cash flows of the Company.

13. Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date, before the financial statements are issued. The Company recognizes in the financial statements the effect of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Company's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet, but arose after the balance sheet date, and before the financial statements were issued.

The Company evaluated subsequent events through March 2, 2020, the date the audited financial statements were issued.

In January 2020, the Company engaged a financial advisor to provide financial advice and assistance in connection with the possible sale or other transfer of all or a significant portion of the assets or securities of the Company (a "Transaction"). A possible sale of the Company is being evaluated in case the planned IPO, discussed in Note 1, is not successful. In connection with this engagement, the Company will pay the financial advisor (1) a $50,000 retainer fee and (2) a Transaction fee of (i) if the Transaction value is $150 million or less, 2.5% of the Transaction value, subject to a minimum Transaction fee of $1.5 million or (ii) if the Transaction value is above $150 million, 2.5% of the Transaction value up to and including $150 million, and 3.5% of the portion of the Transaction value in excess of $150 million. Subject to the definitions and further terms of the agreement, if the Company does not consummate such a Transaction but instead consummates a qualified financing, after having received at least one qualified bid from an identified party, the Company will pay an alternative fee equal to 2.5% of the gross proceeds raised in a qualified financing, subject to a minimum of $750,000 and a maximum of $1.5 million. Further, if the Company does not consummate a Transaction but receives a break-up fee or other similar payment as a result of the termination of a Transaction, the Company will pay the advisor 20% of such fee or payment. The engagement terminates upon the earlier of six months from the agreement date, or three business days following written notice to terminate by either party. The Company agreed to indemnify the advisor with respect to any losses, claims, damages or liabilities arising from any Transaction contemplated by this agreement.

On February 4, 2020, the Company granted 2,997,831 stock options to certain employees, directors and/or other service providers of the Company pursuant to the 2015 Stock Option Plan ("the Plan").

The Company offered new employment contracts to its executive members which is contingent upon and will become effective upon the Company's listing day on the Australian Securities Exchange ("ASX"), and in the event the Company does not complete the process to list with ASX, this Agreement will terminate and be of no force and effect. The effective date of the agreements is the Company's listing day on ASX.