APPENDIX 4D

HALF YEAR REPORT

**LIMEADE, INC.**

For the half-year ended 30 June 2021

**Limeade, Inc.**
Appendix 4D
For the half-year ended 30 June 2021

## 1. COMPANY DETAILS

| | |
|---|---|
| Name of entity: | Limeade, Inc. |
| ABN: | 637 017 602 |
| Reporting Period: | For the half-year ended 30 June 2021 |
| Previous Period: | For the half-year ended 30 June 2020 |

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

| | Up/(down) $USD '000 | % change | 30 June 2021 $USD '000 | 30 June 2020 $USD '000 |
|---|---|---|---|---|
| Revenue from ordinary activities | (1,175) | -4.2% | 26,866 | 28,041 |
| (Loss) from ordinary activities after tax attributable to shareholders | (1,843) | -137.6% | (3,182) | (1,339) |
| Net (Loss) attributable to shareholders | (1,796) | -134.5% | (3,131) | (1,335) |

## 3. DIVIDEND

The company has not declared, and does not propose to pay, any dividends for the half-year ended 30 June 2021. There are no dividend or dividend reinvestment plans in operation.

## 4. NET TANGIBLE ASSETS PER SECURITY

| | 30 June 2021 $USD | 30 June 2020 $USD |
|---|---|---|
| Net tangible assets per security | .07 | .08 |

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

## 5. PRINCIPAL ACTIVITIES

The principal activity of Limeade, Inc. is the development and sale of enterprise employee well-being software.

## 6. COMMENTARY ON RESULTS

Limeade is an immersive employee well-being company that creates healthy employee experiences. Limeade Institute science guides its industry-leading software and its own award-winning culture. Today, millions of users in over 100 countries use Limeade solutions to navigate the future of work. By putting well-being at the heart of the employee experience, Limeade reduces burnout and turnover while increasing well-being and engagement — ultimately elevating business performance.

## 6. COMMENTARY ON RESULTS (CONTINUED)

### Business summary and key performance indicators

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

- A decrease in revenue from $28.0 million for the half-year ended 30 June 2020 to $26.9 million for the half-year ended 30 June 2021 which is a reduction of 4%.
- The revenue decrease of $1.2 million reflects a reduction in total customers from 175 as at 30 June 2020 to 149 as at 30 June 2021. Half of the revenue decrease ($0.6 million) and 24 of the 26 net decrease in customer count occurred in midmarket reseller indirect channel. The direct revenue channel remained stable, down just 2% vs the prior comparable period. Limeade is shifting its indirect sales channel strategy to focus primarily on enterprise-level partners for which Limeade is a complementary solution. This is intended to increase revenue and retention in this channel over the long-term.
- The net loss for the half-year ended 30 June 2021 is $3.2 million compared to a loss of $1.3 million for the half-year ended 30 June 2020.
- The net cash used by operating activities for half-year ended 30 June 2021 is $1.4 million compared to $0.5 million for the half-year 30 June 2020.

Sales and marketing expenses decreased 18% from $9.6 million for the half-year ended 30 June 2020 to $7.9 million for the half-year ended 30 June 2021, driven by reduced headcount.

Continued development of the Limeade platform resulted in research and development expenses growing 7% from $8.7 million for the half-year ended 30 June 2020 to $9.3 million for the half-year ended 30 June 2021. This is primarily due to investments in the performance of the Limeade platform for existing and new customers.

General and administrative expenses increased 33% from $4.3 million for the half-year ended 30 June 2020 to $5.8 million for the half-year ended 30 June 2021, due to one-time costs for leadership transitions and acquisition transaction costs.

The cash balance was $28.7 million as at 30 June 2021 compared to $28.4 million as at 30 June 2020. At 30 June 2021, Limeade had $0 outstanding on the bank line of credit ($15.0 million available).

### Matters subsequent to the end of the 30 June 2021 half-year report

On 28 July 2021, Limeade acquired 100% share capital of TINYpulse, a leader in employee listening software, for cash consideration of $8.8M, exclusive of working capital adjustments. TINYpulse has operations in Seattle, Washington and Saigon, Vietnam. The consideration was paid entirely using cash reserves.

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

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

## 8. ASSOCIATES AND JOINT VENTURE ENTITIES

There are no associate or joint venture entities.

## 9. FOREIGN ENTITY ACCOUNTING STANDARDS

The financial statement contained within the Half Year Report have been prepared in conformity with generally accepted accounting principles in the United States of America ("U.S. GAAP").

## 10. FINANCIAL REPORT

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

This Appendix 4D and the included financial information are based on the Consolidated Financial Statements and Notes of Limeade, Inc. which have been reviewed by Deloitte & Touche LLP.

**SIGNED**

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Todd Spartz
Chief Financial Officer

26 August 2021

REPORT OF INDEPENDENT AUDITORS

AND CONSOLIDATED FINANCIAL STATEMENTS

**LIMEADE, INC.**

For the Half-Year Ended June 30, 2021 and 2020

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## INDEPENDENT AUDITORS' REVIEW REPORT

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

We have reviewed the accompanying consolidated balance sheet of Limeade, Inc. and its subsidiaries (the "Company") as of June 30, 2021, and the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for the six-month periods ended June 30, 2021 and 2020 (the "interim financial information").

### Management's Responsibility for the Interim Financial Information

The Company's management is responsible for the preparation and fair presentation of the interim financial information in accordance with accounting principles generally accepted in the United States of America; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with accounting principles generally accepted in the United States of America.

### Auditors' Responsibility

Our responsibility is to conduct our reviews in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

### Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the interim financial information referred to above for it to be in accordance with accounting principles generally accepted in the United States of America.

**Report on Consolidated Balance Sheet as of December 31, 2020**

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of the Company as of December 31, 2020, and the related consolidated statements of operations, comprehensive loss, stockholders' equity (deficit), and cash flows for the year then ended (not presented herein); and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated February 25, 2021. In our opinion, the accompanying consolidated balance sheet of the Company as of December 31, 2020, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Deloitte & Touche LLP

*DELOITTE & TOUCHE LLP*

August 26, 2021

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

| | June 30, 2021 | December 31, 2020 |
|---|---|---|
| **Assets** | (unaudited) | |
| Current assets | | |
| Cash and cash equivalents | $ 28,724 | $ 31,497 |
| Accounts receivable, net of allowance for doubtful accounts of $79 and $117, respectively | 5,196 | 8,624 |
| Prepaid expenses and other current assets | 5,250 | 3,388 |
| Total current assets | 39,170 | 43,509 |
| Non-current assets | | |
| Property and equipment - net | 449 | 590 |
| Capitalized software development costs - net | 7,323 | 6,302 |
| Operating lease right-of-use assets - net | 1,944 | 2,324 |
| Goodwill | 1,435 | 1,435 |
| Intangible assets - net | 814 | 1,001 |
| Other non-current assets | 297 | 361 |
| Total assets | $ 51,432 | $ 55,522 |
| **Liabilities and shareholders' equity** | | |
| Current liabilities | | |
| Trade payables | $ 2,400 | $ 4,127 |
| Accrued compensation | 2,201 | 2,879 |
| Accrued expenses and other current liabilities | 7,933 | 5,603 |
| Operating lease right-of-use liabilities | 910 | 566 |
| Deferred revenue | 9,739 | 10,089 |
| Customer deposits | 733 | 2,499 |
| Income taxes payable | 9 | 17 |
| Total current liabilities | 23,925 | 25,780 |
| Non-current liabilities | | |
| Operating lease right-of-use liabilities | 1,341 | 1,806 |
| Deferred tax liability | 5 | 5 |
| Total non-current liabilities | 1,346 | 1,811 |
| Total liabilities | 25,271 | 27,591 |
| **Commitments and contingencies (Note 9)** | | |
| **Shareholders' equity** | | |
| Additional paid-in capital | 68,947 | 67,586 |
| Accumulated deficit | (42,786) | (39,655) |
| Total shareholders' equity | 26,161 | 27,931 |
| **Total Liabilities and shareholders' equity** | $ 51,432 | $ 55,522 |

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

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

| | For the Half Year Ended June 30 | |
|---|---|---|
| | 2021 | 2020 |
| | (unaudited) | (unaudited) |
| **Revenue:** | | |
| Subscription services | $ 25,147 | $ 27,389 |
| Other | 1,719 | 652 |
| **Total revenues** | 26,866 | 28,041 |
| **Cost of revenue** | 6,996 | 6,823 |
| **Gross profit** | 19,870 | 21,218 |
| **Operating expenses** | | |
| Sales and marketing | 7,863 | 9,613 |
| Research and development | 9,346 | 8,727 |
| General and administrative | 5,759 | 4,321 |
| **Total operating expenses** | 22,968 | 22,661 |
| **Operating loss** | (3,098) | (1,443) |
| **Other (income) expense, net** | 67 | (104) |
| Loss before income taxes | (3,165) | (1,339) |
| Provision for income taxes | 17 | — |
| **Net loss** | $ (3,182) | $ (1,339) |
| **Basic and diluted loss per common share - see Note 5** | | |
| Net loss per share attributable to common shareholders, basic and diluted | $ (0.01) | $ (0.01) |
| Weighted average shares of common stock outstanding, basic and diluted | 249,123 | 244,878 |

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

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

| | For the Half Year Ended June 30 | |
|---|---|---|
| | 2021 | 2020 |
| | (unaudited) | (unaudited) |
| Net loss | $ (3,182) | $ (1,339) |
| Other comprehensive income — Foreign currency translation | 51 | 4 |
| Total comprehensive loss | $ (3,131) | $ (1,335) |

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

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

| | Common Stock | | Additional Paid-In Capital | Accumulated Deficit | Total Shareholders' Equity |
|---|---|---|---|---|---|
| | Shares | Amount | | | |
| **BALANCE, December 31, 2019** | 244,849,004 | — | 66,407 | (39,467) | 26,940 |
| Initial public offering costs | — | — | (59) | — | (59) |
| Exercise of stock options and warrants | 327,156 | — | 25 | — | 25 |
| Stock-based compensation | — | — | 361 | — | 361 |
| Other | — | — | — | 4 | 4 |
| Net loss | — | — | — | (1,339) | (1,339) |
| **BALANCE, June 30, 2020 - unaudited** | 245,176,160 | — | 66,734 | (40,802) | 25,932 |
| | | | | | |
| **BALANCE, December 31, 2020** | 247,420,156 | — | 67,586 | (39,655) | 27,931 |
| Exercise of stock options and warrants | 3,104,704 | — | 367 | — | 367 |
| Stock-based compensation | — | — | 994 | — | 994 |
| Other | — | — | — | 51 | 51 |
| Net loss | — | — | — | (3,182) | (3,182) |
| **BALANCE, June 30, 2021 - unaudited** | 250,524,860 | — | 68,947 | (42,786) | 26,161 |

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

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

| | For the Half Year Ended June 30 | |
|---|---|---|
| | 2021 | 2020 |
| | (unaudited) | (unaudited) |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss | $ (3,182) | $ (1,339) |
| Adjustments to reconcile net loss to net cash provided by operating activities | | |
| Depreciation and amortization | 894 | 760 |
| Amortization of operating lease-right-of-use assets | 380 | 585 |
| Stock-based compensation | 994 | 361 |
| Change in assets and liabilities | | |
| Accounts receivable | 3,533 | 1,350 |
| Prepaid expenses and other current assets | (1,862) | (186) |
| Other non-current assets | 63 | 48 |
| Trade accounts payable | (1,727) | (1,584) |
| Accrued compensation | (678) | (425) |
| Accrued expenses and other current liabilities | 2,330 | 178 |
| Income taxes payable | (8) | (17) |
| Deferred revenue | (349) | 2,208 |
| Customer deposits | (1,766) | (1,824) |
| Operating lease liabilities | (120) | (638) |
| Foreign currency gains | 52 | — |
| Net cash used in operating activities | (1,446) | (523) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Capitalized software development costs | (1,552) | (1,515) |
| Purchases of property and equipment | (36) | (153) |
| Net cash used in investing activities | (1,588) | (1,668) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments of initial public offering transaction costs | — | (829) |
| Payments on principal of finance leases | — | (4) |
| Payments on acquisition holdback | — | (571) |
| Proceeds from exercise of employee stock options | 261 | 25 |
| Net cash provided by (used in) financing activities | 261 | (1,379) |
| Foreign currency effect on cash and cash equivalents | — | 4 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (2,773) | (3,566) |
| CASH AND CASH EQUIVALENTS | | |
| Beginning of year | 31,497 | 31,962 |
| End of half year | $ 28,724 | $ 28,396 |

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

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

| | For the Half Year Ended June 30 | |
|---|---|---|
| | **2021** | **2020** |
| | (unaudited) | (unaudited) |
| SUPPLEMENTAL CASH FLOW DISCLOSURES: | | |
| Cash paid for interest | — | 10 |
| Cash paid for income taxes | 17 | 2 |
| NON-CASH OPERATING, INVESTING, AND FINANCING ACTIVITIES | | |
| Property and equipment included in accounts payable | 2 | 11 |

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

## NOTE 1 – ORGANIZATION

### Description of Business

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

The Company has wholly owned subsidiaries in Canada and Germany, and a branch registered in Australia. These entities provide business development, software development, and support services.

### Certain Significant Risks and Uncertainties

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

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

## NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

### Interim Financial Information

The accompanying 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. The unaudited interim consolidated financial statements have been prepared on a basis consistent with that used to prepare the audited annual 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 consolidated financial statements. The results of operations for the six months ended June 30, 2021 are not necessarily indicative of the results expected for the full year ending December 31, 2021. These 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, 2020.

### Basis of Presentation

The accompanying consolidated financial statements include those of the Company and its subsidiaries after elimination of all intercompany accounts and transactions. These consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America (“U.S. GAAP”). Certain reclassifications have been made in the consolidated statements of operations to conform data from the prior period to the current format.

**Principles of Consolidation**

The accompanying condensed financials 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, useful lives of property and equipment and capitalized software development costs, assumptions used in stock-based compensation, estimates of fair value of common stock, measurement of the valuation allowance for deferred tax assets and estimates of fair value of acquired assets and liabilities. Actual results could differ from management's estimates and assumptions.

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

**Goodwill**

Goodwill represents the excess of the cost of an acquired business over the fair value of the assets acquired at the date of acquisition and is not amortized. The Company reviews goodwill for impairment at least annually, during the last quarter of the year, or more frequently if events or changes in circumstances indicate that the carrying value of goodwill may not be recoverable. The Company has elected to first assess qualitative factors to determine whether it is more likely than not that the fair value of the Company's single reporting unit is less than its carrying value as a basis for determining whether we need to perform the quantitative two-step impairment test. Only if we determine, based on qualitative assessment, that it is more likely than not that the reporting unit's fair value is less than its carrying value will we calculate the fair value of the reporting unit. We would then test goodwill for impairment by first comparing the book value of net assets to the fair value of the reporting unit. As of June 30, 2021 and December 31, 2020, no impairment of goodwill has been identified and there were no impairment charges for the six months ended June 30, 2021 and 2020, respectively.

**Intangible Assets**

Intangible assets consist of acquired customer relationships. Acquired finite-lived intangible assets are amortized over their estimated useful lives. These amortization expenses are included on the Consolidated Statement of Operations as operating expenses.

The Company evaluates the recoverability of its intangible assets for possible impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of these assets is measured by a comparison of the carrying amounts to the future undiscounted cash flows the assets are expected to generate. If such review indicates that the carrying amount of intangible assets is not recoverable, the carrying amount of such assets is reduced to fair value. Management has determined that there were no impairment charges for the six months ended June 30, 2021 and 2020, respectively.

**Long-Lived Assets**

The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. An impairment is recognized in the event the carrying value of such assets is not recoverable. If the carrying value is not recoverable, the fair value is determined, and an impairment is recognized for the amount by which the carrying value exceeds the fair value. Management has determined that there was no impairment charges for the six months ended June 30, 2021 and 2020, respectively.

## Income Taxes

For interim income tax reporting purposes, the Company estimates its ordinary income and the related tax expense or benefit for the full year (total of expected current and deferred taxes) to calculate its estimated annualized effective tax rate. Ordinary income or loss is income from continuing operations less significant unusual or infrequently occurring items. Certain other exceptions may apply that remove ordinary income/(loss) from the computation. Amounts and related tax effects, if any, excluded from the overall forecasted effective tax rate are generally accounted for either discretely or through a separate forecasted tax rate.

## 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 $1.6 million of software development costs for the six months ended June 30, 2021. Amortization expense related to capitalized software was $0.5 million and $0.3 million for the six months ended June 30, 2021 and 2020, respectively. These amortization expenses are included on the Consolidated Statement of Operations as Cost of revenue.

## Revenue Recognition

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

***Subscription Revenue***

Subscription revenues are cloud-based subscriptions which allow customers to access the Company's software during a contractual period without taking possession of the software. The Company's subscription arrangements typically contain a contract period of one year, and can be billable in annual, quarterly, or monthly invoices. Payments received in advance of customers being provided access to the software are deferred. The Company recognizes revenue related to these cloud- based subscriptions ratably over the life of the subscription agreement beginning when the customer first has access to the software. Revenues from cloud-based subscriptions are included in subscription services revenues.

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

***Other Revenue***

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

***Performance Obligations***

The Company identifies performance obligations in its contracts with customers, which primarily include software subscription licenses, implementation costs, onsite management fees. The Company determines the transaction price based on the amount of consideration it expects to receive in exchange for transferring the promised goods or services to the customer. It allocates the transaction price in the contract to each distinct performance obligation in an amount that depicts the relative amount of consideration it expects to receive in exchange for satisfying each performance obligation. Revenue is recognized when performance obligations are satisfied.

***Payment Terms***
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.

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

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

Finally, the Company's contracts with customers generally include performance or service level guarantees, which obligate the Company to certain service performance deliverables such as minimum engagement rates, minimum scores on customer satisfaction surveys and web-site uptime requirements. These guarantees are treated as variable consideration, which reduces the total transaction price for individual contracts. The Company monitors compliance with performance guarantees throughout the duration of each contract and has a history of meeting contract performance guarantees. Reserves for estimated contract performance guarantees are established based on historical performance and are recognized as a reduction of revenue and accrued liabilities on the balance sheet. The reserve liability is $1.3 million and $1.6 million as of June 30, 2021 and December 31, 2020, respectively.

***Assets Recognized from the Costs to Obtain a Contract with a Customer***
The Company recognizes an asset for the incremental costs of obtaining a contract with a customer if it expects the benefit of those costs to be longer than one year. The Company's commission plans include substantive service conditions that need to be met before a commission associated with a contract (or group of contracts) is actually earned by the salesperson. In such cases, some or all of the sales commission may not be incremental costs incurred to obtain a contract with the customer since the costs were not actually incurred solely as a result of obtaining a contract with a customer. Rather, the costs were incurred as a result of obtaining a contract with a customer and the salesperson's providing ongoing services to the entity for a substantive period. As such, these commissions are not capitalized. The Company did not have any costs that met the requirements for capitalization for the six months ended June 30, 2021.

***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, 2021 or December 31, 2020.

***Deferred Revenue***
Deferred revenue represents billings or payments received in advance of revenue recognition from subscription and third-party services. Deferred revenue is recognized as the revenue recognition criteria are met. The Company generally invoices customers monthly, semi-annually, or annually in advance of providing services. Deferred revenue recorded at June 30, 2021, is expected to be recognized within the next 12 months as the related services are provided.

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

**Share-based Compensation**

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

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

The Company utilizes the Black-Sholes option pricing model and uses the simplified method to determine expected term because of lack of sufficient exercise history.

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

**Research and Development Expenses**

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

**Leases**

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

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 – DEFERRED REVENUE**

Timing may differ between the satisfaction of performance obligations and the invoicing and collection of amounts related to contracts with customers. Liabilities are recorded for amounts that are collected in advance of the satisfaction of performance obligations. To the extent a contract exists, as defined by 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, 2021, the Company had no contract liabilities.

A summary of the activity impacting deferred revenue balances during the six months ended June 30, 2021 is presented below (in thousands):

| | Deferred Revenue |
|---|---|
| Balance, December 31, 2020 | $ 10,089 |
| Revenue Recognized | (26,866) |
| Additional amounts deferred | 26,516 |
| Balance, June 30, 2021 | $ 9,739 |

At June 30, 2021 and December 31, 2020, deferred revenue relates to amounts received from customers in advance of revenue recognition.

**NOTE 4 – INTANGIBLE ASSETS**

Finite-lived intangible assets consisted of the following:

| | June 30, 2021 | | | |
|---|---|---|---|---|
| *(in thousands)* | Average Useful Life (Years) | Gross | Accumulated Amortization | Net |
| Customer relationships | 5 | $ 1,878 | $ (1,064) | $ 814 |

| | December 31, 2020 | | | |
|---|---|---|---|---|
| *(in thousands)* | Average Useful Life (Years) | Gross | Accumulated Amortization | Net |
| Customer relationships | 5 | $ 1,878 | $ (877) | $ 1,001 |

Amortization expense for finite-lived intangible assets for the six months ended June 30, 2021 and 2020 was $0.2 million and $0.2 million, respectively.

**NOTE 5 – NET LOSS PER SHARE**

Net loss per share is computed by dividing the net loss for the six months ended June 30, 2021 and 2020 by the weighted-average number of shares outstanding during the period. The Company excluded the effect of stock options from the computation of the net loss per share because including them would have had an anti-dilutive effect.

The following table presents the losses and the shares used in calculating the net loss per share for the six months ended June 30 (in thousands):

| | 2021 | 2020 |
|---|---|---|
| Numerator: | | |
| Net loss attributable to common shareholders | $ (3,182) | $ (1,339) |
| Denominator: | | |
| Weighted-average common shares outstanding-basic | 249,123 | 244,878 |
| Dilutive effect of share equivalents resulting from stock options, common stock warrants | — | — |
| Weighted-average common shares outstanding-diluted | 249,123 | 244,878 |
| Net loss per common share, basic and diluted | $ (0.01) | $ (0.01) |

**NOTE 6 – SHAREHOLDERS' EQUITY**

The Company is authorized to issue two classes of stock designated as common and preferred stock. As of December 19, 2019, the Board of Directors have authorized 550,000,000 shares of common stock with no par value per share and 10,000,000 shares of preferred stock with no par value per share. As of June 30, 2021 and December 31, 2020 no shares of preferred stock had been issued.

***Common stock***
There were 250,524,860 and 247,420,156 shares of common stock issued and outstanding at June 30, 2021 and December 31, 2020, 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.

***Common Shares Reserved for Future Issuance***
The following shares of common stock have been reserved for future issuance as of:

| | June 30, 2021 | December 31, 2020 |
|---|---|---|
| Common stock options and restricted stock units outstanding | 27,008,671 | 22,541,749 |
| Common stock and restricted stock units available for grant | 33,355,937 | 39,340,211 |
| Total common shares reserved for future issuance | 60,364,608 | 61,881,960 |

**NOTE 7 – SHARE-BASED COMPENSATION**

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:

| | 2021 | 2020 |
|---|---|---|
| Estimated per share value of common stock | \$0.30 - \$0.73 | \$0.89 - \$0.90 |
| Risk-free interest rates | 0.71% - 0.99% | 0.39% - 0.45% |
| Expected term (in years) | 5.43 - 5.60 | 5.43 - 6.08 |
| Dividend rate | —% | —% |
| Volatility | 71.55% - 79.23% | 51.87% - 52.26% |

The impact on results of operations of recording stock-based compensation expense for the six months ended June 30 was as follows (in thousands):

| | 2021 | 2020 |
|---|---|---|
| Cost of revenue | $ 188 | $ 57 |
| Sales and marketing | 226 | 109 |
| Research and development | 388 | 126 |
| General and administrative | 192 | 69 |
| | $ 994 | $ 361 |

The following table summarizes stock option activity under the Plan for the six months ended June 30, 2021:

| | Options Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding as of January 1, 2021 | 20,678,749 | $ 0.35 | 7.08 | $ 17,340,842 |
| Options granted | 7,524,000 | 0.75 | | |
| Options forfeited | (1,845,590) | 0.51 | | |
| Options exercised | (2,830,454) | 0.13 | | |
| Outstanding at June 30, 2021 | 23,526,705 | $ 0.49 | 7.84 | $ 5,002,864 |
| Options vested or expected to vest at June 30, 2021 | 20,962,555 | $ 0.46 | 7.66 | $ 4,910,687 |
| Exercisable at June 30, 2021 | 11,070,161 | $ 0.24 | 6.21 | $ 4,299,171 |

At June 30, 2021 total compensation cost related to stock options granted to employees under the Plan but not yet recognized was $4.2 million. This cost will be amortized on the straight-line method over a weighted-average period of approximately 3.3 years. The aggregate intrinsic value represents the difference between the exercise price of the underlying options and the fair value of our common stock for the number of options that were in-the-money at year end. The Company issues new shares of common stock upon exercise of stock options.

The following table summarizes certain information about stock options for the six months ended June 30:

| | 2021 | 2020 |
|---|---|---|
| Weighted average grant date fair value for options granted during the period | $ 0.76 | $ 0.43 |
| Options in the money at period-end | 9,653,439 | 24,395,002 |
| Aggregate intrinsic value of options exercised | $ 2,507,699 | $ 269,611 |

In May 2020, the Company began granting Restricted Stock Units ("RSU") under the plan. The following table summarizes the RSU activity for the six months ended June 30, 2021:

| | Number of Shares | Weighted Average Grant Date Fair Value |
|---|---|---|
| Restricted stock units outstanding as of January 1, 2021 | 1,863,000 | $ 1.00 |
| Restricted stock units granted | 2,906,500 | 1.14 |
| Restricted stock units vested | (274,250) | 0.89 |
| Restricted stock units forfeited | (1,013,284) | 1.12 |
| Restricted stock units unvested as of June 30, 2021 | 3,481,966 | $ 1.09 |

As of June 30, 2021, $3.5 million of total unrecognized compensation cost related to RSU was expected to be recognized over a weighted average period of approximately 3.4 years.

**NOTE 8 – LEASES**

The Company's leasing arrangements are primarily for corporate offices and automobiles. Our leases have remaining lease terms of 1 to 4 years.

The following table presents the Company's future lease payments for long-term operating leases as of June 30, 2021 (in thousands):

| | Operating Leases |
|---|---|
| Remainder of 2021 | 502 |
| 2022 | 1,011 |
| 2023 | 862 |
| 2024 | 17 |
| Total | $ 2,392 |
| Less: Imputed interest | (156) |
| Total lease liabilities | $ 2,236 |

| | 2021 | 2020 |
|---|---|---|
| Weighted average remaining lease term (in years) for operating leases | 2.4 | 3.1 |
| Weighted average discount rate | 6.0 % | 6.0 % |

The Company's lease expense consisted of operating lease costs of $0.7 million and $0.9 million for the six months ended June 30, 2021 and 2020, respectively.

**NOTE 9 – 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 10 – DEBT**

**Loan and Security Agreement**

The Company has a loan and security agreement with Comerica Bank ("Lender") that consists of a $15.0 million revolving credit facility (the "Credit Facility"), which is subject to borrowing base limitations, and all outstanding amounts become due and payable on the maturity date of December 31, 2022. The obligations under the Credit Facility are collateralized by substantially all assets of the Company, including intellectual property, receivables and other tangible and intangible assets. The Credit Facility includes affirmative and negative covenants. As of June 30, 2021, the Company was in compliance with all covenants of the Credit Facility.

Interest on outstanding borrowings is at Comerica Bank's Prime Rate plus 0.5% (3.75% at June 30, 2021 and December 31, 2020). No balance was outstanding as of June 30, 2021 and December 31, 2020.

**NOTE 11 – SUBSEQUENT EVENTS**

On July 28, 2021 the Company acquired 100% share capital of TINYpulse, a leader in employee listening software, for cash consideration of $8.8M, exclusive of working capital adjustments. TINYpulse has operations in Seattle, Washington and Saigon, Vietnam. The consideration will be paid entirely using cash reserves.

The Company has evaluated subsequent events and transactions for potential recognition or disclosure in the consolidated financial statements and finds no other qualifying events through August 26, 2021, the date the consolidated financial statements were available to be issued.