APPENDIX 4D

HALF YEAR REPORT

LIMEADE, INC.

For the half-year ended 30 June 2022

Limeade, Inc.
Appendix 4D
For the half-year ended 30 June 2022

1. COMPANY DETAILS

Name of entity:	Limeade, Inc.
ABN:	637 017 602
Reporting Period:	For the half-year ended 30 June 2022
Previous Period:	For the half-year ended 30 June 2021

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

	Up/(down) $USD '000	% change	30 June 2022 $USD '000	30 June 2021 $USD '000
Revenue from ordinary activities	(215)	-0.8%	26,651	26,866
(Loss) from ordinary activities after tax attributable to shareholders	(7,875)	-247.5%	(11,057)	(3,182)
Net (Loss) attributable to shareholders	(7,912)	-252.7%	(11,043)	(3,131)

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 2022 $USD	30 June 2021 $USD
Net tangible assets per security	(.05)	.07

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 $26.9 million for the half-year ended 30 June 2021 to $26.7 million for the half- year ended 30 June 2022 which is a reduction of 0.8%.
- The revenue decrease of $0.2 million reflects lower FY21 year-end Contracted Annual Recurring Revenue (CARR)
- The net loss for the half-year ended 30 June 2022 is $11.1 million compared to a loss of $3.2 million for the half-year ended 30 June 2021.
- The net cash used by operating activities for half-year ended 30 June 2022 is $8.2 million compared to $1.4 million for the half-year 30 June 2021.

Sales and marketing expenses increased 21% from $8.1 million for the half-year ended 30 June 2021 to $9.8 million for the half-year ended 30 June 2022, driven by the addition of TINYpulse sales and marketing headcount and an increase in marketing consulting fees.

Continued development of the Limeade platform and the addition of the TINYpulse development team resulted in research and development expenses growing 30.7% from $9.3 million for the half-year ended 30 June 2021 to $12.2 million for the half-year ended 30 June 2022.

General and administrative expenses increased 24.2% from $5.6 million for the half-year ended 30 June 2021 to $6.9 million for the half-year ended 30 June 2022, due to one-time costs for legal and accounting fees associated with the preparation and subsequent filing of the Form 10 Registration Statement with the U.S. Securities and Exchange Commission (SEC), which was completed in early August.

The cash balance was $2.6 million as at 30 June 2022 compared to $28.7 million as at 30 June 2021. At 30 June 2022, Limeade had $0 outstanding on the bank line of credit ($15.0 million available).

Matters subsequent to the end of the 30 June 2022 half-year report

On July 6, 2022, Limeade borrowed $2.5 million through its Credit Facility. The interest rate on the loan is 6.0% per the terms of the agreement.

On August 3, 2022, Limeade executed an amendment to the $15.0 million revolving credit facility with Comerica. The amendment extended the maturity of the Credit Facility to December 31, 2023 and replacd the requirement regarding minimum annual contract value with a borrowing base calculation based on Limeade’s balance of accounts receivables. The obligations under the Credit Facility are collateralized by substantially all assets of the Limeade, including intellectual property, receivables and other tangible and intangible assets. The Credit Facility includes affirmative and negative covenants. Interest on outstanding borrowings is at Comerica Bank’s Prime Rate plus 0.5%.

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

Todd Spartz
Chief Financial Officer

29 Aug 2022

INDEPENDENT AUDITOR'S REVIEW REPORT

AND CONSOLIDATED FINANCIAL STATEMENTS

LIMEADE, INC.

For the Half-Year Ended June 30, 2022 and 2021

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INDEPENDENT AUDITORS’ REVIEW REPORT

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

Results of Review of Interim Financial Information

We have reviewed the accompanying condensed consolidated balance sheet of Limeade, Inc. and its subsidiaries (the "Company") as of June 30, 2022, and the related condensed consolidated statements of operations, comprehensive loss, shareholders’ equity, and cash flows for the six-month periods ended June 30, 2022 and 2021, and the related notes (collectively referred to as the “interim financial information").

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

Basis for Review Results

We conducted our reviews in accordance with auditing standards generally accepted in the United States of America (GAAS) 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. A review of interim financial information is substantially less in scope than an audit conducted in accordance with GAAS, the objective of which is an expression of an opinion regarding the financial information as a whole, and accordingly, we do not express such an opinion. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our review. We believe that the results of the review procedures provide a reasonable basis for our conclusion.

Responsibilities of Management for the Interim Financial Information

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 and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of interim financial information that is free from material misstatement, whether due to fraud or error.

Report on Consolidated Balance Sheet as of December 31, 2021

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet as of December 31, 2021, and the related consolidated statements of operations, comprehensive loss, shareholders' equity, 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 August 4, 2022. In our opinion, the accompanying consolidated balance sheet of the Company as of December 31, 2021, 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 29, 2022

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

	June 30, 2022	December 31, 2021
Assets	(unaudited)	
Current assets		
Cash and cash equivalents	$ 2,583	$ 13,939
Accounts receivable, net of allowance for doubtful accounts of $70 and $93, respectively	7,210	8,709
Capitalized sales commissions	315	271
Prepaid expenses and other current assets	5,573	5,433
Total current assets	15,681	28,352
Non-current assets		
Property and equipment - net	390	441
Capitalized software development costs - net	11,211	8,895
Capitalized Sales Commission costs - net	464	399
Operating lease right-of-use assets	1,944	2,638
Goodwill	8,561	8,562
Intangible assets - net	3,378	3,926
Other non-current assets	333	327
Total assets	$ 41,962	$ 53,540
Liabilities and shareholders' equity		
Current liabilities		
Trade payables	$ 2,032	$ 2,058
Accrued expenses and other current liabilities	11,386	10,703
Operating lease right-of-use liabilities	1,598	1,531
Deferred revenue	13,882	13,528
Customer deposits	431	2,578
Acquisition earnout liability	900	110
Income taxes payable	67	—
Total current liabilities	30,297	30,508
Non-current liabilities		
Acquisition earnout liability	—	$ 790
Operating lease right-of-use liabilities	547	1,363
Deferred tax liability	21	10
Total non-current liabilities	568	2,163
Total liabilities	30,865	32,671
Commitments and contingencies (Note 11)		
Shareholders' equity		
Preferred stock (no par value, 10,000,000 shares authorized, zero shares issued and outstanding as of June 30, 2022 and December 31, 2021)	—	—
Common stock (no par value, 550,000,000 shares authorized, 254,783,557 and 253,621,067 shares issued and outstanding as of June 30, 2022 and December 31, 2021, respectively)	—	—
Additional paid-in capital	71,513	70,241
Accumulated other comprehensive income	49	35
Accumulated deficit	(60,465)	(49,407)
Total shareholders' equity	11,097	20,869
Total Liabilities and shareholders' equity	$ 41,962	$ 53,540

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

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

	For the Half Year Ended June 30	
	2022	2021
	(unaudited)	(unaudited)
Revenue:		
Subscription services	$ 25,718	$ 25,147
Other	933	1,719
Total revenues	26,651	26,866
Cost of revenue	8,699	6,996
Gross profit	17,952	19,870
Operating expenses		
Sales and marketing	9,769	8,050
Research and development	12,217	9,346
General and administrative	6,923	5,572
Total operating expenses	28,909	22,968
Operating loss	(10,957)	(3,098)
Other expense, net	18	67
Loss before income taxes	(10,975)	(3,165)
Provision for income taxes	82	17
Net loss	$ (11,057)	$ (3,182)
Basic and diluted loss per common share - see Note 7		
Net loss per share attributable to common shareholders, basic and diluted	$ (0.04)	$ (0.01)
Weighted average shares of common stock outstanding, basic and diluted	254,378	249,123

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

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

	For the Half Year Ended June 30	
	2022	2021
	(unaudited)	(unaudited)
Net loss	$ (11,057)	$ (3,182)
Other comprehensive income — Foreign currency translation	14	51
Total comprehensive loss	$ (11,043)	$ (3,131)

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

Limeade, Inc.
Condensed Consolidated Statements of Shareholders’ Equity
(in US Dollars, in thousands, except share data)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount				
BALANCE, December 31, 2020	247,420,156	—	$ 67,586	$ (39,442)	$ (213)	$ 27,931
Exercise of stock options and release of restricted stock units	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	$ (42,624)	$ (162)	$ 26,161
BALANCE, December 31, 2021	253,621,067	—	$ 70,241	$ (49,407)	$ 35	$ 20,869
Exercise of stock options and release of restricted stock units	1,162,490	—	67	—	—	67
Stock-based compensation	—	—	1,206	—	—	1,206
Other	—	—	—		14	14
Net loss	—	—	—	(11,057)	—	(11,057)
BALANCE, June 30, 2022 - unaudited	254,783,557	—	$ 71,514	$ (60,465)	$ 49	$ 11,099

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

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

	For the Half Year Ended June 30	
	2022	2021
	(unaudited)	(unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (11,057)	$ (3,182)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	1,504	894
Amortization of operating lease-right-of-use assets	694	380
Stock-based compensation	1,206	994
Amortization of sales commission expense	139	—
Change in assets and liabilities		
Accounts receivable	1,499	3,533
Prepaid expenses and other current assets	(140)	(1,862)
Capitalized Sales Commissions	(247)	—
Other non-current assets	5	63
Trade accounts payable	(26)	(1,727)
Accrued expenses and other current liabilities	758	1,652
Income taxes payable	67	(8)
Deferred revenue	354	(349)
Deferred tax liability	—	—
Customer deposits	(2,146)	(1,766)
Operating lease liabilities	(749)	(120)
Foreign currency gains	(35)	52
Net cash used in operating activities	(8,174)	(1,446)
CASH FLOWS FROM INVESTING ACTIVITIES		
Capitalized software development costs	(3,104)	(1,552)
Purchases of property and equipment	(121)	(36)
Net cash used in investing activities	(3,225)	(1,588)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercise of employee stock options	67	261
Net cash provided by (used in) financing activities	67	261
Foreign currency effect on cash and cash equivalents	(24)	
NET CHANGE IN CASH AND CASH EQUIVALENTS	(11,356)	(2,773)
CASH AND CASH EQUIVALENTS		
Beginning of year	13,939	31,497
End of half year	$ 2,583	$ 28,724

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

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

	For the Half Year Ended June 30	
	2022	**2021**
	(unaudited)	(unaudited)
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Cash paid for interest	$ 1	$ —
Cash paid for income taxes	15	17
NON-CASH OPERATING, INVESTING, AND FINANCING ACTIVITIES		
Property and equipment included in accounts payable	$ —	$ 2

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, Germany, Vietnam 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.

Liquidity

The Company has incurred net losses since inception and had an accumulated deficit of $60.4 million as of June 30, 2022. The Company incurred a net loss of $11.0 million and $3.2 million during the six months ended June 30, 2022 and 2021, respectively.

The Company had $2.6 million in cash and cash equivalents as of June 30, 2022 and loan and security agreement with Comerica Bank that consists of a $15.0 million revolving credit facility, which is subject to borrowing base limitations, with a maturity date of December 31, 2023. Management believes this will be sufficient to fund the Company's operations for at least one year from the date these consolidated financial statements are issued.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying condensed consolidated financial statements include those of the Company and its subsidiaries after elimination of all intercompany accounts and transactions. These condensed consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America ("U.S. GAAP").

These unaudited interim condensed 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, 2022 are not necessarily indicative of the results expected for the full year ending December 31, 2022. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the related notes as of and for the year ended December 31, 2021.

Certain prior period amounts in the notes to the condensed consolidated financial statements have been reclassified to conform to the current period presentation. The reclassification of these items had no impact on net income, earnings per share, or retained earnings in the current or prior period.

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, 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.

Concentration of Credit Risk and Significant Customers

The Company maintains its cash accounts with financial institutions where, at times, deposits exceed federal insurance limits. The Company generally places its cash and cash equivalents with high-credit-quality counterparties and by policy, limits the amount deposited based on the Company's analysis of the counterparty's relative credit standing to manage credit risk with any one counterparty where deposits may exceed the Federal Deposit Insurance Corporation limits.

Credit risk with respect to accounts receivable is dispersed based on the number of the customers. There was one customer with more than 10% of total revenue for the six months ended June 30 , 2022 and no single customer represented more than 10% of total revenue during the six months ended June 30, 2021.

Segments

The Company operates in one operating segment. Operating segments are defined as components of an enterprise about which separate discrete financial information is evaluated regularly by the chief operating decision maker ("CODM"), who is the chief executive officer. The CODM assesses the performance of the Company and makes allocation decisions.

The Company's long-lived assets are primarily located in the United States. Revenue by geographical region is included in Note 5.

Foreign Currency Translation

The Company's consolidated financial statements are reported in U.S. dollars. The financial statements of the Company's foreign subsidiaries with a functional currency other than U.S. dollars have been translated into U.S. dollars. Assets and liabilities of these subsidiaries are translated at the exchange rates in effect at each period-end. Income statement amounts are translated at the average exchange rate during the period. Translation adjustments resulting from this process are included in other comprehensive income (loss).

Fair Value Measurements

U.S. GAAP has established a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs.

The three levels of inputs used to measure fair value are as follows:

Level 1 – Quoted prices in active markets for identical assets and liabilities
Level 2 – Observable inputs other than quoted prices included in Level 1
Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of assets or liabilities

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less from the date of purchase to be cash equivalents.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded net of an allowance for doubtful accounts and are generally due within 30 to 75 days. The allowance for doubtful accounts reflects the Company's best estimate of losses inherent in the gross accounts receivable balance. The Company considers accounts outstanding longer than the contractual payment terms as past due. The Company determines the allowance by considering a number of factors, including the length of time accounts receivable are past due, previous loss history, a specific customer's ability to pay its obligations, and the condition of the general economy and industry as a whole. Accounts receivable ultimately deemed uncollectible are written off against their allowance in the period in which they are deemed uncollectible.

Accounts receivable include outstanding invoices issued to customers according to the terms of the Company's contractual arrangements. The Company reviews accounts receivable regularly to determine if any receivable will be potentially uncollectible.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation expense is reported on the Consolidated Statement of Operations within the operating expense category that benefits from the use of the asset. Depreciation is calculated on a straight-line basis over the estimated useful lives of those assets as follows:

	Useful Life (Years)
Computer equipment and software	3 years
Furniture and equipment	3 - 5 years
Leasehold improvements	Shorter of remaining lease term or 5 years

Goodwill, Intangible Assets and Other Long-Lived Assets

The Company's long-lived assets with finite lives consist primarily of property and equipment, capitalized software development costs, operating lease right-of-use assets and acquired intangible assets. Acquired finite-lived intangible assets consist of acquired technology and customer relationships, which are amortized over their estimated useful lives. Amortization expense for these intangible assets is included in the Cost of revenue and Sales & marketing lines of the Consolidated Statement of Operations.

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. Recoverability is measured by comparing the carrying amount to the future net undiscounted cash flows which the assets are expected to generate. 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. Impairment testing is performed at the reporting unit level. Management has determined that there was no impairment of long-lived assets for the six months ended June 30, 2022 and 2021, respectively.

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. Goodwill impairment is recognized when the quantitative assessment results in the carrying value of the reporting unit exceeding its fair value, in which case an impairment charge is recorded to goodwill to the extent the carrying value exceeds the fair value, limited to the amount of goodwill. As of June 30, 2022 and December 31, 2021, no impairment of goodwill has been identified and there were no impairment charges for the six months ended June 30, 2022 and 2021, 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. The estimated useful lives of internally developed software are reviewed frequently and adjusted as appropriate to reflect upcoming development activities that may include significant upgrades and/or enhancements to the existing functionality. Capitalized software costs are amortized on a straight-line basis over their expected economic lives. Amortization of these costs begins once the product is ready for its intended use. The amount of costs capitalized within any period is dependent on the nature of software development activities and projects in each period.

The Company capitalized $3.1 million of software development costs for the six months ended June 30, 2022. Amortization expense related to capitalized software was $0.8 million and $0.5 million for the six months ended June 30, 2022 and 2021, respectively. These amortization expenses are included on the Consolidated Statement of Operations as Cost of revenue.

Business Combinations

The Company accounts for business acquisitions using the acquisition method of accounting, which requires that the assets acquired, liabilities assumed, contractual contingencies and contingent consideration are recorded at the date of acquisition at their respective fair values. Goodwill is recorded when consideration paid in a purchase acquisition exceeds the fair value of the net assets acquired.

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 three years, and can be billable in annual, quarterly, or monthly invoices. The majority of these contracts allow the customer to terminate at the anniversaries. 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.

Remaining Performance Obligations
Remaining performance obligations represent contracted revenues that have not yet been recognized, which includes deferred revenue and amounts that will be invoiced and recognized as revenues in future periods. In calculating the remaining performance obligation amount, the Company excludes amounts related to its usage-based contracts and contracts with original duration of one year or less. The Company expects to recognize all of revenue of these remaining performance obligations within the next 12 months.

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.

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. In Q2 2021, the substantive service conditions were removed from the commission plans. Accordingly, sales commission relating to sales made in the second half of 2021 and onwards were capitalized and will be amortized over the estimated customer life of 36 months.

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.

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.

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.

Stock-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-Scholes option pricing model and uses the simplified method to determine expected term because of lack of sufficient exercise history.

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

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.

Contingencies

A loss contingency is recorded if it is probable and the amount of the loss can be reasonably estimated. The Company assesses, among other factors, the probability of an adverse outcome and its ability to make a reasonable estimate of the ultimate loss.

Net Loss per Share Attributable to Common Stockholders

The Company calculates basic net loss per share by dividing net loss by the weighted-average number of the Company's common stock shares outstanding during the respective period. The Company calculates diluted net loss per share by adjusting basic net loss per share for the potential dilutive impacts of outstanding stock options and restricted stock units ("RSUs").The denominator of the diluted net loss per share calculation is adjusted for these securities if the impact of doing so increases net loss per share.
During the periods presented, the impact is to decrease net loss per share and therefore the Company is precluded from adjusting its calculation for these securities. As a result, diluted net loss per share is calculated using the same formula as basic net loss per share.

The following potentially dilutive securities were excluded from the computation of diluted net loss per share calculations for the periods presented because of the impact of including them would have been anti-dilutive:

	June 30,	
	2022	2021
Stock options	22,148,344	23,526,705
RSUs	8,949,340	3,481,966
Total	31,097,684	27,008,671

Accounting Pronouncements Not Yet Adopted

In June 2020, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments.* As a smaller reporting company, this guidance requires an entity to measure and recognize expected credit losses for certain financial instruments and financial assets, including trade receivables. This guidance is effective for the Company on January 1, 2023 with early adoption permitted. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements and related disclosures and does not expect a material impact.

NOTE 3 – FAIR VALUE MEASUREMENTS

Cash equivalents invested in money market funds are classified as Level 1. Acquisition earnout liabilities are classified as Level 3 because the Company uses unobservable inputs to value them, reflecting its assessment of the assumptions market participants would use to value these liabilities. Changes in the fair value of earnout liabilities are recorded in other income (loss), net in the consolidated statements of operations. The following table summarizes the valuation of financial instruments within the fair-value hierarchy:

	June 30, 2022			
(in thousands)	Total	Level 1	Level 2	Level 3
Assets:				
Cash equivalents	$ 180	$ 180	$ —	$ —
Liabilities:				
Acquisition earnout liability	900	—	—	900

	December 31, 2021			
(in thousands)	Total	Level 1	Level 2	Level 3
Assets:				
Cash equivalents	$ 379	$ 379	$ —	$ —
Liabilities:				
Acquisition earnout liability	900	—	—	900

NOTE 4 – BALANCE SHEET COMPONENTS

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following:

(in thousands)	June 30, 2022	December 31, 2021
Prepaid gift card costs	$ 3,366	$ 3,296
Prepaid software	1,321	1,556
Prepaid insurance	277	97
Prepaid marketing	224	164
Other	385	320
Total prepaid expenses and other current assets	$ 5,573	$ 5,433

Property and Equipment

Property and equipment consists of the following:

(in thousands)	June 30, 2022	December 31, 2021
Computer equipment and software	$ 1,832	$ 1,745
Furniture and equipment	659	660
Leasehold improvements	607	607
Total	3,098	3,012
Less: accumulated depreciation and amortization	(2,708)	(2,571)
Total property and equipment, net	$ 390	$ 441

Depreciation and amortization expense for property and equipment was $0.1 million and $0.2 million for the six months ended June 30, 2022 and 2021 respectively.

Capitalized Software Development Costs

The Company capitalized $3.1 million of software development costs for the six months ended June 30, 2022. Amortization expense related to capitalized software was $0.8 million and $0.5 million for the six months ended June 30, 2022 and 2021, respectively, and the Company recorded accumulated amortization of $3 million and $2.2 million as of June 30, 2022 and December 31, 2021 respectively.

Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following:

(in thousands)	June 30, 2022	December 31, 2021
Accrued gift card liability	$ 3,449	$ 3,978
Accrued compensation	3,485	3,748
Accrued vendor costs	3,110	1,927
Performance guarantee liability	1,095	710
Other	247	340
Total accrued expenses and other current liabilities	$ 11,386	$ 10,703

NOTE 5 – REVENUE AND DEFERRED REVENUE

Disaggregation of Revenue

The following table summarizes revenue by geographic area, which is based on the billing address of the customer:

(in thousands)	June 30, 2022	June 30, 2021
Revenue:		
United States	$ 25,021	$ 26,021
Other	1,630	845
Total revenue	$ 26,651	$ 26,866

Performance Guarantees

Reserves for estimated contract performance guarantees are established based on historical performance and are recognized as a reduction of revenue and as accrued expenses and other current liabilities on the consolidated balance sheets. The performance guarantee reserve liability is $1.1 million and $0.7 million as of June 30, 2022 and December 31, 2021, respectively.

Contract Costs

The Company had $0.2 million and $0.7 million of sales commissions capitalized as of June 30, 2022 and December 31, 2021 respectively and the related amortization expense was $0.1 million and $0 for the period ended June 30, 2022 and 2021 respectively.

Contract Assets and Contract Liabilities

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 did not have any contract assets as of June 30, 2022 or December 31, 2021.

Contract liabilities consist of deferred revenue. Timing may differ between the satisfaction of performance obligations and the billing and collection of amounts related to contracts with customers. Revenue is deferred for amounts that are billed in advance of the satisfaction of performance obligations.

Deferred revenue as of June 30, 2022, is expected to be recognized within the next 12 months as the revenue recognition criteria are met. The Company typically bills in advance for periods no longer than 12 months and therefore substantially all deferred revenue recorded at the beginning of each year presented was recognized as revenue during the respective year.

A summary of the activity impacting deferred revenue balances during the six months ended June 30, 2022 is presented below:

(in thousands)	June 30, 2022
Balance, December 31, 2021	$ 13,528
Revenue Recognized	(26,651)
Additional amounts deferred	27,005
Balance, June 30, 2022	$ 13,882

At June 30, 2022 and December 31, 2021, deferred revenue relates to amounts received from customers in advance of revenue recognition.

NOTE 6 – INTANGIBLE ASSETS

Finite-lived intangible assets consisted of the following:

		June 30, 2022		
(in thousands)	Average Useful Life (Years)	Gross	Accumulated Amortization	Net
Customer relationships	5	$ 4,878	$ (1,990)	$ 2,888
Technology	5	600	(110)	490
Total intangible assets		$ 5,478	$ (2,100)	$ 3,378

		December 31, 2021		
(in thousands)	Average Useful Life (Years)	Gross	Accumulated Amortization	Net
Customer relationships	5	$ 4,878	$ (1,502)	$ 3,376
Technology	5	600	(50)	550
Total intangible assets		$ 5,478	$ (1,552)	$ 3,926

Amortization expense for finite-lived intangible assets for the six months ended June 30, 2022 and 2021 was $0.5 million and $0.2 million, respectively.

Estimated future amortization expense of intangible assets as of June 30, 2022 is as follows:

(in thousands)	
Remainder of 2022	$ 544
2023	970
2024	720
2025	720
2026	420
Total	$ 3,374

NOTE 7 – NET LOSS PER SHARE

Net loss per share is computed by dividing the net loss for the six months ended June 30, 2022 and 2021 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 (in thousands except per share data):

	June 30,	
	2022	2021
Numerator:		
Net loss attributable to common shareholders	$ (11,057)	$ (3,182)
Denominator:		
Weighted-average common shares outstanding-basic	254,378	249,123
Dilutive effect of share equivalents resulting from stock options, common stock warrants	—	—
Weighted-average common shares outstanding-diluted	254,378	249,123
Net loss per common share, basic and diluted	$ (0.04)	$ (0.01)

NOTE 8 – 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, 2022 and December 31, 2021 no shares of preferred stock had been issued.

Common stock
There were 254,783,557 and 253,621,067 shares of common stock issued and outstanding at June 30, 2022 and December 31, 2021, 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, 2022	December 31, 2021
Common stock options and RSUs outstanding	31,097,684	27,628,500
Common stock and RSUs available for grant	23,183,430	23,885,495
Total common shares reserved for future issuance	54,281,114	51,513,995

NOTE 9 – STOCK 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:

	June 30,	
	2022	2021
Estimated per share value of common stock	$0 - $0.22	$0.30 - $0.73
Risk-free interest rates	1.67% - 1.92%	0.71% - 0.99%
Expected term (in years)	5.60	5.43 - 5.60
Dividend rate	—%	—%
Volatility	74.40%	71.55% - 79.23%

The impact on results of operations of recording stock-based compensation expense:

(in thousands)	June 30, 2022	June 30, 2021
Cost of revenue	$ 186	$ 188
Sales and marketing	263	226
Research and development	461	388
General and administrative	296	192
	$ 1,206	$ 994

The following table summarizes stock option activity under the Plan for the six months ended June 30, 2022:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding as of January 1, 2022	20,249,586	$ 0.51	7.81	$ 1,458,921
Options granted	3,970,500	0.30		
Options forfeited or expired	(1,501,493)	0.57		
Options exercised	(570,249)	0.13		
Outstanding at June 30, 2022	22,148,344	$ 0.48	7.69	$ 234,941
Options vested or expected to vest at June 30, 2022	20,195,431	$ 0.47	7.55	$ 234,924
Exercisable at June 30, 2022	9,714,468	$ 0.37	6.05	$ 234,098

At June 30, 2022 total compensation cost related to stock options granted to employees under the Plan but not yet recognized was $2.9 million. This cost will be amortized on the straight-line method over a weighted-average period of approximately 2.62 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:

	June 30, 2022	June 30, 2021
Weighted average grant date fair value for options granted during the period	$ 0.30	$ 0.76
Options in the money at period-end	5,097,172	9,653,439
Aggregate intrinsic value of options exercised	$ 94,198	$ 2,507,699

The following table summarizes the RSU activity for the six months ended June 30, 2022:

	Number of Shares	Weighted Average Grant Date Fair Value
Restricted stock units outstanding as of January 1, 2022	7,184,250	$ 0.68
Restricted stock units granted	4,302,000	0.17
Restricted stock units vested	(592,241)	1.11
Restricted stock units forfeited	(1,944,669)	0.57
Restricted stock units unvested as of June 30, 2022	8,949,340	$ 0.43

As of June 30, 2022, $3.4 million of total unrecognized compensation cost related to RSUs was expected to be recognized over a weighted average period of approximately 2.99 years.

NOTE 10 – LEASES

The Company’s leasing arrangements are primarily for corporate offices and automobiles. Our leases have remaining lease terms of 1 to 2 years.

The following table presents the Company's future lease payments for long-term operating leases as of June 30, 2022:

(in thousands)	Operating Leases
Remainder of 2022	$ 843
2023	1,359
2024	39
Total	$ 2,241
Less: Imputed interest	(82)
Total lease liabilities	$ 2,159

	June 30,	
	2022	2021
Weighted average remaining lease term (in years) for operating leases	1.2	2.4
Weighted average discount rate	6.0 %	6.0 %

The Company’s lease expense consisted of operating lease costs of $1.0 million and $0.7 million for the six months ended June 30, 2022 and 2021, respectively. Included in the operating lease expenses are certain variable payments related to common area maintenance and property taxes. Expenses for variable payments were $0.3 million and $0.2 million for the six months ended June 30, 2022 and 2021, respectively. Short-term lease costs were less than $0.1 million for the six months ended June 30, 2022 and 2021.

Cash paid for operating lease liabilities for the six months ended June 30, 2022 and 2021 were $0.8 million and $0.2 million, respectively.

NOTE 11 – 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 12 – 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 which is extended to December 31, 2023 as mentioned in Note 13 below. 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, 2022, 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, 2022 and December 31, 2021). No balance was outstanding as of June 30, 2022 and December 31, 2021.

NOTE 13 – SUBSEQUENT EVENTS

On July 6, 2022 the Company borrowed $2.5 million through its Credit Facility. The interest rate on the loan is 6.0% per the terms of the agreement.

On August 3, 2022 the Company executed an amendment to our $15.0 million revolving credit facility with Comerica. The amendment extends the maturity of the Credit Facility to December 31, 2023 and replaces the requirement regarding minimum annual contract value with a borrowing base calculation based on the Company's balance of accounts receivables. 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. Interest on outstanding borrowings is at Comerica Bank's Prime Rate plus 0.5%.

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 29, 2022, the date the consolidated financial statements were available to be issued.