



## **BuildingIQ, Inc. and Subsidiary**

**Consolidated Financial Statements**  
Year Ended December 31, 2012

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



## **BuildingIQ, Inc. and Subsidiary**

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Consolidated Financial Statements  
Year Ended December 31, 2012

# BuildingIQ, Inc. and Subsidiary

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## **Independent Auditor's Report**

Board of Directors  
BuildingIQ, Inc.  
Foster City, California

We have audited the accompanying consolidated financial statements of BuildingIQ, Inc. and its subsidiary, which comprise the consolidated balance sheet as of December 31, 2012, and the related consolidated statements of comprehensive loss, redeemable convertible preferred stock and stockholders' deficit, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BuildingIQ, Inc. and its subsidiary as of December 31, 2012, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter Regarding Going Concern***

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

BDO USA, LLP

San Jose, California  
April 11, 2014

## Consolidated Financial Statements

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**BuildingIQ, Inc.**  
**Consolidated Balance Sheet**  
(Amounts in thousands except share and per share data)

*December 31, 2012*

**Assets**

**Current Assets**

Cash and cash equivalent	\$ 4,737
Accounts receivable	27
Other current assets	1,199

<b>Total Current Assets</b>	<b>5,963</b>
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Property and equipment, net	88
Restricted cash	56

<b>Total Assets</b>	<b>\$ 6,107</b>
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**Liabilities and Stockholders' Deficit**

**Current liabilities**

Accounts payable	\$ 353
Other accruals	279
Accrued payroll and payroll taxes	212
Deferred revenue	376
Advances from stockholder	259

<b>Total Current Liabilities</b>	<b>1,479</b>
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**Commitments and Contingencies (Note 5)**

**Redeemable Convertible Preferred Stock**

Series A Preferred stock, \$0.0001 par value; 3,800,000 shares authorized; 3,095,531 shares issued and outstanding	8,557
Series A-1 Preferred stock, \$0.0001 par value; 550,000 shares authorized; no shares issued and outstanding	-

**Stockholders' Deficit**

Common stock, \$0.0001 par value; 10,000,000 shares authorized; 1,712,521 shares issued and outstanding	-
Additional paid-in capital	2,847
Accumulated comprehensive income	18
Accumulated deficit	(6,794)

<b>Total Stockholders' Deficit</b>	<b>(3,929)</b>
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<b>Total Liabilities, Redeemable Convertible Preferred Stock and Stockholders' Deficit</b>	<b>\$ 6,107</b>
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*See accompanying notes to consolidated financial statements.*

**BuildingIQ, Inc.**  
**Consolidated Statement of Comprehensive Loss**  
*(In Thousands)*

<i>Year Ended December 31, 2012</i>		
Subscription revenue	\$	304
Grant revenue		607
Other revenue		54
<b>Total Revenue</b>		<b>965</b>
<b>Cost of Goods Sold</b>		<b>497</b>
<b>Gross margin</b>		<b>468</b>
<b>Operating Expenses</b>		
Sales and marketing		789
Research and development		2,639
General and administrative		1,084
<b>Total Operating Expenses</b>		<b>4,512</b>
Operating loss		(4,044)
Interest expense		(106)
Other income, net		1,093
<b>Net Loss</b>	\$	<b>(3,057)</b>
<b>Comprehensive Loss</b>		
Net loss	\$	(3,057)
Foreign currency translation adjustment		(8)
<b>Comprehensive Loss</b>	\$	<b>(3,065)</b>

*See accompanying notes to consolidated financial statements.*



## BuildingIQ, Inc.

### Consolidated Statement of Redeemable Convertible Preferred Stock and Stockholders' Deficit (In thousands, except share data)

	Series A Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount				
Balance, December 31, 2011	-	\$ 1,354	1,662,521	\$ -	\$ 2,838	\$ 26	\$ (3,737)	\$ (873)
Net loss	-	-	-	-	-	-	(3,057)	(3,057)
Issuance of preferred stock - net of issuance costs of \$317	3,095,531	7,203	-	-	-	-	-	-
Options exercised	-	-	50,000	-	-	-	-	-
Stock-based compensation	-	-	-	-	9	-	-	9
Comprehensive loss	-	-	-	-	-	(8)	-	(8)
Balance, December 31, 2012	3,095,531	\$ 8,557	1,712,521	\$ -	\$ 2,847	\$ 18	\$ (6,794)	\$ (3,929)

*See accompanying notes to consolidated financial statements.*

**BuildingIQ, Inc.**  
**Consolidated Statement of Cash Flows**  
*(In Thousands)*

*Year Ended December 31, 2012*

<b>Cash Flows from Operating Activities</b>	
Net loss	\$ (3,057)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation	17
Stock compensation expense	9
Unrealized loss on foreign exchange	84
Net change in assets and liabilities:	
Accounts receivable	75
Other current assets	(1,105)
Accounts payable and other accruals	488
Accrued payroll and payroll taxes	(64)
Deferred revenue	295
<b>Net Cash Used in Operating Activities</b>	<b>(3,258)</b>
<b>Cash Flows from Investing Activities</b>	
Purchase of property and equipment	(5)
<b>Net Cash Used in Investing Activities</b>	<b>(5)</b>
<b>Cash Flows from Financing Activities</b>	
Release of security deposit	2
Proceeds from advances from stockholder	259
Proceeds from sale of Series A preferred stock, net of issuance costs	7,203
<b>Net Cash Provided by Financing Activities</b>	<b>7,464</b>
<b>Effect of Exchange Rate Fluctuations on Cash and Cash Equivalents</b>	<b>(44)</b>
<b>Increase in Cash and Cash Equivalents</b>	<b>4,157</b>
Cash and Cash Equivalents, beginning of year	580
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 4,737</b>
<b>Supplemental Disclosure of Non-Cash Financing Activities</b>	
Issuance of Series A preferred stock subscribed in 2011	\$ 1,354
<b>Supplemental Cash Flow Disclosures</b>	
Interest expense paid during the year	\$ 106

*See accompanying notes to consolidated financial statements.*

# BuildingIQ, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

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### 1. Organization and Business of the Company

#### *Organization and Business*

BuildingIQ, Pty. Ltd. was founded in Australia in 2009 to commercialize technology developed by the Commonwealth Scientific and Industrial Research Organization (CSIRO). In December 2012, BuildingIQ, Inc. was incorporated in Delaware and BuildingIQ Pty. Ltd. was merged into and became a 100% wholly-owned subsidiary of BuildingIQ, Inc.

BuildingIQ, Inc. and its subsidiary (the “Company”) is a leading provider of energy efficiency solutions for facilities throughout the United States and Australia. The Company’s principal service is the development, design, engineering and installation of integrated software projects that reduce the energy and operations and maintenance costs of the customers’ facilities. These projects typically include a variety of measures customized for the facility and designed to improve the efficiency of major building systems, such as heating, ventilation, air conditioning and lighting systems.

#### *Liquidity and Going Concern*

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. The Company has incurred recurring operating losses since inception and has an accumulated deficit of \$6.8 million. The Company expects to incur substantial losses in future periods. Further, the Company’s future operations are dependent on the success of the Company’s ongoing development and commercialization efforts. There is no assurance that profitable operations, if ever achieved, could be sustained on a continuing basis.

In October 2013, the Company received an additional funding of \$2 million from existing investors to fund its operations (see Note 10). The Company plans to further finance its operations with a combination of private placement of equity securities, commercial debt, revenues from future product sales and government grants. However, there can be no assurance that additional funding will be available to the Company on acceptable terms on a timely basis, if at all, or that the Company will generate sufficient cash from operations to adequately fund operating needs or ultimately achieve profitability. If the Company is unable to obtain an adequate level of financing needed for the long-term development and commercialization of its products, the Company will need to curtail planned activities and to reduce costs. Doing so will likely have an unfavorable effect on the Company’s ability to execute on the business plan. These matters raise substantial doubt about the ability of the Company to continue in existence as a going concern. The accompanying financial statements do not include any adjustments that might result from the outcome of these uncertainties.

### 2. Summary of Significant Accounting Policies

#### *Principles of Consolidation*

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements include the accounts of its wholly-owned subsidiary. All significant intercompany balances and transactions have been eliminated.

## **BuildingIQ, Inc. and Subsidiary**

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

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#### ***Use of Estimates***

The preparation of the consolidated financial statements and related disclosures in conformity with accounting principles general accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates are based on historical factors, current circumstances, and the experience and judgment of management. Management evaluates its assumptions and estimates on an ongoing basis and may engage outside subject matter experts to assist in its valuations. Actual results could differ materially from those estimates. Significant items subject to such estimates and assumptions include estimates of revenue recognition, valuation of deferred tax assets, accrued liabilities, useful lives and recoverability of long-lived assets, the valuation of common stock underlying stock option grants. The impact of changes in estimates may be significant and is recorded in the period in which they become known.

#### ***Foreign Currency Translation***

The functional currency of the Company's foreign subsidiary is the local currency. Assets and liabilities denominated in foreign currencies are translated into U.S. dollars using the exchange rate on the balance sheet dates. Revenues and expenses are translated using monthly average exchange rates prevailing during the year. Foreign currency translation adjustments are included in accumulated other comprehensive income as a separate component of stockholders' deficit.

Transactions and balances denominated in other than the functional currency are remeasured into the functional currency with any resulting gain or loss charged against net income or loss.

#### ***Other Comprehensive Loss***

Comprehensive loss includes net loss as reported under accounting principles generally accepted in the United States of America and also considers the effect of additional economic events that are not recorded in determining net loss but are reported as a separate component of stockholders' deficit, such as foreign currency translation adjustments. Due to availability of net operating losses, there is no tax effect associated with any components of other comprehensive income.

#### ***Revenue Recognition***

Revenues consist primarily of software license fees, software implementation, hardware sales, project management services, installation, consulting, and post-sale maintenance support. Revenues are recognized when (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been rendered, (3) the sales price is fixed or determinable, and (4) collectability is reasonably assured.

## **BuildingIQ, Inc. and Subsidiary**

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

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The majority of our revenue arrangements involve multiple deliverables, which combine two or more of the following: system software, hardware, installation, and/or project management services. Due to the lack of vendor specific objective evidence (VSOE) of fair value for each of the deliverables, revenue is recognized ratably over the maintenance service period. VSOE is generally limited to the price charged when the same or similar product is sold separately or, if applicable, the stated renewal rate in the agreement. If a product or service is seldom sold separately, it is unlikely that we can determine VSOE for the product or service.

The Company also receives grants and tax incentives from certain government entities in Australia which provide regulatory and tax to procure the Company's services and provide the Company with tax and other incentives that reduce the Company's costs or increase the Company's revenue. These grants and tax incentives are recognized when the Company receives notification of grants and tax incentives to be allowed by these government entities.

#### ***Software Development Costs***

Product and software development costs primarily include employee compensation and third party contracting fees. The Company does not capitalize product development costs, and does not generally capitalize software development expenses due to the immaterial nature of these costs as a result of the relatively short period of time between technological feasibility and the completion of software development.

#### ***Financial Instruments***

The Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and other current liabilities, are carried at cost, which approximate their fair value due to the relatively short maturity of these balances.

#### ***Cash and Cash Equivalents***

The Company considers investments in instruments purchased with an original maturity of 90 days or less to be cash equivalents.

#### ***Restricted Cash***

Restricted cash consists of funds held at a financial institution as deposits for the Company's facility lease agreement.

#### ***Accounts Receivable***

Accounts receivable are recorded at the invoiced amount and are not interest bearing. The Company reviews accounts receivables by aging category to identify specific customers with known disputes or collectability issues. At December 31, 2012, the Company has determined that no allowance for doubtful accounts was required.

## BuildingIQ, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

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#### *Property and Equipment, net*

Property and equipment, and leasehold improvements are stated at cost, net of accumulated depreciation and amortization. Depreciation and amortization is computed on a straight-line basis over the estimated useful lives of the assets, which range from three to thirteen years. Leasehold improvements are amortized on a straight-line basis over the life of the lease, or the estimated useful life of the assets, whichever is shorter. Maintenance and repairs are charged to operations as incurred; except for if they increase the useful life of the asset then the costs are capitalized.

Property and equipment, net as of December 31, 2012 are as follows:

<i>Property and equipment, net</i>	<i>(in thousands)</i>
Computer hardware and software	\$ 100
Office furniture and equipment	12
Leasehold improvements	21
	133
Less: accumulated depreciation and amortization	(45)
Property and equipment, net	\$ 88

#### *Impairment of Long-Lived Assets*

The Company evaluates its long-lived assets for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of any asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the excess of the carrying amount of the assets over the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less the costs to sell.

#### *Income Taxes*

Income taxes are calculated using the asset and liability method for income taxes specified by Accounting Standards Codification (ASC) 740, *Accounting for Income Taxes*. Deferred income taxes are recognized for the tax consequences of temporary differences between the financial statements and income tax bases of assets, liabilities and carry-forwards using enacted tax rates. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. Realization is dependent upon future pre-tax earnings, the reversal of temporary differences between book and tax income and the expected tax rates in effect in future periods.

The guidance contained in ASC 740-10-25, clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax position taken or expected to be taken on a tax return. The impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has

## BuildingIQ, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

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less than 50% likelihood of being sustained. The Company determined that there is an immaterial amount of income tax accounting positions that have been claimed on the Company's income tax filings that would result in an adjustment, if the Company were to be audited by taxing authorities.

#### ***Stock-Based Compensation***

The Company accounts for stock-based compensation in accordance with ASC 718, *Stock Compensation*, which establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, primarily focusing on accounting for transactions where an entity obtains employee services in share-based payment transactions. ASC 718 requires companies to measure the cost of employee services received in exchange for an award of equity instruments, including stock options, based on the grant-date calculated value of the award and to recognize such cost as compensation expense over the period the employee is required to provide service in exchange for the award, usually the vesting period.

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options. The determination of the fair value of stock-based awards on the date of grant using an option-pricing model is affected by the Company's stock price as well as assumptions regarding a number of complex and subjective variables. These variables include the Company's expected stock price volatility over the term of the awards, actual and projected employee stock option exercise and cancellation behaviors, risk-free interest rates and expected dividends. The Company estimates the expected life of options granted based on the simplified method. Expected volatility is based on the average of historical volatility of the common stock of a peer group of the public companies as the Company has limited history for the period commensurate with the expected life of the option and the implied volatility of traded options. The risk free interest rate is equal to the U.S. Treasury constant maturity rates for the period equal to the expected life. The Company does not currently pay cash dividends on the Company's common stock and do not anticipate doing so in the foreseeable future.

#### ***Concentrations of Credit Risk***

A significant portion of the Company's revenues and net income is derived from international sales. Fluctuations of the U.S. dollar against foreign currencies, changes in local regulatory or economic conditions could adversely affect operating results.

Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash and cash equivalents and trade accounts receivable. The Company's cash and cash equivalents are maintained with high credit quality financial institutions in the United States and Australia. At times, such balances may be in excess of insured limits. The Company has never experienced any losses related to these balances. All of the Company's non-interest bearing cash balances in the United States were fully insured at December 31, 2012 due to a temporary federal program in effect from December 31, 2011 through December 31, 2012. Under the program, there is no limit to the amount of insurance for eligible accounts. Beginning in 2013, insurance coverage reverted to \$250,000 per depositor at each financial institution, and the Company's non-interest bearing cash balances may have exceeded federally insured limits. The credit risk in our trade accounts receivable is substantially mitigated by the Company's credit evaluation process and reasonably short collection terms.

## **BuildingIQ, Inc. and Subsidiary**

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

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For the year ended December 31, 2012, there were three customers with revenues over 10% of total revenue. As of December 31, 2012 there were four customers with accounts receivable balances exceeding 10%.

#### ***Research and Development Costs***

Research and development costs are expensed as incurred and consist of costs incurred for Company sponsored and collaborative activities.

#### ***Advertising Costs***

Advertising costs are charged to operations as incurred and include electronic and print advertising, trade shows, collateral production, and all forms of direct marketing. Advertising costs included in Sales and Marketing in the Consolidated Statement of Comprehensive Loss for fiscal 2012 was immaterial.

#### ***Recently Issued Accounting Pronouncements***

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." This update amends ASC 220, "Comprehensive Income," to require reporting entities to provide information about the amounts reclassified from accumulated other comprehensive income by component. In addition, reporting entities will be required to present, either on the face of the statement of operations or in the footnotes to the financial statements, significant amounts reclassified from accumulated other comprehensive income by statement of operations line item. ASU 2013-02 is effective prospectively for reporting periods beginning after December 15, 2012, which means that it will be effective for fiscal year beginning January 1, 2013. The Company does not believe that adoption of ASU 2013-02 will have a significant impact on the consolidated financial statements.

In July 2013, FASB issued an amendment regarding the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This amendment requires certain unrecognized tax benefits to be presented as reductions to deferred tax assets instead of liabilities on the balance sheets. This amendment is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company is currently assessing the potential effect to its financial statements in applying this guidance.



## BuildingIQ, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

#### 3. Fair Value Measurements

The Company follows the authoritative guidance for fair value measurements and the fair value option for financial assets and financial liabilities. The guidance for fair value measurements establishes a consistent framework for measuring fair value and expands disclosure requirements about fair value measurements. The guidance for the fair value option for financial assets and financial liabilities provides companies the irrevocable option to measure many financial assets and liabilities at fair value with changes in fair value recognized in earnings. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability, or an exit price, in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The established fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance describes three levels of inputs that may be used to measure fair value:

*Level 1:* Quoted prices in active markets for identical assets.

*Level 2:* Observable inputs other than Level 1 prices, such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets.

*Level 3:* Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The following table represents information about the Company's investments measured at fair value on a recurring basis (in thousands).

Fair Value of Investments as of December 31, 2012 (In Thousands)					
	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash and cash equivalents:					
Cash and cash equivalents	\$ 4,737	\$ 4,737	\$ -	\$ -	
Total financial assets	\$ 4,737	\$ 4,737	\$ -	\$ -	

#### 4. Advances from Stockholder

As of December 31, 2012, the Company received advances from a stockholder amounting to \$259,000 bearing no interest. This was paid off in full in January 2013.

**BuildingIQ, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements**

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**5. Commitments and Contingencies**

***Leases***

We lease certain of our facilities under non-cancelable operating leases that expire at various dates through 2014. Some of our leases contain renewal options, escalation clauses and rent concessions.

Future minimum operating lease commitments were as follows as of December 31, 2012:

<i>Year Ended December 31,</i>	<i>Lease Commitment (In thousands)</i>	
2013	\$	183
2014		91
Total	\$	274

Rent expense charged to operations totaled \$210,000 for the year ended December 31, 2012.

In 2013, the Company entered into two new facility leases and amended one of its existing facility leases for one year. Future minimum operating lease commitment arising from the new leases amounted to \$520,000.

***Royalties***

The Company entered into an agreement to license the use of technology which is core to the Company's product. The agreement requires royalty commitments at the greater of the agreed upon minimum annual royalty and 5% of subscription fees. For the year ended December 31, 2012, royalty expense amounted to \$155,000 which is included as part of cost of goods sold. The Company has the option to acquire the technology subject to the occurrence of certain events which expires on October 1, 2014.

***Indemnification***

As permitted under Delaware law, the Company has agreements whereby officers and directors are indemnified for certain events or occurrences while the officer or director is, or was, serving at the Company's request in such capacity. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is not limited; however, the Company has directors' and officers' insurance coverage that reduces the exposure and may enable the Company to recover a portion of any future amounts paid. The Company has determined that estimated fair value of these indemnification agreements in excess of applicable insurance coverage is minimal.

# BuildingIQ, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

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### 6. Stock-Based Compensation

#### *2012 Equity Incentive Plan*

Under the 2012 Equity Incentive Plan, ("2012 Plan") the Company's Board of Directors, or a committee of the Board of Directors, may grant incentive and nonqualified stock options to employees, officers, directors, consultants, independent contractors, and advisors to the Company, or to any parent, subsidiary, or affiliate of the Company. The purpose of the 2012 Plan is to attract, retain, and motivate eligible persons whose present and potential contributions are important to the Company's success by offering them an opportunity to participate in the Company's future performance through equity awards of stock options and stock bonuses. Under the terms of the 2012 Plan, the exercise price of stock options may not be less than 100% of the fair market value on the date of grant. The exercise price of an option granted to a 10% stockholder shall not be less than 110% of the estimated fair value of the shares on the date of grant, as determined by the board of directors. Options generally vest over a four-year period and have a maximum term of ten years. Options granted to a 10% stockholder have a maximum term of five years.

In December 2012, as part of the integration of BuildingIQ Pty., Ltd., all 273,506 outstanding stock options of BuildingIQ Pty, Ltd. were converted into common stock options of BuildingIQ Inc.

As of December 31, 2012, the Company has reserved 750,493 shares for issuance under the 2012 Plan and 526,987 shares remain available for future grant.

#### *Valuation of stock-based awards*

The fair value of each stock option granted under our equity incentive plans is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions as of December 31, 2012:

Expected life	3.79 years
Expected volatility	58%
Risk-free interest rate	0.50%
Expected dividends	-%

The Company estimates the expected life of options granted using the simplified method. Expected volatility is based on the average of the historical volatility of the common stock of a peer group of the public companies as the Company has limited stock price history for the period commensurate with the expected life of the option and the implied volatility of traded options. The risk free interest rate is equal to the U.S. Treasury constant maturity rates for the period equal to the expected life. The Company does not currently pay cash dividends on the Company's common stock and does not anticipate doing so in the foreseeable future. Accordingly, the Company's expected dividend yield is zero.

#### *Stock-based compensation expense*

Stock-based compensation is classified in the Consolidated Statement of Comprehensive Loss in the same expense line items as cash compensation. For the year ended December 31, 2012, the stock-based compensation expense is \$9,000.

# BuildingIQ, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

As of December 31, 2012, total unrecognized compensation cost adjusted for estimated forfeitures related to unvested stock options amounted to \$45,000, which is expected to be recognized over the remaining weighted-average vesting periods of 4 years for stock options.

### *Stock option activity*

The following table summarizes stock option activity for the year ended December 31, 2012:

	Shares Available	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding at January 1, 2012	-	-	\$ -	-
Authorized	800,493	-	-	-
Option exchange	(273,506)	273,506	4.25	-
Exercised	-	(50,000)	0.0001	-
Forfeited <sup>(1)</sup>	-	-	-	-
Expired <sup>(2)</sup>	-	-	-	-
Outstanding at December 31, 2012	526,987	223,506	\$ 4.25	9.95
Exercisable at December 31, 2012		108,910	\$ 1.68	9.95
Vested and expected to vest at December 31, 2012		223,506	\$ 4.25	9.95

<sup>(1)</sup> Refers to options cancelled before their vest dates.

<sup>(2)</sup> Refers to options cancelled on or after their vest dates.

The following table summarizes information concerning outstanding and vested options at December 31, 2012:

Exercise Prices	Number of Outstanding Options	Weighted Average Remaining Contractual Life (years)	Number of Options Vested
\$2.06	22,056	9.95	22,056
\$2.08	78,750	9.95	46,974
\$4.11	8,500	9.95	6,832
\$6.17	114,200	9.95	33,048
	223,506	9.95	108,910

The total intrinsic value of options exercised during the year ended December 31, 2012 was not material.

### **7. Redeemable Convertible Series A Preferred Stock**

The Company's Certificate of Incorporation, as amended, authorizes, 4,350,000 shares of Preferred Stock with a par value of \$0.0001 per share. 3,800,000 shares are designated as Series A Preferred Stock and 550,000 shares are designated as Series A-1 Preferred Stock. As of December 31, 2012, 3,095,531 shares of Series A and none of A-1 Prime Preferred Stock were issued and outstanding.

# BuildingIQ, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

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### ***Dividends***

The holders of Series A Preferred Stock and the Series A-1 preferred Stock shall be entitled to receive, on a pari passu basis, a cash dividend at the rate of \$0.1719978 and \$0.2211396 per share, respectively (as adjusted for any stock dividends, combinations, splits, recapitalizations or the like with respect to such shares), per annum on each outstanding share of Series A Preferred Stock and Series A-1 Preferred Stock, payable out of funds legally available thereof. Such dividends shall be payable when, as, and if declared by the Board of Directors, acting in its sole discretion. The right to receive dividends shall not be cumulative, and no right shall accrue to holders of any shares by reason of the fact that dividends on such shares are not declared and paid in any prior year. No dividends have been declared by the board of directors from inception through December 31, 2012.

### ***Liquidation preferences***

In the event of any liquidation, dissolution or winding up of the Company, prior and in preference to any distribution of any of the assets or funds of the corporation to the holders of the Common Stock by reason of their ownership of such stock, the holders of each series of Preferred Stock shall be entitled to receive for each outstanding share of Preferred Stock then held by them, an amount equal to the greater of (1) \$2.86663 for each share of Series A Preferred Stock and \$3.68567 for each share of Series A Prime Preferred Stock plus any accrued but unpaid dividends on such share or (2) an amount per share as would have been payable had all shares of Series A Preferred Stock been converted into Common Stock immediately prior to such liquidation event.

### ***Conversion Rights***

Each share of Preferred Stock shall be convertible, at the option of the holder thereof, at any time and from time to time, and without the payment of additional consideration by the holder thereof, into such number of fully paid and nonassessable shares of Common Stock as is determined by dividing the original issue price by applicable conversion price in effect at the time of conversion. The Series A conversion price shall initially be equal to \$2.86663 and the Series A-1 conversion price shall initially be equal to \$3.68566, subject to adjustments contained in the Company's certificate of incorporation, as amended.

### ***Voting Rights***

On any matter presented to the stockholders of the Corporation for their action or consideration at any meeting of stockholders of the Corporation (or by written consent of stockholders in lieu of meeting), each holder of outstanding shares of Preferred Stock shall be entitled to cast the number of votes equal to the number of whole shares of Common Stock into which the shares of Preferred Stock held by such holder are convertible as of the record date for determining stockholders entitled to vote on such matter. Except as provided by law or by the other provisions of the Certificate of Incorporation, holders of Preferred Stock shall vote together with the holders of Common Stock as a single class on an as converted basis.

# BuildingIQ, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

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### ***Redemption Rights***

Shares of Preferred Stock shall be redeemed by the Corporation at a price equal to the greater of (a) the liquidation amount per share for such series of Preferred Stock, plus all declared but unpaid dividends thereon, and (b) the fair market value of a single share of Preferred Stock as of the date of the Company's receipt of the redemption request, in three annual installments commencing 60 days after receipt by the Company at any time on or after December 12, 2018, from the holders of at least sixty percent of the then outstanding shares of Preferred Stock, of written notice requesting redemption of all (but not less than all) shares of Preferred Stock.

### **8. Common Stock**

As of December 31, 2012, 10,000,000 shares of common stock at a par value of \$0.0001 were authorized of which 1,712,521 were issued and outstanding. Each share of common stock is entitled to one vote. The holders of common stock are also entitled to receive dividends whenever funds are legally available and when and if declared by the board of directors, subject to the prior rights of holders of all series of preferred stock outstanding. As of December 31, 2012, no dividends have been declared on the common stock.

In December 2012, the Company acquired 100% of the issued shares in the share capital of BuildingIQ, Pty., Ltd. with 1,662,251 shares of common stock of BuildingIQ, Pty., Ltd., exchanged for 1,662,551 shares of common stock of BuildingIQ, Inc.

### ***Shares Reserved for Future Issuance***

At December 31, 2012, shares of common stock reserved for future issuance related to outstanding convertible preferred stock and stock options were as follows:

Convertible preferred stock outstanding	3,095,531
Stock options outstanding	223,506
Stock options available for grant	526,987
<b>Total</b>	<b>3,846,024</b>

### **9. Income Taxes**

The Company's provision for the year ended December 31, 2012 represents minimum state taxes.

Deferred tax assets for December 31, 2012 are as follows:

#### ***December 31, 2012 (In Thousands)***

Deferred tax assets:	
Net operating loss carryforwards	\$ 1,011
Research credit	1,235
Intangible Assets	4
Accruals and reserves, intangibles and other	8
	2,258
Valuation allowance	(2,258)
<b>Net deferred tax assets</b>	<b>\$ -</b>

## BuildingIQ, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

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In assessing the realizability of deferred tax assets, management considered whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Given that the Company does not have a history of taxable income or a basis to assess its likelihood of the generation of future taxable income, management has determined that it is most appropriate to reflect a valuation allowance equal to its net deferred tax assets. The valuation allowance increased by \$2,257,652 for the year ended December 31, 2012.

The Company has a Federal and California net operating loss (NOL) of approximately \$1,464,967 and \$96,309, respectively as of December 31, 2012. Federal and California NOL expire on various dates beginning 2031.

The Company has Australian Net Operating Loss carryforwards of \$1,685,432. The Australia Net Operating Loss can be carried forward indefinitely.

The Company also has research credit carry-forwards of approximately \$38,695 for Federal, and \$96,309 for California, as of December 31, 2012. If not utilized, the Federal credit carry-forwards will expire in various years beginning 2031. The California credit carry-forwards do not expire.

Federal and California tax laws impose restrictions on utilization of net operating loss and tax credit carry-forwards in the event of an ownership change, as defined in Section 382 of the Internal Revenue Code. The Company's ability to utilize its net operating loss and tax credit carry-forwards may be subject to a limitation under these provisions.

ASC 740 prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Under this guidance, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. As of December 31, 2012, the Company did not identify or record any unrecognized tax benefits.

The Company recognizes accrued interest and penalties related to uncertain tax positions as a component of its provision for income taxes. There were no amounts accrued for the year ended December 31, 2012.

The Company's major tax jurisdictions are the United States, states of California and New Jersey and Australia. The Company's income tax returns are open to examination by these taxing authorities from 2010, which is the Company's initial year tax return.

#### 10. Subsequent Events

In October 2013, the Company amended its certificate of incorporation reducing authorized shares of Preferred Stock to 3,800,000. The amendment also resulted in the removal of the Series A-1 Preferred Stock designation and the amendment of the Series A conversion price to \$2.84205. In addition, the Company issued 697,693 of Series A preferred stock at \$2.86663 for \$2 million to fund its operations.

## **BuildingIQ, Inc. and Subsidiary**

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

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During 2013, the Company entered into two new lease facility arrangements and one amendment of an existing lease. See Note 5.

In March and April 2014, the Company issued \$3.5 million of secured convertible promissory note at a rate of 8% per annum. All unpaid principal, together with any then unpaid and accrued interest and other amounts payable hereunder, shall be due and payable on the earlier of (i) on the one year anniversary of the date of the Purchase Agreement (the "Maturity Date"), or (ii) when, upon the occurrence and during the continuance of an Event of Default, such amounts are declared due and payable by Investor or made automatically due and payable, in each case, in accordance with the terms hereof.

If a Qualified Financing occurs on or prior to the Maturity Date, then the outstanding principal amount of this note and all accrued and unpaid interest on this note shall automatically convert into fully paid and nonassessable shares of the Preferred Stock issued in such Qualified Financing at the Conversion Price.

If no Qualified Financing occurs on or prior to the Maturity Date, then the outstanding principal amount of this note and all accrued and unpaid interest on this note shall be convertible, at the election of a Majority in Interest of Investors, into fully paid and nonassessable shares of the Company's Series A Preferred Stock at a price of \$2.8666 per share.

The Company has evaluated subsequent events through April 11, 2014, the date the financial statements were available to be issued, for appropriate accounting and disclosures.