



Zebit, Inc.

Consolidated Financial Statements For the Six Months Ended June 30, 2020

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



Zebit, Inc.

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Independent Accountant's Review Report

Board of Directors
Zebit, Inc.
San Diego, California

We have reviewed the accompanying consolidated financial statements of Zebit Inc., which comprise the consolidated balance sheet as June 30, 2020, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the six months ended June 30, 2020 and June 30, 2019, and the related notes to the consolidated financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the consolidated financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Consolidated 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.

Accountant's Responsibility

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the consolidated financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

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

Emphasis of a Matter Regarding Going Concern

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As described in Note 1, the Company has suffered recurring

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losses from operations, has a net capital deficiency and states that substantial doubt exists about the Company's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 1. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our conclusion is not modified with respect to this matter.

Report on 2019 Financial Statements

The 2019 financial statements comprised of the consolidated balance sheets as of December 31, 2019 and 2018 (not presented herein), and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2019 (not presented herein), and the related notes to the consolidated financial statements were audited by us and we expressed an unmodified opinion with an emphasis of matter regarding going concern paragraph on them in our report dated March 2, 2020. We have not performed any auditing procedures since that date.

BDO USA, LLP

San Diego, California
August 4, 2020

Consolidated Financial Statements

Zebit, Inc.

Consolidated Balance Sheets (in thousands, except share data)

	June 30, 2020 (Unaudited)	December 31, 2019
Assets		
Current assets		
Cash and cash equivalents	\$ 7,849	\$ 6,515
Receivables, net of allowance for doubtful accounts of \$3,137 and \$7,722 as of June 30, 2020 and December 31, 2019, respectively	6,436	21,117
Inventories	154	496
Prepays and other current assets	1,874	1,165
Total current assets	16,313	29,293
Property and equipment, net	42	60
Operating lease right-of-use assets, net	758	921
Intangibles, net	843	1,170
Restricted cash	250	390
Other non-current assets	162	160
Total assets	\$ 18,368	\$ 31,994
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	\$ 2,325	\$ 5,082
Accrued liabilities	1,317	3,062
Operating lease liabilities, current portion	390	372
Current portion of long-term debt, net of discount	5,550	259
Convertible notes	5,274	4,121
Total current liabilities	14,856	12,896
Operating lease liabilities, net of current portion	472	638
SVB debt, net current portion and discount	285	281
PPP loan debt, net of current portion and discount	635	11,714
Warrant liabilities	23	23
Total liabilities	16,271	25,552
Commitments and contingencies (Note 12)		
Stockholders' equity		
Convertible preferred stock, \$0.0001 par value; 69,394,759 authorized as of June 30, 2020, and December 31, 2019; 49,761,755 issued and outstanding at June 30, 2020 and December 31, 2019 (aggregate liquidation preferences of \$49,762 as of June 30, 2020 and December 31, 2019)	5	5
Common stock, \$0.0001 par value; 84,188,233 shares authorized as of June 30, 2020 and December 31, 2019; 16,029,022 issued and outstanding at June 30, 2020 and December 31, 2019	2	2
Additional paid-in capital	64,731	64,439
Accumulated deficit	(62,641)	(58,004)
Total stockholders' equity	2,097	6,442
Total liabilities and stockholders' equity	\$ 18,368	\$ 31,994

See accompanying notes to the unaudited consolidated financial statements.

Zebit, Inc.
Consolidated Statements of Operations
(in thousands)

<i>Six months ended June 30,</i>	2020 (Unaudited)	2019 (Unaudited)
Revenue	\$ 28,140	\$ 31,003
Cost of revenue	20,570	23,206
Gross Profit	7,570	7,797
Operating expenses:		
Provision for uncollectible accounts	4,085	4,636
General and administrative	6,743	6,948
Sales and marketing	654	1,582
Total operating expenses	11,482	13,166
Loss from operations	(3,912)	(5,369)
Interest and amortization of debt discount expense	(545)	(720)
Interest income	15	41
Change in fair value of warrant liabilities	-	34
Change in fair value of debt instrument	(198)	-
Other income	3	114
Loss before income taxes	(4,637)	(5,900)
Income tax provisions	-	1
Net loss	\$ (4,637)	\$ (5,901)

See accompanying notes to the unaudited consolidated financial statements.

Zebit, Inc.

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

	Series Seed		Series A		Series B		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Par Amount	Shares	Par Amount	Shares	Par Amount	Shares	Par Amount			
Balance at December 31, 2018	3,022,527	\$ 302	12,278,336	\$ 1,228	24,349,337	\$ 2,435	1,891,223	\$ 189	\$ 54,046	\$ (45,607)	\$ 8,443
Stock-based compensation expense	-	-	-	-	-	-	-	-	116	-	116
Warrants exercised	-	-	-	-	-	-	14,137,799	1,414	140	-	141
Net loss	-	-	-	-	-	-	-	-	-	(5,901)	(5,901)
Balance at June 30, 2019 (Unaudited)	3,022,527	\$ 302	12,278,336	\$ 1,228	24,349,337	\$ 2,435	16,029,022	\$ 1,603	\$ 54,302	\$ (51,508)	\$ 2,799
Stock-based compensation expense	-	-	-	-	-	-	-	-	172	-	172
Issuance of Series B upon conversion of notes	-	-	-	-	5,060,268	506	-	-	5,060	-	5,060
Issuance of Series B, net of issuance costs \$146,102	-	-	-	-	5,051,287	505	-	-	4,905	-	4,907
Net loss	-	-	-	-	-	-	-	-	-	(6,496)	(6,496)
Balance at December 31, 2019	3,022,527	\$ 302	12,278,336	\$ 1,228	34,460,892	\$ 3,446	16,029,022	\$ 1,603	\$ 64,439	\$ (58,004)	\$ 6,442
Stock-based compensation expense	-	-	-	-	-	-	-	-	292	-	292
Net loss	-	-	-	-	-	-	-	-	-	(4,637)	(4,637)
Balance at June 30, 2020 (Unaudited)	3,022,527	\$ 302	12,278,336	\$ 1,228	34,460,892	\$ 3,446	16,029,022	\$ 1,603	\$ 64,731	\$ (62,641)	\$ 2,097

See accompanying notes to the unaudited consolidated financial statements.

Zebit, Inc.
Consolidated Statements of Cash Flows
(in thousands)

<i>Six Months Ended June 30,</i>	2020 (Unaudited)	2019 (Unaudited)
Operating activities		
Net loss	\$ (4,637)	\$ (5,901)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Allowance for doubtful accounts	4,085	4,636
Stock-based compensation expense	292	115
Non-cash lease expense	164	162
Non-cash interest expense	89	2
Amortization of debt issuance	164	69
Change in fair value of liabilities measured at fair value	(198)	1
Depreciation and amortization	250	137
Changes in operating assets and liabilities		
Accounts receivable	10,596	(4,149)
Inventories	341	(20)
Prepaid expenses and other current assets	(463)	101
Other assets	(2)	(1)
Accounts payable	(2,757)	(2,238)
Accrued liabilities	(1,743)	741
Operating lease liability	(149)	(141)
Net cash provided by (used in) operating activities	6,032	(6,486)
Investing activities		
Purchase of property and equipment	-	(208)
Purchase or development of intangible assets	(151)	(479)
Net cash used in investing activities	(151)	(687)
Financing activities		
Principal payments on debt	(7,090)	(468)
Proceeds from debt, net of issuance costs	1,140	65
Proceeds for issuance of convertible notes, net of issuance cost	1,263	-
Proceeds from sale of preferred stock, net of issuance cost	-	4,938
Net cash (used in) provided by financing activities	(4,687)	4,535
Net increase (decrease) in cash, cash equivalents and restricted cash	1,194	(2,638)
Cash, cash equivalents and restricted cash at beginning of period	6,905	9,126
Cash, cash equivalents and restricted cash at end of period	\$ 8,099	\$ 6,488
Supplemental disclosures of cash flows information		
Cash paid for interest	\$ 688	\$ 617
Cash paid for operating lease	\$ 206	\$ 168

See accompanying notes to the unaudited consolidated financial statements.

Zebit, Inc.

Notes to Consolidated Financial Statements (Unaudited)

1. Organization and Significant Accounting Policies

Description of Business

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

Liquidity

The Company has funded its operations primarily through the issuance of preferred stock and convertible notes, as well as borrowings under debt and credit facilities. In April 2020, the Company entered into an agreement with SVB to defer the payment dates for all monthly payments of principal by six months, but to continue to make regularly scheduled monthly payments of accrued interest. The maturity date of the outstanding loan was thereby extended by six months. The Company has incurred losses and negative cash flows from operations since its inception. The Company recorded revenues of \$28.1 million and \$31.0 million six-months ended June 30, 2020 and June 30, 2019, respectively. Revenues for the six-months ended June 30, 2020 were lower than the same period in the prior year due to pricing and down payment alterations as preventative measures taken to preserve cash in light of tumultuous capital markets and a prolonged deferral of the Company’s planned initial public offering, discussed below. The Company recorded net losses of \$4.6 million and \$5.9 million for the six-months ended June 30, 2020 and June 30, 2019 respectively. The Company had an accumulated deficit of \$62.6 million as of June 30, 2020 and \$58.0 million as of December 31, 2019.

As of June 30, 2020, the Company had cash and cash equivalents of approximately \$7.8 million, and restricted cash of \$250,000. Existing cash resources are not expected to be sufficient to fund forecasted future negative cash flows from operations and obligations as they become due through one year following the issuance of these financial statements, without additional funding. These conditions raise substantial doubt about the Company’s ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effects that may result should the Company be unable to continue as a going concern. To alleviate these conditions, the Company is actively pursuing an initial public offering on the Australian Securities Exchange (ASX).

In March 2020, the World Health Organization announced the novel coronavirus COVID-19 as a global pandemic. COVID-19 continues to spread in the United States and globally and as a result the Company is subject to additional risks and uncertainties. To comply with laws and regulations, the Company and its suppliers have temporarily reduced on-site business operations to comply with social distancing requirements. The degree to which the Company’s business will continue to be affected by the COVID-19 pandemic is uncertain. While the Company expects the disruption to be temporary, the duration of the disruption is uncertain at this time. Further, there may be long-term negative effects of the COVID-19 pandemic. The negative effects of COVID-19 could have a material adverse impact on the Company’s financial results in the future. As an effort to mitigate potential impacts from COVID-19, the Company took cost saving measures including but not limited to (i) eliminating all 401(k) matching contributions, (ii) a reduction in force consisting of 20 employees, (iii) reduced all employees’ salaries from 100% to a range of 85-90% of base

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Notes to Consolidated Financial Statements (Unaudited)

salary, (iv) executed a 6 month interest-only amendment to the outstanding SVB Term Loan, (v) negotiated a 2 month payment deferral on the companies office space, and (vi) took on additional capital in the form of a \$1.1M PPP Loan as part of the United States Government CARES Act.

The Company cannot conclude that management's plan to alleviate the substantial doubt about the Company's ability to continue as a going concern through one year following the issuance of these financial statements is probable of being successfully implemented.

Financial Statement Presentation and Use of Estimates

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information. Accordingly, the accompany consolidated financial statements do not include all the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, the accompanying consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) that are necessary for a fair statement of the financial position, results of operations and cashflows for the periods presented. The accompanying unaudited financial statements should be read in conjunction with the audited financial statements and notes thereto as of and for the year ended December 31, 2019. Interim results are not necessarily indicative of results for a full year.

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

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes. Actual results could differ materially from these estimates. On an ongoing basis, management evaluates its estimates, including those related to the accounts receivable allowance, useful lives and impairment of intangible assets and property and equipment, the fair value of a convertible debt instrument for which the fair value option has been elected, the fair value of common stock and expense for stock-based compensation awards, the fair value of stock warrants and other equity-related instruments, and income taxes, among others. Management bases its estimates on historical experience and on various other assumptions that it believes are reasonable. Actual results could differ materially from these estimates.

Cash and Cash Equivalents

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

Zebit, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Restricted Cash

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

Inventories

Inventories consist of inventory in-transit from our vendors to our customers as the Company takes ownership of inventory at the point of shipment from the vendor's location. All inventory in-transit is recorded at cost on the balance sheet. No substantial losses on inventory were incurred during the six months ended June 30, 2020 or 2019. The Company does not estimate that any losses will be incurred on inventories and therefore had no allowance for losses on inventories as of June 30, 2020 or December 31, 2019.

Accounts Receivable, Net

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

Property and Equipment, Net

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

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

Internal-Use Software

The Company capitalizes costs related to purchased and developed internal use software, which are included in intangible assets in the balance sheet. In accordance with authoritative guidance, capitalization of costs for the development of internal-use software begins when the application

Zebit, Inc.

Notes to Consolidated Financial Statements (Unaudited)

development stage is reached and ends when the post implementation stage is reached. Amortization of software is recorded using the straight-line method over the estimated useful life of the developed software, which is three years.

Operating Lease

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

Revenue Recognition

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

Cost of Revenues

Cost of revenues consists of the purchase price of goods sold to customers, outbound shipping costs, and dropship processing fees. Dropship processing fees represent vendor charges for fulfilling orders, including receiving, inspecting, picking, packaging and preparing goods for shipment. Shipping costs for the six months ended June 30, 2020 and 2019 were \$1.0 million and \$1.0 million, respectively.

Selling and Marketing Expenses

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

Stock-Based Compensation

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

Zebit, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Stock Warrants

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

Fair Value Election

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

Fair Value Measurements

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

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

Level 1 - Observable inputs, such as quoted prices in active markets for identical assets or liabilities.

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

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

Income Taxes

The Company is a C-corporation and is subject to federal and state income taxes. The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions and is subject to examination by U.S. federal tax authorities for returns filed for the prior three years and by state tax authorities for returns filed for the prior four years. In addition, during an audit,

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Notes to Consolidated Financial Statements (Unaudited)

tax authorities may redetermine the correct taxable loss for a closed year to determine the correct amount of the loss carryforward deduction for the year under audit.

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

On March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”). The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions, and technical corrections to tax depreciation methods for qualified improvement property. We continue to examine the impact that the CARES Act may have on our business. Currently, we are unable to determine the impact that the CARES Act will have on our financial condition, results of operation, or liquidity.

Operating Segment

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

Recently Issued Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326)*. The new guidance requires companies to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The standard update eliminates the probable initial recognition threshold in current GAAP and, instead, reflects an entity’s current estimate of all expected credit losses over the contractual term of its financial assets. The standard update broadens the information that an entity can consider when measuring credit losses to include forward-looking information. Further, in May 2019, the FASB issued ASU 2019-05, *Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief*, which provides transition relief in the application of Topic 326 by permitting companies within the scope of Subtopic 326-20 (financial instruments measured at amortized cost) with an option to irrevocably elect the fair value option in Subtopic 825-10 for eligible instruments, upon adoption of Topic 326. These ASUs are effective for the Company beginning January 1, 2023, with early application permitted. The standard updates will be

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applicable to the Company's trade accounts receivable balances. The Company has not yet evaluated the impact that the standard updates could have on its financial statements.

In June 2018, the FASB issued ASU 2018-13, *Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements for fair value measurements in Topic 820, Fair Value Measurement. This standard update is effective for the Company beginning January 1, 2020. The Company does not expect the adoption of this standard to have a material effect on its financial statements.

2. Revenue

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

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

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

The Company collects a down payment upon the customer's completion of the order. The amount that the Company collects from customers prior to the delivery of goods and the recognition of revenue is recorded as a customer deposit in accrued liabilities until the goods are delivered. As of June 30, 2020, and December 31, 2019, the liability for customer deposits was not material.

In the sale of goods, the Company has determined that it is the principal in satisfying the performance obligations to customers, primarily because the Company has full latitude to source the goods from any vendor and full discretion to establish customer pricing, and the Company's

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Notes to Consolidated Financial Statements (Unaudited)

vendors, who are resellers of the goods, are not visible to customers and have no contractual obligations to customers. Importantly, for e-certificates, the Company is purchasing these from vendors who have purchased and carry inventory stock of e-certificates, and the Company has a non-cancellable right during the terms of the contracts with these vendors to purchase and resell the e-certificates. As the principal in satisfying the performance obligations to customers, the Company recognizes revenue at the gross amount of consideration it is entitled to collect from customers.

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

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

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

The Company's revenues have been entirely sourced in the United States. The following tables shows the Company's revenues for each of the six months ended June 30, 2020 and 2019 by significant product type (in thousands):

<i>Six months ended June 30,</i>	2020		2019	
E-certificates	\$	12,168	\$	16,757
Electronics		9,861		9,073
All other		6,111		5,173
Total revenue	\$	28,140	\$	31,003

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Notes to Consolidated Financial Statements (Unaudited)

3. Property and Equipment, Net

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

	June 30, 2020	December 31, 2019
Computer equipment	\$ 100	\$ 100
Furniture and fixtures	51	51
Leasehold improvements	5	5
Property and equipment, gross	156	156
Less accumulated depreciation	(114)	(96)
Total property and equipment, net	\$ 42	\$ 60

Depreciation expense was \$17,417 and \$17,268 for the six months ended June 30, 2020 and 2019, respectively.

4. Intangible Assets, Net

Intangible assets consisted of the following (in thousands):

	June 30, 2020	December 31, 2019
Patents and trademarks	\$ 18	\$ 18
Software (purchased or developed)	1,464	1,397
Software under development	-	201
Intangible, gross	1,482	1,616
Less accumulated amortization	(639)	(446)
Total intangibles, net	\$ 843	\$ 1,170

Amortization expense was \$232,196 and \$119,235 for the six months ended June 30, 2020 and 2019, respectively. As of June 30, 2020, future amortization expense for intangible assets is \$252,256 for the remainder of 2020, \$354,144 in 2021, \$216,115 in 2022 and \$20,485 in 2023.

5. Fair Value Measurement

The Company uses fair value measurements for convertible notes issued in December 2019 (“2019 IPO Notes”) for which the Company elected the fair value option pursuant to ASC 825, as well as for stock warrant liabilities. These liabilities are subject to recurring measurement and measured

Zebit, Inc.

Notes to Consolidated Financial Statements (Unaudited)

using Level 3 inputs per the fair value hierarchy established in ASC 820. Refer to Note 6 regarding the 2019 IPO Notes, and Note 9 regarding the stock warrants.

The fair values of these instruments as of June 30, 2020 and December 31, 2019 were as follows (in thousands):

June 30, 2020	Fair Value	Level 1	Level 2	Level 3
Liabilities				
2019 IPO notes	\$ 5,274	\$ -	\$ -	\$ 5,274
Warrant liabilities	23	-	-	23
Total liabilities measured at fair value	\$ 5,297	\$ -	\$ -	\$ 5,297

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

The Company did not transfer any assets or liabilities measured at fair value on a recurring basis to or from Level 3 for the six months ended June 30, 2020 and the year ended December 31, 2019.

The changes in the fair values of these instruments for the six months ended June 30, 2020 and the year ended December 31, 2019 was as follows (in thousands):

	2019 IPO Notes	Stock Warrants
Fair value as of December 31, 2018	\$ -	\$ 57
Issuance	4,115	-
Change in fair value, net of accrued interest	6	(34)
Fair value as of December 31, 2019	4,121	23
Issuance	1,262	-
Change in fair value, net of accrued interest	(109)	-
Fair value as of June 30, 2020	\$ 5,274	\$ 23

The fair value of the 2019 IPO Notes was determined to be equal to the transaction price of the notes at initial recognition. As of December 31, 2019, the Company concluded that there was no change in the fair value of the notes since initial recognition, as there were no changes in conditions that would have impacted the fair value of the notes between the issuance date of

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December 17, 2019 and the balance sheet measurement date of December 31, 2019, other than for interest at the annual coupon rate of 4%, which was \$6,497. Reference to the initial transaction price to determine the fair value as of December 31, 2019 is a considered a Level 3 (unobservable) input. As of June 30, 2020, the fair value of the notes was determined by assessing the discounted probability-weighted expected return which are considered Level 3 inputs. As of June 30, 2020, the difference between the fair value of the notes and the outstanding principal amount of the notes is the change in fair value associated with interest on the notes of \$88,679 and a fair value decrease of \$197,686.

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

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

6. Debt and Credit Facilities

Silicon Valley Bank Term Debt

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

The principal amount of the Term A Loans was due in 36 monthly installments beginning January 1, 2017. The principal amount of the Term B Loans was originally due in 45 monthly installments beginning May 1, 2018 and was subsequently extended by six months pursuant to the agreement entered into in April 2020, discussed below.

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

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Notes to Consolidated Financial Statements (Unaudited)

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

Upon entry into the original agreement with SVB, the Company issued SVB a warrant to purchase 40,000 shares of the Company's Series A preferred stock at an exercise price of \$1.00 per share, which expires on December 18, 2025. Upon entry into the amended agreement with SVB, the Company issued SVB a warrant to purchase 20,000 shares of the Company's Series A-1 preferred stock at an exercise price of \$1.00 per share, which expires on September 30, 2027. The grant-date fair values of the warrants, which were immaterial, were estimated using the Black-Scholes option pricing model and recorded in the balance sheet as warrant liabilities, with the offsetting amounts recorded as debt discounts and amortized to interest expense over the terms of the related debt. Subsequent to the issuances of the warrants, and pursuant to the original terms of the warrant agreements, the warrant to purchase the Company's Series A preferred stock was reclassified to a warrant to purchase Series Seed, and the warrant to purchase the Company's Series A-1 preferred stock was reclassified to a warrant to purchase Series A, as the underlying classes of stock were reclassified by the Company.

In April 2020, the Company entered into an agreement with SVB to defer the payment dates for all monthly payments of principal by six months, but to continue to make regularly scheduled monthly payments of accrued interest. The maturity date of the outstanding loan was thereby extended by six months.

As of June 30, 2020, the short-term and long-term principal balances outstanding for the Term B Loans were \$177,778 and \$288,889, respectively, and the short-term and long-term unamortized debt discount balance was \$7,460 and \$3,939, respectively. The Term A Loans had been fully repaid. The outstanding principal balance of the Term B Loans was subject to an annual interest rate of 7.25%.

As of June 30, 2020, future annual principal payments under the LSA are as follows (in thousands):

Years ending December 31,

2020 (last six months)	\$	44
2021		267
2022		156
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Total	\$	467

Route 66 Credit Facility

In August 2018, the Company entered into a credit facility with Route 66 HF Holdings, LLC. The initial facility provided up to \$10,000,000 in principal borrowings, subject to a borrowing base limitation of 90% of the cost of goods sold on eligible customer receivables. In September and December 2019, the facility was amended to increase the lender commitment by \$2.0 million in each amendment, providing for a current lending commitment of \$14.0 million, subject to the borrowing base limitation. The facility may be increased up to \$75.0 million, on the terms and conditions set forth in the agreement, and at the sole and absolute discretion of the lender. The

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facility can be drawn upon until the day before the date that is 36 months following the closing date, or through August 13, 2021, or earlier upon an event of default or early amortization event, as defined in the agreement. All principal amounts borrowed are due 48 months from the closing date, or August 14, 2022, unless due earlier as a result of the borrowing base limitation or an event of default.

Borrowings are collateralized by all of the Company's personal property, including eligible receivables which are required to be held in a separate, wholly owned legal entity, Zebit Be-Free 2018-1. An eligible customer receivable is one that meets the eligibility criteria of the agreement, including that the customer is a repeat customer in good standing or is a first purchase customer who has made at least two payments on their account. Customer payments on eligible receivables are required to be remitted into a lockbox account and at the end of each month the payments into the lockbox account are distributed to make the interest payment and any required principal payment with the excess amount funded to the parent company, Zebit, Inc. Outstanding borrowings bear interest, payable monthly, at a rate of 12.1% plus the one-month LIBOR rate, which shall not be less than such interest rate multiplied by a minimum commitment amount, which increases throughout the term of the agreement. As of June 30, 2020, the interest rate applicable to the outstanding principal balance was of 12.23%.

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

As of December 31, 2019, the Company was not in compliance with the minimum liquidity ratio. In January 2020, Route 66 waived any occurrence of an event of default due to noncompliance with the minimum liquidity ratio from December 31, 2019 through March 1, 2020. Then, in February 2020, the agreement was amended to exclude the 2019 IPO Notes (see below) from the calculation of current liabilities, which is a component in the calculation of the liquidity ratio, effective beginning December 31, 2019. Further, the Company and Route 66 agreed (i) that if the Company's book of investors for the planned IPO discussed in Note 1 has not been secured by May 8, 2020, as determined in the bank's sole discretion, then Zebit shall work with Route 66 to implement a restructuring plan that will be determined shortly after the determination date, (ii) that on or before March 4, 2020, the Company shall have secured \$900,000 in additional 2019 IPO Notes and on or before March 13, 2020 an additional \$450,000 in funds from a vendor rebate, and (iii) that the Company shall provide additional monthly performance data to the bank. In addition, the parties entered into a servicing agreement whereby, if the IPO book of investors has not been secured to the satisfaction of the bank, the Company will do all things necessary and appropriate to collect the certain accounts receivable on behalf of Route 66. Due to economic conditions associated with the COVID-19 global pandemic, the planned IPO was delayed, which initiated a further amendment to the agreement. In June 2020, the agreement was amended to (i) revise the termination date of the facility from August 14, 2022 to November 30, 2020, (ii) reduce the maximum principal borrowings to \$5.0 million, (iii) add a financial performance covenant that requires the Company to have no less than \$3.0 million in unencumbered cash, (iv) increase the

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Notes to Consolidated Financial Statements (Unaudited)

minimum liquidity ratio requirement from 1.37x to 1.40x, (v) amend the Company's restructuring plan, and (vi) extend the servicing agreement, discussed above. Further, according to the amendment, the Company shall paydown \$1.0 million to Route 66 on October 30, 2020 and every two weeks thereafter until the termination date, at which time the full outstanding balance is due. The paydowns may be suspended if a transaction to refinance the outstanding debt is sufficiently advanced, as determined in the bank's sole discretion. The Company has executed a term sheet with a new lender and is in the process of documenting the new facility to refinance the credit facility with Route 66.

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

As of June 30, 2020, the principal balance outstanding was \$5.0 million, and the unamortized debt discount balance was \$127,067 and as of December 31, 2019 the principal balance outstanding was \$12.0 million, and the unamortized debt discount balance was \$286,266. As of June 30, 2020, and December 31, 2019, the aggregate receivables held by Zebit Be Free pursuant to the terms of the credit facility agreement was \$8.2 million and \$18.3 million, respectively.

Paycheck Protection Program

In April 2020, the Company received loan proceeds of \$1.1 million (the "PPP Loan") pursuant to the Paycheck Protection Program ("the PPP") under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") administered by the U.S. Small Business Administration (the "SBA").

The PPP Loan is scheduled to mature in April 2022, bears interest at a rate of 1.00% per annum, and is subject to the standard terms and conditions applicable to loans administered by the SBA under the CARES Act. During the initial six-month period following receipt of the PPP Loan funds, no payments of principal or interest are required. Commencing in November 2020, the Company is required to pay regular monthly payments of principal and interest, however, the amount of the monthly payment has not yet been determined. The amounts outstanding under the PPP Loan may be prepaid by the Company at any time prior to maturity without penalty.

The PPP Loan is evidenced by a promissory note, dated as of April 22, 2020, issued by the SBA, which contains customary terms related to events of default including, among other things, payment defaults and breaches of representations and warranties. Upon an event of default, the PPP Lender may, among other things, require immediate payment of all amounts owed and outstanding. Under the terms of the CARES Act, recipients of loans under the PPP can apply for and be granted forgiveness for all or a portion of such loan granted under the PPP. Such forgiveness will be determined, subject to limitations, based on the use of loan proceeds for payment of payroll costs and certain other eligible costs. The Company is continuing to evaluate guidance released by the SBA regarding qualification for forgiveness of the PPP Loan, however, no assurance can be given that forgiveness of any portion of the PPP Loan will be obtained.

In order to apply for the PPP Loan, the Company was required to certify, among other things, that the current economic uncertainty made the PPP Loan necessary to support the Company's ongoing operations. This certification further required the Company to take into account the maintenance

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of its workforce, the Company's need for additional funding to continue operations, and the Company's ability to access alternative forms of funding to support its ongoing business operations. The Company is continuing to evaluate the criteria and additional guidance by the SBA regarding qualification and conditions for loans under the PPP.

As of June 30, 2020, the short-term and long-term principal balances outstanding for the PPP Loan were \$506,694 and \$633,367, respectively. The short-term and long-term classification assumes that the principal balance will be paid in equally monthly installments commencing in November 2020.

June 2019 Convertible Notes

In June 2019, the Company issued subordinated convertible promissory notes ("2019 Notes") to certain accredited investors, whereby the Company agreed to sell, and the accredited investors agreed to purchase, convertible notes in the aggregate principal amount \$5,000,003. The 2019 Notes bore an interest rate of 5% per annum calculated on the basis of a 365 day year, and all unpaid accrued interest and principal was due upon the earlier of (i) one year from the initial closing, (ii) the consummation of a sale of the Company, or (iii) the occurrence of an event of default and, if applicable, the note being called due and payable by the holder. The outstanding principal of the 2019 Notes and all accrued interest would convert into shares of the Company's equity securities as follows: (i) upon a qualified financing, automatically into the same shares sold in the qualified financing, at a conversion price of the price per share at which shares were sold in the qualified financing, or a lower percentage of such price per share the later the qualified financing occurs (ii) upon a non-qualified financing, automatically if at least \$5 million was sold, and by the consent of the individual holder or a majority of the holders if less than \$5 million was sold, into shares of Series B preferred stock, at a conversion price of \$1.00 per share (iii) upon an "other" financing event and the consent of the individual holder or a majority of the holders, at a conversion price of \$1.00 if Series B preferred shares are elected by the holder or a majority of the holders, and at a conversion price of the price per share at which shares are sold in the "other" financing event if the same shares sold in the financing were elected by the holder or a majority holders. In addition, upon a sale the Company, the 2019 Notes were convertible into shares of Series B preferred stock at the election of the individual holder at a conversion price of \$1.00 per share. In the 2019 Notes, a qualified financing was defined as subsequent equity financing led by a new investor yielding proceeds of at least \$20 million, a non-qualified financing was defined as subsequent equity financing led by then-current stockholders yielding proceeds of at least \$5 million or such lesser amount as approved by a majority of the board of directors, and an "other" financing event was defined as a subsequent equity financing other than a qualified financing or non-qualified financing. 2019 Notes were entered into with existing beneficial owners of the Company, on the same terms as all other purchases of the 2019 Notes.

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

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December 2019 IPO Convertible Notes

In December 2019, the Company issued subordinated convertible promissory notes (“2019 IPO Notes”) to certain accredited investors, whereby the Company agreed to sell, and the accredited investors agreed to purchase, convertible notes in the aggregate principal amount \$4,114,450. During the six months ended June 30, 2020, the Company issued additional notes in the aggregate principal amount of \$1,262,500 (net of the note repurchase, discussed below). The note purchase agreement entered into in conjunction with the 2019 IPO Notes, as amended, permits the Company to sell additional notes to accredited investors, on the same terms and conditions, until the aggregate principal amount of all outstanding notes equals \$10,000,000, on or prior to December 31, 2020. The 2019 IPO Notes bear an interest rate of 4% per annum calculated on the basis of a 365-day year. The outstanding principal, together with unpaid accrued interest (the “Outstanding Amount”), plus an amount equal to 20% of the outstanding principal is due upon the earlier of (i) December 31, 2020 or (ii) the occurrence of an event of default. Further, if upon a sale of the Company a holder does not elect to convert a note into common stock, as described below, the holder shall be entitled to receive cash equal to three times the Outstanding Amount. 2019 IPO Notes were entered into with existing beneficial owners of the Company, on the same terms as all other purchases of the 2019 IPO Notes.

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

In June 2020, the Company repurchased a \$900,000 IPO Note from an investor that was originally issued in March 2020. The repurchase price was equal to the original transaction price of \$900,000, and the investor agreed to waive all interest accrued on the note. In a related transaction in June 2020, the Company issued a new \$900,000 IPO Note to secondary investor. The Company, the original note investor and the secondary investor are all related parties. The repurchase and the issuance of the new note were approved by the Company’s board of directors, and the holders of 2019 IPO Notes who were required to approve the transactions.

The Company elected to account for the 2019 IPO Notes at fair value pursuant to ASC 825, Financial Instruments. Refer to Note 1. As of June 30, 2020, the principal balance outstanding was \$5,376,950, and the fair value carrying amount was \$5,274,257 and as of December 31, 2019, the principal balance outstanding was \$4,114,450, and the fair value carrying amount was \$4,120,947.

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Notes to Consolidated Financial Statements (Unaudited)

7. Convertible Preferred Stock

As of June 30, 2020, and December 31, 2019 outstanding preferred stock was as follows:

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

From December 31, 2019 to June 30, 2020, there were no changes in authorized or outstanding preferred stock, or the liquidation value of preferred stock.

Dividends

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

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

Liquidation

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

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

Voting

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

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

Conversion Rights

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

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

Redemption Rights

The preferred stock is not mandatorily redeemable.

8. Common Stock

As of June 30, 2020, and December 31, 2019, the Company was authorized to issue up to 84,188,640 of \$0.0001 par value common stock, and 16,029,022 shares were issued and outstanding.

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

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As of June 30, 2020, potential future issuances of common stock upon exercise of stock options or stock warrants, or conversion of preferred stock, is as follows:

Outstanding options to purchase common stock	11,169,606
Outstanding warrants to purchase common stock	568,945
Convertible preferred stock	49,761,755
2019 IPO Convertible notes (including accrued interest)	5,471,867
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Total	66,972,173

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

9. Stock Warrants

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

The warrants issued in the Series B preferred stock offering were issued for a nominal exercise price of \$0.01 per share and have the characteristics of a prepaid forward sale of equity. The warrants do not meet the definition of a derivative under ASC 815, Derivatives and Hedging, and therefore are treated as equity. The warrants were recorded as additional paid in capital at their relative fair value at issuance and are not subsequently remeasured. The relative fair value of the warrants was determined by allocating the transaction proceeds between the Series B preferred shares issued and the warrants issued, based on the relative fair values of the Series B preferred shares without the warrants and the warrants themselves at the time of issuance, as reflected in the statement of changes in stockholders' equity. From October through November 2019, all of the Series B warrants were exercised. Refer to Note 7 for further information.

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As of June 30, 2020, and December 31, 2019 the following stock warrants were outstanding:

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

From December 31, 2019 to June 30, 2020, there were no changes in outstanding warrants or exercise prices.

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

10. Equity Incentive Plan

The Company's board of directors originally adopted the 2015 Stock Plan on June 17, 2015 (as amended from time to time, the "Plan"). The Plan allows the Company to grant restricted stock and stock option awards, both issuable in shares of common stock of the Company, to directors, employees and consultants of the Company. No awards have been issued pursuant to restricted stock agreements. The Plan is administered by the Company's board of directors. There are 12,493,140 shares of common stock authorized for issuance under the 2015 Stock Plan. As of June 30, 2020 there were 1,162,311 shares available for future issuance.

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

The following weighted-average assumptions were used to estimate the fair value of options granted for the six months ended June 30, 2020 and 2019:

<i>Six months ended June 30,</i>	2020	2019
Common stock price	\$1.13	\$0.19
Risk free interest rate	1.40%	2.51%
Expected term (year)	6.0	6.0
Expected volatility	52%	52%
Dividend rate	0%	0%
Weighted average grant date fair value	\$0.97	\$0.10

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Following is a summary of the Company's stock option activity for the six months ended June 30, 2020:

	Number of Shares Underlying Outstanding Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2019	8,440,309	\$0.29	7.12	
Granted	3,282,831	\$0.19		
Exercised	-	-		
Forfeited and Expired	(553,534)	\$0.22		
Outstanding at June 30, 2020	11,169,606	\$0.26	7.22	\$ 9,730,995
Exercisable at June 30, 2020	5,699,607	\$0.31	5.65	\$ 4,683,615
Vested and expected to vest at June 30, 2020	10,621,809	\$0.26	7.12	\$ 9,220,114

The Company recognized stock-based compensation expense for the six months ended June 30, 2020 and 2019 as follows in the statements of operations (in thousands):

<i>Six months ended June 30,</i>	2020	2019
General and administrative	\$ 278	\$ 111
Sales and marketing	14	4
Total stock-based compensation	\$ 292	\$ 115

As of June 30, 2020, there was \$2,533,110 of unrecognized stock-based expense to be recognized over a weighted-average remaining service period of 2.7 years.

11. CARES Act

In response to the COVID-19 pandemic, the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") was signed into law on March 27, 2020. The CARES Act, among other things, includes tax provisions relating to refundable payroll tax credits, deferral of employer's social security payments, net operating loss utilization and carryback periods, modifications to the net interest deduction limitations and technical corrections to tax depreciation methods for qualified improvement property (QIP). As to net operating loss utilization and carry back periods, net operating losses generated in tax years 2018, 2019, and 2020 can be carried back five years, allowing corporate taxpayers to amend earlier tax returns and potentially obtain a tax refund. In addition, losses generated and utilized prior to January 1, 2021 are not subject to the 80 percent

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limitation that was previously applied to losses generated after December 31, 2017 under the Tax Cuts and Jobs Act of 2017. The tax provisions of the CARES Act had no material impact on the Company's income tax provision for the six months ended June 30, 2020. The Company continues to evaluate the impact of the CARES Act on its financial position, results of operations and cash flows. The CARES Act also established The Paycheck Protection Program under which financing options were made available to small businesses. The Company applied for a was granted a loan of \$1.1 million under the Paycheck Protection Program.

12. Commitments and Contingencies

Operating Lease

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

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

- For all asset classes, the Company has elected to not recognize right-of-use assets and lease liabilities for leases with a term of twelve months or less; and
- For the office space lease asset class, the Company has elected not to separate non-lease components from lease components to which they relate.

The Company currently has one lease arrangement which is for its 17,306-square foot corporate office location. The lease term is approximately four years ending in June 2022 with no renewal options. During the six months ended June 30, 2020 and year ended December 31, 2019, the Company was not party to any short-term leases.

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

Operating lease expense for the six months ended June 30, 2020 and 2019, was \$279,191 and \$263,194, respectively.

In July 2018, the Company terminated the lease for its previous corporate office location and entered into the four-year lease agreement for its current corporate office location. After signing the new lease, the Company entered into a sublease agreement to sublet 7,407 square feet for an 18-month period ended December 31, 2019. The monthly rental income on a straight-line basis

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was \$11,150 and was recorded as other income, not an offset to lease expense, in the statement of operations.

In May 2020, the Company and the landlord for the corporate office lease entered into an agreement to defer the monthly rent payments for the months of July 2020 and August 2020, with such deferred rent amount due in twelve equal consecutive monthly installments commencing in October 2020 and ending in September 2021, which payments shall be in addition to the monthly rent payments otherwise due under the lease.

As of June 30, 2020, future annual minimum lease payments for the corporate office lease were as follows (in thousands):

Years ending December 31,

2020 (remaining)	\$	144
2021		439
2022		263
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Total lease payments		846
Less: imputed interest		(62)
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Lease liability as of June 30, 2020	\$	784

Employee Benefit Plan

The Company has a defined contribution 401(k) benefit plan (the “401(k) Plan”) for all eligible employees. The 401(k) Plan permits participants to contribute up to the amount allowable under federal limits of annual pre-tax compensation to the 401(k) Plan. The Company matches 100% of the first 4% of the employee’s contribution, which is fully vested upon contribution. The Company contributed \$62,300 and \$79,480 to the 401(k) Plan for the six months ended June 30, 2020 and 2019, respectively. As of June 1, 2020, the Company terminated the 401(k)-employee benefit plan and is no longer contributing.

Litigation

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

13. Financial Advisor Engagement

In January 2020, the Company engaged a financial advisor to provide financial advice and assistance in connection with the possible sale or other transfer of all or a significant portion of the assets or securities of the Company (a “Transaction”). A possible sale of the Company was being evaluated in case the planned IPO, discussed in Note 1, is not successful. In connection with this engagement, the Company will pay the financial advisor (1) a \$50,000 retainer fee and (2) a

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Transaction fee calculated as follows (i) if the Transaction value is \$150 million or less, 2.5% of the Transaction value, subject to a minimum Transaction fee of \$1.5 million or (ii) if the Transaction value is above \$150 million, 2.5% of the Transaction value up to and including \$150 million, and 3.5% of the portion of the Transaction value in excess of \$150 million. Subject to the definitions and further terms of the agreement, if the Company does not consummate such a Transaction but instead consummates a qualified financing, after having received at least one qualified bid from an identified party, the Company will pay an alternative fee equal to 2.5% of the gross proceeds raised in a qualified financing, subject to a minimum of \$750,000 and a maximum of \$1.5 million. Further, if the Company does not consummate a Transaction but receives a break-up fee or other similar payment as a result of the termination of a Transaction, the Company will pay the advisor 20% of such fee or payment. The engagement transaction fee is payable if a qualified financing occurs within twelve months of the termination of this agreement. The Company agreed to indemnify the advisor with respect to any losses, claims, damages or liabilities arising from any Transaction contemplated by this agreement.

14. Subsequent Events

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

The Company evaluated subsequent events through August 4, 2020, the date the financial statements were issued.