

**Zebit, Inc.**  
**Appendix 4E**  
**Preliminary final report**

**1. Company details**

Name of entity:	Zebit, Inc.
ARBN:	639 736 726
Reporting period:	For the year ended 31 December 2020
Previous period:	For the year ended 31 December 2019

The following financial information included in this Appendix 4E should be read in conjunction with any public announcements made by Zebit, Inc. ("Zebit" or "the Company") in accordance with the continuous disclosure obligations of the ASX Listing Rules.

**2. Results for announcement to the market**

Zebit is a technology-driven eCommerce company that is dedicated to making a fundamental change in the lives of over 120 million U.S. credit-challenged customers by giving them access to a broad set of products and the ability to pay for those products in instalments over six months. Zebit operates in both retail eCommerce and credit solutions. Zebit sells products as an eCommerce merchant and provides the financing to customers (via an in-house and proprietary BNPL solution) for those products over time. The Company is registered as a 'foreign company' in Australia, under the Corporations Act, under the name Zebit, Inc. (ARBN 639 736 726). All amounts are expressed in US dollars unless otherwise stated. The Company's results for announcement to the market are as follows:

<b>\$US 000's</b>	<b>2020</b>	<b>2019</b>	<b>% Change</b>	<b>Up / Down</b>
Revenue from ordinary activities <sup>1</sup>	87,651	85,485	2.50%	Up
Gross Profit	23,012	22,026	4.50%	Up
Loss before tax attributable to shareholders	(7,392)	(12,380)	40.30%	Down
Loss after tax and from ordinary activities attributable to shareholders	(7,414)	(12,397)	40.20%	Down

<sup>1</sup>Revenue is the gross merchandise value (GMV) plus shipping revenue plus net margin on warranties sold less any post month adjustments for customer rebates. Revenue is recognized at the point the product is delivered to the end buyer.

Total revenue increased by 2.5% to \$87.7 million in 2020 from \$85.5 million in 2019. Given the global uncertainty in the early stages of the Covid-19 pandemic, Zebit prudently reduced operations and growth from Q2 through Q3 FY20. While growth was impacted over this period, loss after tax decreased by 40.2% to \$7.4 million. This improved loss position was due to a significant reduction in bad debts expense driven by the Company's actions to limit credit loss and manage cash. Additionally, included in the \$7.4 million loss before tax amount, is a non-cash expense of \$1.4 million resulting from the IPO conversion of the Company's convertible notes as part of its Pre-IPO funding.

**3. Net tangible assets**

	<b>Reporting period Cents</b>	<b>Previous period Cents</b>
Net tangible assets per ordinary security	<u>\$0.29</u>	<u>\$0.33</u>

**Comment**

The net tangible assets per ordinary security is defined as total assets minus intangibles minus liabilities divided by the amount of common stock outstanding at year end. Preferred shares were not included in the calculation in the previous period

#### **4. Control gained over entities**

As part of Zebit's refinancing of its credit facility with Bastion Funding, the Company has gained control of a new entity, Zebit Be Free 2020-1, which is established as a U.S. Trust. The entity was incorporated in the state of Delaware on September 2, 2020. Zebit Be Free 2018-1, which is an entity used for the Company's prior credit facility is still in existence but has no operations and will be unwound in due course.

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#### **5. Dividends**

##### *Current period*

The company has not declared, and does not propose to pay, any dividends for the year ended 31 December 2020. There are no dividend or dividend reinvestment plans in operation.

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#### **6. Associates and joint venture entities**

There are no associate or joint venture entities.

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#### **7. Accounting standards**

U.S. GAAP has been used in compiling the information contained in this Appendix 4E.

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#### **8. Other information regarding the financial statements**

This Appendix 4E and the included financial information are based on the Consolidated Financial Statements and Notes of Zebit, Inc. which have been audited by BDO USA, LLP with an unqualified opinion.

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

**Zebit, Inc.**  
**Directors' report**  
**31 December 2020**

The Directors present their report on the Zebit Inc. (ASX: ZBT) (Zebit or Company) for the year ended 31 December 2020.

All amounts are stated in U.S. dollars unless otherwise stated

**Directors**

The following persons were Directors of Zebit, Inc. during the whole of the financial year and up to the date of this report, unless otherwise stated:

Jim Feuille	Chairman and Non-Executive Director
Marc Schneider	President and CEO, Executive Director
Sylvia Falzon	Non-Executive Director (Appointed 12 August 2020)
Miriam Rivera	Non-Executive Director (Appointed 23 October 2020)
Larry Rosenberger	Non-Executive Director
Scott Thompson	Non-Executive Director

**Principal activities**

Zebit is a technology-driven eCommerce company that is dedicated to making a fundamental change in the lives of over 120 million U.S. credit-challenged customers by giving them access to a broad set of products and the ability to pay for those products in instalments over six months. Zebit operates in both retail eCommerce and credit solutions. Zebit sells products as an eCommerce merchant and provides the financing to customers (via an in-house and proprietary BNPL solution) for those products over time.

**Review of operations**

Revenue for the financial year ended 31 December 2020 increased 2.5% to \$87.7 million from \$85.5 million in 2019. The loss for the Company after providing for tax decreased by 40.2% to \$7.4 million from \$12.4 million in 2019.

Total operating cost and expenses for the year decreased by 17.9% to \$27.2 million from \$33.2 million in 2019.

*Covid-19*

In mid-March FY20, Covid-19 began causing disruptions in the U.S. and Australia which resulted in uncertainty in capital markets and, as a result, Zebit did not have a clear path to an IPO or an alternative near-term capital raise.

Given the global uncertainty in the early stages of the Covid-19 pandemic, Zebit prudently reduced operations and growth from Q2 through Q3 FY20. While growth was impacted over this period, loss after tax decreased by 40.2% to \$7.4 million. This improved loss position was due to a significant reduction in bad debts expense driven by the Company's actions to limit credit loss and manage cash.

The results of Zebit's actions to improve the quality and selectivity of registered users and the orders it decided to approve, lowering its operating costs, and focusing on increased gross margin products was instrumental and necessary to keep the business operational while global capital markets remained challenging.

*Post Listing*

Leading up to and after the IPO, Zebit significantly increased its marketing spend to generate growth through the 4<sup>th</sup> quarter and into 2021. Of the total marketing spend that the Company used in FY20, more than 68% was spent in the 4<sup>th</sup> quarter as the Company received capital from the IPO. While total FY20 revenue growth vs prior corresponding period ("pcp") accounted for 2.5% or \$2.2m, revenue growth for the fourth quarter of FY20 was up 34.2% or \$11.3m vs pcp. With the current cash on balance of \$22.4m, Zebit expects to continue its focus on revenue growth and maintaining contribution margin strength.

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**Financial position**

The Company reported sales revenue of \$87.7 million (2019: \$85.5 million) for the financial year ended 31 December 2020. The Company continues to invest in its technology platform and at 31 December 2020 had cash and term deposits of \$22.4 million as working capital to fund the activities of the Company.

In September 2020 Zebit entered into a credit facility with Bastion Consumer Funding II LLC. The initial facility provides up to \$15.0 million in principal borrowings and was amended on 16 February 2021 to increase the facility to \$35.0 million subject to a borrowing base limitation of 90% of the cost of goods sold on eligible customer receivables. The facility can be drawn upon until the day before the date that is 30 months following the closing date, or through 15 March 2023, or earlier upon an event of default or early amortization event, as defined in the agreement. All principal amounts borrowed are due 36 months from the closing date, or 15 September 2023.

**Significant changes in the state of affairs**

On 26 October 2020, the Company successfully listed its CHESS Depositary Interests ('CDIs') over Shares of common stock (Shares) on the ASX following the issue of 22,151,899 CDIs over Shares at an issue price of A\$1.58 to raise A\$35.0 million. Each CDI represents one Share.

There were no other significant changes in the state of affairs of the Company during the financial year.

**Dividends**

The company has not declared, and does not propose to pay, any dividends for the year ended 31 December 2020. There are no dividend or dividend reinvestment plans in operation.

**Jurisdiction of Incorporation**

The Company is incorporated in the State of Delaware, United States of America and is a registered foreign entity in Australia. As a foreign company registered in Australia, the Company is subject to different reporting and regulatory regimes than Australian companies.

**Delaware law, Certificate of Incorporation and Amended and Restated Bylaws**

As a foreign company registered in Australia, the Company is not subject to Chapter 6, 6A, 6B and 6C of the Corporations Act dealing with the acquisition of Shares (including substantial shareholdings and takeovers).

Under the provisions of Delaware General Corporation Law ("DGCL"), Shares are freely transferable subject to restrictions imposed by US federal or state securities laws, by the Company's Certificate of Incorporation or Amended and Restated Bylaws, or by an agreement signed with the holders of the Shares at issuance. The Company's Amended and Restated Certificate of Incorporation and Bylaws do not impose any specific restrictions on transfer. However, provisions of the DGCL, the Company's Certificate of Incorporation and the Company's Amended and Restated Bylaws could make it more difficult to acquire the Company by means of a tender offer (takeover, a proxy contest or otherwise, or to remove incumbent offices and Directors of the Company. These provisions could discourage certain types of coercive takeover practices and takeover bids that the Board may consider inadequate and to encourage persons seeking to acquire control of the Company to first negotiate with the Board.

**Matters subsequent to the end of the financial year**

In September 2020 Zebit entered into a credit facility with Bastion Consumer Funding II LLC. The initial facility provides up to \$15.0 million in principal borrowings and was amended on 16 February 2021 to increase the facility to \$35.0 million.

No other matter or circumstance has arisen since 31 December 2020 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

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**Likely developments and expected results of operations**

Any other information on likely developments in the operations of the Company and its prospective future have not been included in this report because the Directors believe it to be commercial-in-confidence and as a result likely to result in unreasonable prejudice to the Company.

**Environmental regulation**

The Company is not subject to any significant environmental regulation under Australian Commonwealth or State law.

**Ecommerce and Consumer Financial Protection**

The regulatory framework for eCommerce companies, including Zebit, is developing and evolving, and it is possible that new laws and regulations will be adopted in the U.S., or existing laws and regulations may be interpreted in new ways, that could affect the operation of Zebit and the way in which it interacts with its registered users and active customers.

Regulators, including the Consumer Financial Protection Bureau and the Federal Trade Commission, other Federal agencies, and State executive agencies have broad discretion with respect to the interpretation, implementation and enforcement of the laws and regulations that apply to Zebit, including through enforcement actions that could subject Zebit to civil money penalties, customer remediation, increased compliance costs, and limits or prohibitions on its ability to offer certain products and services or to engage in certain activities.

**Information on Directors**

Name:	Jim Feuille
Title:	Chairman and Non-Executive Director
Qualifications:	Jim received an A.B. in Chemistry from Dartmouth College, a J.D. from the Stanford University Law School, and an MBA from the Stanford University Graduate School of Business.
Experience and expertise:	Jim Feuille has 38 years of experience in the equity capital markets including the past 19 years as a highly accomplished principal investor in venture capital at Crosslink Capital. Jim's investment focus areas at Crosslink have included enterprise software/SaaS, internet digital media and consumer services, analytics, advertising technologies, and financial technology. Jim has led Crosslink's investments in six companies which achieved billion dollar plus market cap exits or now carry billion dollar plus valuations—Omniture (NASDAQ: OMTR, IPO 2006, acquired by Adobe 2009 for \$1.8B), Ancestry.com (NASDAQ: ACOM, IPO 2009, acquired by Permira 2012 for \$1.6B), Pandora (NYSE: P, IPO 2011, average market cap at fund exit \$5.5B), Coupa (NASDAQ: COUP, IPO 2016, average market cap at fund exit \$5.1B), Personal Capital (acquired by Empower Retirement in 2020 for \$1B), and Chime (\$14.5B valuation in September 2020 Series F financing). Jim's experience relevant to Zebit includes his investment in the Series A Preferred Stock round for Sezzle (ASX: SZL), a leading company in the BNPL sector, which investment has increased 47X in value as of the date of this filing. In addition to his role at Crosslink Capital, Jim has also served as the Executive Director of the Center for Private Equity and Venture Capital at the Tuck School of Business at Dartmouth College since August 2018.
Other current directorships:	None
Former directorships (last 3 years):	None
Committee:	Member of Audit and Risk Committee, Member of Credit Committee
Interests in Shares:	22,172,085 Shares* ( <i>equivalent to 22,172,085 CDIs</i> ).
Contractual rights to Shares:	154,300** Warrants

\* Shares held through as per detail below:

- 360,578 held through Crosslink Bayview V, LLC.
- 4,377,835 held through Crosslink Crossover Fund VI, L.P.
- 6,708,209 held through Crosslink Crossover Fund VII, L.P.
- 9,549,273 held through Crosslink Ventures V, L.P.
- 818,303 held through Alternative Fund Services (Cayman) Limited Trustee Offshore Crosslink Ventures V Unit Trust dated 26 October 2005
- 358,157 held through USB Fund SVC (Cayman) Ltd TTEE Offshore Crosslink Ventures V Unit TR U/A 17 June 2005

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**\*\* Warrants held through entities as per detail below:**

- 2,509 held through Crosslink Bayview V, LLC.
- 39,931 held through Crosslink Crossover Fund VI, L.P.
- 37,219 held through Crosslink Crossover Fund VII, L.P.
- 66,456 held through Crosslink Ventures V, L.P.
- 8,185 held through USB Fund SVC (Cayman) Ltd TTEE Offshore Crosslink Ventures V Unit TR U/A 17 June 2005

**Name:** Marc Schneider  
**Title:** CEO and Executive Director  
**Qualifications:** Marc has a B.S. in economics and accounting from The Wharton School at the University of Pennsylvania and his M.B.A. in marketing and statistics from the University of Chicago's Graduate School of Business.  
**Experience and expertise:** Marc is an entrepreneur and seasoned operator with over 30 years of experience in start-ups, turnarounds, and scaling businesses across a variety of different industries. Marc began his career working for the World Bank and Inter-American Development Bank. After graduating with his MBA from the University of Chicago, he was a management consultant who worked hands-on with his clients to reduce costs, streamline operations, and launch new ventures in the U.S. and abroad. After 5 years in consulting, Marc led strategic planning for RR Donnelley and Sons in the catalog, magazine, and retail inserts businesses. He then transitioned to Mexico City where he worked for Milestone Merchants Partners as a General Manager of private equity. Marc moved back to the U.S. with his family and led operations for a former SEC Chairman, Richard Breeden who was accountable to manage the victim trust funds of WorldCom, Adelphia, and Enron. In 2006, Marc joined Provide Commerce and spent over 4 years managing customer service operations and led M&A integration for the company. In 2010, Marc joined Zulily, a private sales eCommerce sales site where he was COO and grew revenues to over \$150 million run rate during his tenure. After moving back to San Diego from Seattle, Marc was the SVP of Operations for Global Analytic Holdings and ran a \$100 million lending platform in the UK with operations in India.  
  
In 2015, Marc co-founded Zebit and built the Company from the ground up, including its technology, risk, and operational processes.  
**Other current directorships:** None  
**Former directorships (last 3 years):** None  
**Interests in Shares:** 105,490 Shares (*equivalent to 105,490 CDIs*).  
**Interests in options:** 7,083,926 Options

**Name:** Sylvia Falzon  
**Title:** Non-Executive Director (Appointed 12 August 2020)  
**Qualifications:** Sylvia has received a Masters of Industrial Relations and Human Resource Management (Honours) (Thesis on Retirement Incomes Policy) from the University of Sydney and a Bachelor of Business from the University of Western Sydney. She graduated with a Diploma in Applied Finance and Investment from FINSIA. She has been awarded a Senior Fellowship from FINSIA and a Fellow of the Australian Institute of Company Directors.  
**Experience and expertise:** Sylvia has over 35 years of experience across a range of regulated and customer facing industries including financial services, health, aged care and retail. Sylvia has significant business transformation, initial public offering, mergers and acquisitions, divestments and funds management experience. Prior to commencing her non-executive director career, Sylvia held senior roles at Aviva Investors Australia, Alpha Investment Management and National Mutual Funds Management / AXA in Australia and Globally).  
**Other current directorships:** Sylvia is currently a director of Suncorp Group Limited (ASX: SUN), Premier Investments (ASX: PMV), Regis Healthcare (ASX: REG) and Chairman of Cabrini Australia.  
**Former directorships (last 3 years):** Prior to joining the Board of Zebit, Sylvia had previously held a board position with Perpetual Limited (ASX: PPT).  
**Committee:** Chair of Nomination and Remuneration Committee  
**Interests in Shares:** 126,852 Shares (*equivalent to 126,852 CDIs*).  
**Interests in options:** 200,000 Options\*

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\* Issued under nil consideration under the Zebit, Inc 2020 Equity incentive Plan to Sylvia Falzon which will comprise her remuneration for her services for the 12 month ending 11 August 2021

Name: Miriam Rivera  
Title: Non-Executive Director (Appointed 23 October 2020)  
Qualifications: As a first-generation college student and scholarship recipient, Miriam graduated from Stanford University, where she earned the AB, AM and JD/MBA degrees. She has been honored with the Stanford Medal, awarded to fewer than 1 percent of alumni.  
Experience and expertise: Miriam Rivera is co-founder and managing director of Ulu Ventures, an early seed stage venture fund. Ulu has six investments that have achieved billion dollar plus market cap exits or now carry billion dollar plus valuations – Palantir (NASDAQ: PLTR IPO \$46B), SoFi (going public via SPAC with an \$8.65B valuation), Proterra (going public via SPAC with an \$1.5B valuation), Figure Technologies (\$1.2B in December 2019 Series C), Krux acquired by Salesforce for \$1B+ October 2016, and Guild Education (\$1B+ in November Series D). She is dedicated to increasing diversity in both the entrepreneurial and investment communities. Prior to Ulu Ventures, Miriam was vice president / deputy general counsel at Google, which she joined in 2001 as the second attorney. There she helped build and lead an award-winning global legal department. Her work to re-design and simplify contracts helped Google scale from \$85M to \$10B in revenues in five years.  
Other current directorships: None  
Former directorships (last 3 years): None  
Committee: Member of Nomination and Remuneration Committee, Member of Credit Committee  
Interests in Shares: 6,094,133 Shares\* (equivalent to 6,094,133 CDIs).  
Interests in options: Nil  
Contractual rights to Shares: 75,000 Warrants\*

\* Shares and Warrants held through Ulu Ventures Fund II, L.P.

Name: Larry Rosenberger  
Title: Non-Executive Director  
Qualifications: Rosenberger graduated from Massachusetts Institute of Technology (MIT) with a BS in Physics, and earned a Masters in Physics and two Masters in Operations Research from the University of California Berkeley.  
Experience and expertise: Larry is a pioneer in the field of predictive, decision, learning and behavioral analytics. He has a strong background in using data and analytics to invent solutions that positively impact people in the credit, insurance, retailing, health/wellness, safety and education spaces.  
Other current directorships: None  
Former directorships (last 3 years): None  
Committee: Chair of Credit Committee, Member of Audit and Risk Committee  
Interests in Shares: 1,183,825 Shares (equivalent to 1,183,825 number of CDIs).  
Interests in options: 200,000

Name: Scott Thompson  
Title: Non-Executive Director  
Qualifications: Scott hold a bachelor's degree in accounting from Stonehill College.  
Experience and expertise: Scott is the CEO of Tuition.io which focuses on reducing student loan debt. He joined Tuition.io from ShopRunner where he served as CEO and led the company's rapid retail and member network expansion over four years. Prior to ShopRunner, Thompson was CEO of Yahoo. Before that, he served as President of PayPal during its most rapid growth period. During his tenure, he helped grow revenues from \$1 billion to \$4.4 billion and established PayPal as the leading global online payment service. Previously, Thompson held executive positions with Inovant (a subsidiary of Visa), Barclays Global Investors, and Coopers & Lybrand.  
Other current directorships: Coupa (NASDAQ: COUP, IPO 2016)  
Former directorships (last 3 years): None  
Committee: Chair of Audit and Risk Committee, Member of Nomination and Remuneration Committee  
Interests in Shares: 116,859 Shares (equivalent to 116,859 CDIs).  
Interests in options: 260,000

**Zebit, Inc.**  
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'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

**Company secretary**

Kim Bradley-Ware.

**Meetings of Directors**

The number of meetings of the Company's Board of Directors ('the Board') held since the listing date on 26 October 2020 through the year ended 31 December 2020, and the number of meetings attended by each Director were:

	Full Board		Nomination and Remuneration Committee <sup>1</sup>		Audit and Risk Committee <sup>2</sup>		Credit Committee <sup>3</sup>	
	Attended	Held	Attended	Held	Attended	Held	Attended	Held
Jim Feuille <sup>2,3</sup>	-	-	-	-	1	1	1	1
Marc Schneider	-	-	-	-	1	-	1	-
Sylvia Falzon <sup>1</sup>	-	-	-	-	-	-	-	-
Miriam Rivera <sup>1,3</sup>	-	-	-	-	-	-	1	1
Larry Rosenberger <sup>2,3</sup>	-	-	-	-	-	1	1	1
Scott Thompson <sup>1,2</sup>	-	-	-	-	1	1	-	-

Held: represents the number of meetings held during the time the Director held office.

<sup>1</sup> Denotes a board member who is a committee member on the Nomination and Remuneration Committee

<sup>2</sup> Denotes a board member who is a committee member on the Audit and Risk Committee

<sup>3</sup> Denotes a board member who is a committee member on the Credit Committee

**Remuneration report**

Zebit Inc. is a Delaware incorporated company that is listed on the Australian Securities Exchange. This remuneration report forms part of the Directors' Report and has been prepared using the requirements of section 300A of the Australian Corporations Act 2001(Cth) as a proxy to determine the contents that the Board has chosen to report.

This remuneration report, which forms part of the Directors' report, sets out information about the remuneration of Zebit Inc. Key Management Personnel for the financial year ended 31 December 2020. The term Key Management Personnel ('KMP') refers to those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all Directors.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based remuneration
- Additional disclosures relating to key management personnel



***Principles used to determine the nature and amount of remuneration***

The objective of the Company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive remuneration
- transparency

The Nomination and Remuneration Committee is responsible for determining and reviewing remuneration arrangements for Zebit's directors and executives. The performance of the Company depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

The reward framework is designed to align executive reward to shareholders' interests. The Board has considered that it should seek to enhance shareholders' interests by:

- having economic profit as a core component of plan design
- focusing on sustained growth in shareholder wealth, consisting of growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value
- attracting and retaining high calibre executives

Additionally, the reward framework should seek to enhance executives' interests by:

- rewarding capability and experience
- reflecting competitive reward for contribution to growth in shareholder wealth
- providing a clear structure for earning rewards

In accordance with best practice corporate governance, the structure of non-executive Director and executive Director remuneration is separate.

***Non-executive Directors remuneration***

Under the By-laws, the Directors decide the total amount paid to Directors as remuneration for their services as a Director of Zebit, but the maximum aggregate remuneration permitted for all Non-Executive Directors for their service as a member of the Board of Directors is \$1,000,000 per annum.

However, under the ASX Listing Rules, the total amount of fees paid to all Non-Executive Directors must not exceed the aggregate amount of Non-Executive Directors fees approved by Shareholders in a general meeting of Zebit. This amount has been fixed at \$300,000 per annum. Any increase to the aggregate amount will require Shareholder approval. This aggregate annual sum does not include any special remuneration which the Board may grant to the Directors for special exertions or additional services performed by a Director for or at the request of Zebit, which may be made in addition to or in substitution for the Directors' fees.

***Executive remuneration***

The Company aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework has two components:

- base pay and non-monetary benefits
- stock options

All employee stock options have a 1/48<sup>th</sup> vesting schedule each month and typically also include a one-year cliff. The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary and non-monetary benefits, are reviewed annually by the Nomination and Remuneration Committee based on individual and business unit performance, the overall performance of the Company and comparable market remunerations.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the Company and provides additional value to the executive.

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**Directors' report**  
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**Details of remuneration**

Details of the remuneration of KMP of the Company are set out in the following tables

The KMP of the Company consisted of the following directors of Zebit, Inc as noted in the table below:

**Amounts of remuneration**

Details of the remuneration of key management personnel of the Company are set out in the following tables.

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total
	Cash salary and fees <sup>1</sup>	Cash bonus	Non-monetary	Super-annuation	Long service leave	Equity-Settled <sup>2</sup>	
<b>2020</b>	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
Jim Feuille	-	-	-	-	-	-	-
Miriam Rivera	-	-	-	-	-	-	-
Sylvia Falzon	-	-	-	-	-	4,529	4,529
Larry Rosenberger	-	-	-	-	-	43,876	43,876
Scott Thompson	-	-	-	-	-	44,617	44,617
<i>Executive Directors:</i>							
Marc Schneider	251,378	-	-	-	-	410,505	661,883
<i>Other Key Management Personnel:</i>							
Steve Lapin	242,608	-	-	-	-	117,513	360,121
Eric VonDohlen	279,070	17,500	-	-	-	201,660	498,230
<b>Total Remuneration</b>	<b>773,056</b>	<b>17,500</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>822,700</b>	<b>1,613,256</b>

<sup>1</sup>Cash salary and fees includes company benefits such as healthcare and 401k match.

<sup>2</sup>Stock compensation expense is a non-cash item and utilizes a Black-Scholes option calculation to determine expected value, which is amortized over the vested period.

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**Service agreements**

Name: Marc Schneider  
Title: Executive Director, President and CEO  
Base Salary: \$350,000, less applicable withholdings  
Benefits: health insurance, business travel expenses, and other customary employee benefits.  
Termination: Marc's employment may be terminated:

- (i) at any time upon mutual written agreement of the parties;
- (ii) by Zebit immediately and without prior notice for "cause";
- (iii) immediately upon death or disability;
- (iv) by Zebit other than for "cause" and with advance written notice of at least 6 months;
- (v) by Marc, other than due to death, with advanced written notice of at least 6 months; or
- (vi) by Marc for good reason with advanced written notice to Zebit and opportunity to cure and, if not cured, resignation shall be effective no later than 6 months following the initial occurrence of the event triggering good reason.

The executive employment agreement provides that if Zebit terminates Marc's employment without "cause" or Marc terminates his employment for "good reason", he will be entitled to receive, subject to his timely execution and non-revocation of a release of claims:

- (i) continuing severance payments equal to his then-current base salary less applicable withholdings for a period of twelve months;
- (ii) a lump sum severance payment equal to the unpaid bonus that he would have earned under Zebit's bonus plan for any performance period completed prior to the termination date;
- (iii) accelerated vesting as to the portion of the option awards that would have vested during the severance period; and
- (iv) reimbursements for his health insurance premiums for up to 12 months.

The executive employment agreement also provides that if Zebit or a successor corporation terminates Marc without "cause" or Marc terminates his employment for "good reason" within 12 months following a change of control, subject to his timely execution and non-revocation of a release of claims, Marc will be entitled to the same severance described above, except that Marc would receive accelerated vesting as to 100% of his option awards.

Incentives Marc is eligible to participate in the Company's 2020 Stock Plan and currently holds 7,083,926 Options over Shares.

Other KMP remuneration is shown as follows

**Zebit, Inc.**  
**Directors' report**  
**31 December 2020**

Name: Steve Lapin  
Title: Chief Financial Officer and Treasurer  
Base Salary: \$300,000, less applicable withholdings.  
Benefits: health insurance, business travel expenses, and other customary employee benefits.  
Termination: Steve's employment may be terminated:

- (i) at any time upon mutual written agreement of the parties;
- (ii) by Zebit immediately and without prior notice for "cause";
- (iii) immediately upon death or disability;
- (iv) by Zebit other than for "cause" and with advance written notice of at least 6 months;
- (v) by Steve, other than due to death, with advanced written notice of at least 6 months; or
- (vi) by Steve for good reason with advanced written notice to Zebit and opportunity to cure and, if not cured, resignation shall be effective no later than 6 months following the initial occurrence of the event triggering good reason.

The executive employment agreement provides that if Zebit terminates Steve's employment without "cause" or Steve terminates his employment for "good reason", Steve will be entitled to a receive, subject to his timely execution and non-revocation of a release of claims:

- (i) continuing severance payments equal to Steve's then-current base salary less applicable withholdings for a period of nine months;
- (ii) a lump sum severance payment equal to the unpaid bonus that Steve would have earned under Zebit's bonus plan for any performance period completed prior to the termination date;
- (iii) accelerated vesting as to the portion of the option awards that would have vested during the severance period; and
- (iv) reimbursements for Steve's health insurance premium for up to 9 months.

The executive employment agreement also provides that if Zebit or a successor corporation terminates Steve without "cause" or Steve terminates his employment for "good reason" within 12 months following a change of control, subject to his timely execution and non-revocation of a release of claims, Steve will be entitled to the same severance described above, except that Mr. Lapin would receive accelerated vesting as to 100% of his option awards.

Incentives: Steve is eligible to participate in the Company's 2020 Stock Plan and currently holds 1,510,841 Options over Shares.

**Zebit, Inc.**  
**Directors' report**  
**31 December 2020**

Name:	Eric VonDohlen
Title:	Chief Credit Officer
Base Salary:	\$300,000, less applicable withholdings.
Benefits:	health insurance, business travel expenses, and other expenses consistent with the Company's expense policy.
Termination:	Eric's employment may be terminated:  (i) at any time upon mutual written agreement of the parties; (ii) by Zebit immediately and without prior notice for "cause"; (iii) immediately upon death or disability; (iv) by Zebit other than for "cause" and with advance written notice of at least 6 months; (v) by Eric, other than due to death, with advanced written notice of at least 6 months; or (vi) by Eric for good reason with advanced written notice to Zebit and opportunity to cure and, if not cured, resignation shall be effective no later than 6 months following the initial occurrence of the event triggering good reason.  The executive employment agreement provides that if Zebit terminates Eric's employment without "cause" or Eric terminates his employment for "good reason", Eric will be entitled to a receive, subject to his timely execution and non-revocation of a release of claims:  (i) continuing severance payments equal to Eric's then-current base salary less applicable withholdings for a period of three months; (ii) a lump sum severance payment equal to the unpaid bonus that Eric would have earned under Zebit's bonus plan for any performance period completed prior to the termination date; (iii) accelerated vesting as to the portion of the option awards that would have vested during the severance period; and (iv) reimbursements for Eric's health insurance premiums for up to 3 months.  The executive employment agreement also provides that if Zebit or a successor corporation terminates Eric without "cause" or Eric terminates his employment for "good reason" within 12 months following a change of control, subject to his timely execution and non-revocation of a release of claims, Eric will be entitled to the same severance described above, except that Eric would receive accelerated vesting as to 100% of his option awards.
Incentives:	Eric is eligible to participate in the Company's 2020 Stock Plan and currently holds 780,000 Options over Shares.

***Share-based remuneration***

***Issue of Shares***

No Shares were issued to Directors and other key management personnel as part of remuneration during the year ended 31 December 2020

**Zebit, Inc.**  
**Directors' report**  
**31 December 2020**

*Options*

The terms and conditions of each grant of options over Shares affecting remuneration of Directors and other key management personnel in this financial year or future reporting years are as follows:

Name	Number of options granted	Grant date	Expiry date	Exercise price
Marc Schneider	1,178,615	4 February 2020	4 February 2030	US\$0.19
Marc Schneider	1,200,000	26 October 2020	26 October 2030	US\$0.74
Sylvia Falzon***	200,000	26 October 2020	26 October 2030	US\$0.74
Larry Rosenberger**	200,000	4 February 2020	4 February 2030	US\$0.19
Scott Thompson*	200,000	4 February 2020	4 February 2030	US\$0.19
Steve Lapin	403,841	4 February 2020	4 February 2030	US\$0.19
Steve Lapin	250,000	26 October 2020	26 October 2030	US\$0.74
Eric VonDohlen	780,000	4 February 2020	4 February 2030	US\$0.19

\* Options granted will comprise his remuneration for his services for the year ending 31 December 2020. 1/48th of the Options granted to Scott Thompson will vest each month after a 1-year cliff is achieved and provided that Scott remains a Non-Executive Director of the Company as at the applicable date. The Company does not intend to pay any cash director's fees or grant any additional Options to Scott Thompson for the six month period ending 30 June 2021.

\*\* These options granted will comprise his remuneration for his services for the year ending 31 December 2020. 1/48th of the Options granted to Larry will vest each month after a 1-year cliff is achieved and provided that Larry remains a Non-Executive Director of the Company as at the applicable date. The Company does not intend to pay any cash director's fees or grant any additional Options to Larry Rosenberger for the six month period ending 30 June 2021.

\*\*\* These options granted will comprise her remuneration for her services for the 12 month period ending 11 August 2021. 1/48th of the Options granted to Sylvia will vest each month after a 1-year cliff is achieved and provided that Sylvia remains a Non-Executive Director of the Company as at the applicable date.

Options granted carry no dividend or voting rights.

*Warrants*

The terms and conditions of each grant of warrants over Shares affecting remuneration of Directors and other key management personnel in this financial year or future reporting years are as follows:

Name	Number of rights granted	Grant date <sup>1</sup>	Expiry date	Exercise price
Jim Feuille (held through Crosslink)	154,300	22 October 2020	31 December 2021	US\$1.00
Miriam Rivera (held through Ulu)	<u>75,000</u>	22 October 2020	31 December 2021	US\$1.00
	<u>229,300</u>			

<sup>1</sup>Preferred warrants were issued in 2016 and converted to Common warrants upon listing.

There were no warrants over Shares granted to or vested by directors and other key management personnel as part of remuneration during the year ended 31 December 2020.

**Zebit, Inc.**  
**Directors' report**  
**31 December 2020**

***Additional disclosures relating to key management personnel***

***Shareholding***

The number of Shares in the Company held during the financial year by each Director and other members of key management personnel of the Company, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Additions ****	Other *****	Balance at the end of the year
2020					
Jim Feuille ***	19,823,856	-	-	2,348,229	22,172,085
Marc Schneider	105,490	-	-	-	105,490
Sylvia Falzon (Appointed 12 August 2020)	-	-	126,582	-	126,582
Miriam Rivera ** (Appointed 23 October 2020)	5,860,415	-	-	233,718	6,094,133
Larry Rosenberger *	834,919	-	-	348,906	1,183,825
Scott Thompson	-	-	-	116,859	116,859
	<u>26,624,680</u>	<u>-</u>	<u>126,582</u>	<u>3,047,712</u>	<u>29,798,974</u>

\* *Held through Rosenberger Revocable Trust*

\*\* *Held through Ulu Ventures Fund II, L.P.*

\*\*\* *360,578 held through Crosslink Bayview V, LLC.*

*4,377,835 held through Crosslink Crossover Fund VI, L.P.*

*6,708,209 held through Crosslink Crossover Fund VII, L.P.*

*9,549,273 held through Crosslink Ventures V, L.P.*

*818,303 held through MUFG Alternative Fund Services (Cayman) Limited Trustee Offshore Crosslink Ventures V Unit Trust dated 26/10/05*

*358,157 held through USB Fund SVC (Cayman) Ltd TTEE Offshore Crosslink Ventures V Unit TR U/A 17/06/05*

\*\*\*\* *Additions represent subscription from initial public offer*

\*\*\*\*\* *Other represents conversion from convertible notes.*

***Option holding***

The number of options over Shares in the Company held during the financial year by each Director and other members of key management personnel of the Company, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
2020 - Options over Shares					
Marc Schneider	4,705,311	2,378,615	-	-	7,083,926
Sylvia Falzon	-	200,000	-	-	200,000
Larry Rosenberger	-	200,000	-	-	200,000
Scott Thompson	60,000	200,000	-	-	260,000
Steve Lapin	857,000	653,841	-	-	1,510,841
Eric VonDohlen	-	780,000	-	-	780,000
	<u>5,622,311</u>	<u>4,412,456</u>	<u>-</u>	<u>-</u>	<u>10,034,767</u>

***Warrant holding***

The number of warrant over Shares in the Company held during the financial year by each Director and other members of key management personnel of the Company, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Vested	Expired/ forfeited/ other	Balance at the end of the year
Warrant over Shares					
Jim Feuille (held through Crosslink)	154,300	-	-	-	154,300
Miriam Rivera (held through Ulu)	75,000	-	-	-	75,000
	<u>229,300</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>229,300</u>

**Zebit, Inc.**  
**Directors' report**  
**31 December 2020**

**Shares under options**

Unissued Shares of Zebit, Inc. under option at the date of this report are as follows:

Type of Security	Number under option	Exercise Price	Expiry date
2015 Stock Plan	2,077,392	US\$0.40	10 years from grant date
2015 Stock Plan	1,683,500	US\$0.39	10 years from grant date
2015 Stock Plan	7,098,922	US\$0.19	10 years from grant date
2020 Stock Plan	<u>2,386,000</u>	US\$0.74	10 years from grant date
	<u>13,245,814</u>		

**Shares under warrants**

As at the date of this report, there were 568,935 unissued Shares of Zebit, Inc. under warrants. These warrants were issued on 22 October 2020 with an exercise price of US\$1.00.

**Indemnity and insurance of officers**

The Company's Certificate of Incorporation and Bylaws provide for the indemnification of its Directors and Officers to the maximum extent permitted by the DGCL. The Company has entered into indemnification agreements with each Officer, Director and proposed Director.

Under these indemnification agreements, the Company has agreed to indemnify, to the maximum extent and in the manner permitted by Delaware law, each officer, Director and proposed Director in respect of certain liabilities which such person may incur arising by reason of the fact that such person was an agent of Zebit. These liabilities include losses or liabilities actually and reasonably incurred by the Director or proposed Director by reason of the fact that the indemnified is or was an agent of Zebit, or by reason of anything done or not done by the indemnified in any such capacity, including legal expenses to the extent such losses or liabilities relate to action taken in good faith by the Director and in a manner the Director reasonably believed to be in, or not opposed to, the best interests of the Company and in the case of criminal proceedings where the Director had no reasonable cause to believe that the conduct was unlawful. To the extent that the Company maintains a Directors' and Officers' policy of insurance, it must ensure that the Directors are covered for the period that they are Directors

**Indemnity and insurance of auditor**

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

***This concludes the remuneration report.***

This report is made in accordance with The Directors Report


On behalf of the Directors



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26 February 2021





## Zebit, Inc.

Consolidated Financial Statements  
For the Years Ended December 31, 2020 and 2019

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



# Zebit, Inc.

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## **Independent Auditor's Report**

Board of Directors  
Zebit, Inc.  
San Diego, California

### ***Opinion***

We have audited the consolidated financial statements of Zebit, Inc. (the Company), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Responsibilities of Management for the Financial Statements***

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted



in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

*BDO USA, LLP*

San Diego, California  
February 25, 2021

## **Consolidated Financial Statements**

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# Zebit, Inc.

## Consolidated Balance Sheets (in thousands, except share and per share amounts)

December 31,	2020	2019
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 22,437	\$ 6,515
Receivables, net of allowance for doubtful accounts of \$6,385 and \$7,722 as of December 31, 2020 and December 31, 2019, respectively	28,568	21,117
Inventories	501	496
Prepays and other current assets	2,053	1,165
<b>Total current assets</b>	<b>53,559</b>	<b>29,293</b>
Property and equipment, net	40	60
Operating lease right-of-use assets, net	554	921
Intangibles, net	697	1,170
Restricted cash	150	390
Other non-current assets	333	160
<b>Total assets</b>	<b>\$ 55,333</b>	<b>\$ 31,994</b>
<b>Liabilities and stockholders' equity</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 7,423	\$ 5,082
Accrued liabilities	3,055	3,062
Operating lease liabilities, current portion	463	372
Current portion of long-term debt, net of discount	768	259
Convertible notes	-	4,121
<b>Total current liabilities</b>	<b>11,709</b>	<b>12,896</b>
Operating lease liabilities, net of current portion	259	638
Debt, net current portion and discount	15,380	11,995
Warrant liabilities	-	23
<b>Total liabilities</b>	<b>27,348</b>	<b>25,552</b>
<b>Commitments and contingencies (Note 14)</b>		
<b>Stockholders' equity</b>		
Convertible preferred stock, \$0.0001 par value; no shares authorized, issued, or outstanding as of December 31, 2020; 69,394,759 authorized and 49,761,755 issued and outstanding at December 31, 2019 (aggregate liquidation preferences of \$49,762)	-	5
Common stock, \$0.0001 par value; 250,000,000 and 84,188,640 shares authorized as of December 31, 2020 and December 31, 2019, respectively; 94,443,190 and 16,029,022 issued and outstanding at December 31, 2020 and December 31, 2019, respectively	9	2
Additional paid-in capital	93,394	64,439
Accumulated deficit	(65,418)	(58,004)
<b>Total stockholders' equity</b>	<b>27,985</b>	<b>6,442</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 55,333</b>	<b>\$ 31,994</b>

See accompanying notes to the consolidated financial statements.

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

<i>Year ended December 31,</i>	<b>2020</b>	<b>2019</b>
<b>Revenue</b>	<b>\$ 87,651</b>	<b>\$ 85,485</b>
<b>Cost of revenue</b>	<b>64,639</b>	<b>63,459</b>
<b>Gross Profit</b>	<b>23,012</b>	<b>22,026</b>
<b>Operating expenses:</b>		
Provision for uncollectible accounts	9,194	14,878
General and administrative	14,309	14,637
Sales and marketing	3,739	3,669
<b>Total operating expenses</b>	<b>27,242</b>	<b>33,184</b>
<b>Loss from operations</b>	<b>(4,230)</b>	<b>(11,158)</b>
Interest and amortization of debt discount expense	(1,503)	(1,545)
Interest income	17	70
Change in fair value of warrant liabilities	(146)	34
Change in fair value of debt instrument	(1,540)	(6)
Other income	10	225
<b>Loss before income taxes</b>	<b>(7,392)</b>	<b>(12,380)</b>
Income tax provision	22	17
<b>Net loss</b>	<b>\$ (7,414)</b>	<b>\$ (12,397)</b>
<b>Net loss per share, basic and diluted</b>	<b>\$ (0.24)</b>	<b>\$ (0.77)</b>
<b>Weighted-average shares of common stock outstanding, basic and diluted</b>	<b>\$ 31,245</b>	<b>\$ 16,029</b>

*See accompanying notes to the consolidated financial statements.*

# Zebit, Inc.

## Consolidated Statements of Stockholders' Equity (in thousands, except share and par amounts)

	Convertible Preferred Stock											Total Stockholders' Equity	
	Series Seed		Series A		Series A-1		Series B		Common Stock				
	Shares	Par Amount	Shares	Par Amount	Shares	Par Amount	Shares	Par Amount	Shares	Par Amount	Additional Paid-In Capital		Accumulated Deficit
<b>Balance at December 31, 2018</b>	3,022,527	\$ 302	12,278,336	\$ 1,228	-	-	24,349,337	\$ 2,435	1,891,223	\$ 189	\$ 54,046	\$ (45,607)	\$ 8,443
Stock-based compensation expense	-	-	-	-	-	-	-	-	-	-	288	-	288
Warrants exercised	-	-	-	-	-	-	-	-	14,137,799	1,414	140	-	141
Issuance of Series B upon conversion of notes	-	-	-	-	-	-	5,060,268	506	-	-	5,059	-	5,060
Issuance of Series B, net of issuance costs of \$146	-	-	-	-	-	-	5,051,287	505	-	-	4,906	-	4,907
Net loss	-	-	-	-	-	-	-	-	-	-	-	(12,397)	(12,397)
<b>Balance at December 31, 2019</b>	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	-	-	-	-	-	-	-	-	-	-	870	-	870
Exercise of stock options	-	-	-	-	-	-	-	-	240,298	24	63	-	63
Conversion of preferred to common stock	(3,022,527)	(302)	(12,278,336)	(1,228)	-	-	(34,460,892)	(3,446)	49,761,755	4,976	-	-	-
Conversion of convertible notes to common stock	-	-	-	-	-	-	-	-	6,260,206	626	6,923	-	6,924
Reclassification of warrants from liabilities to equity	-	-	-	-	-	-	-	-	-	-	169	-	169
Issuance of common stock in IPO, net of issuance costs \$3,750	-	-	-	-	-	-	-	-	22,151,899	2,215	20,930	-	20,931
Warrant Exercise	-	-	-	-	-	-	-	-	10	-	-	-	-
Net loss	-	-	-	-	-	-	-	-	-	-	-	(7,414)	(7,414)
<b>Balance at December 31, 2020</b>	-	\$ -	-	\$ -	-	-	-	\$ -	94,443,190	\$ 9,444	\$ 93,394	\$ (65,418)	\$ 27,985

See accompanying notes to the consolidated financial statements.



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

<i>Year Ended December 31,</i>	<b>2020</b>	<b>2019</b>
<b>Operating activities</b>		
Net loss	\$ (7,414)	\$ (12,397)
Adjustments to reconcile net loss to net cash used in operating activities		
Allowance for doubtful accounts	9,194	14,878
Stock-based compensation expense	870	288
Gain on disposal of property and equipment	-	(9)
Non-cash lease expense	367	329
Non-cash interest expense	8	68
Amortization of debt issuance	301	153
Change in fair value of warrant liabilities measured at fair value	146	(34)
Change in fair value of IPO convertible notes measured at fair value	1,540	6
Depreciation and amortization	528	353
Changes in operating assets and liabilities		
Accounts receivable	(16,645)	(22,917)
Inventories	(5)	(230)
Prepaid expenses and other current assets	(642)	(797)
Other assets	(173)	-
Accounts payable	2,341	(83)
Accrued liabilities	(8)	2,030
Operating lease liability	(288)	(314)
<b>Net cash used in operating activities</b>	<b>(9,880)</b>	<b>(18,676)</b>
<b>Investing activities</b>		
Purchase of property and equipment	(13)	(7)
Purchase or development of intangible assets	(267)	(1,119)
<b>Net cash used in investing activities</b>	<b>(280)</b>	<b>(1,126)</b>
<b>Financing activities</b>		
Principal payments on debt	(12,555)	(933)
Proceeds from PPP loan	1,140	-
Proceeds from other debt and credit facilities, net of issuance costs	15,000	4,383
Proceeds for issuance of convertible notes, net of issuance cost	1,263	9,085
Proceeds from exercise of stock options	63	-
Proceeds from initial public offering, net of issuance costs	20,931	-
Proceeds from exercise of warrants	-	141
Proceeds from sale of preferred stock, net of issuance cost	-	4,905
<b>Net cash provided by financing activities</b>	<b>25,842</b>	<b>17,581</b>
Net increase (decrease) in cash, cash equivalents and restricted cash	15,682	(2,221)
Cash, cash equivalents and restricted cash at beginning of period	6,905	9,126
<b>Cash, cash equivalents and restricted cash at end of period</b>	<b>\$ 22,587</b>	<b>\$ 6,905</b>
<b>Supplemental disclosures of cash flows information</b>		
Cash paid for income taxes	\$ 16	\$ 1
Cash paid for interest	\$ 1,020	\$ 1,363
<b>Supplemental disclosure of non-cash investing and financing activities</b>		
Conversion of convertible notes and accrued interest to preferred	\$ -	\$ 5,060
Conversion of convertible notes and accrued interest to common stock	\$ 6,924	\$ -
Conversion of preferred stock to common stock	\$ 49,762	\$ -
Reclassification of stock warrant liabilities to equity	\$ 169	\$ -

*See accompanying notes to the consolidated financial statements.*

# Zebit, Inc.

## Notes to Consolidated Financial Statements

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### 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 County, 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.

The Company’s common stock began trading on the Australian Securities Exchange (ASX) in October 2020 under the symbol “ZBT”.

#### *Initial Public Offering*

In October 2020, the Company completed its initial public offering (the “IPO”) on the ASX, in which it sold an aggregate of 22,151,899 shares of the Company’s common stock at a public offering price of AUD 1.58 (USD 1.11) per share. The Company received gross cash proceeds of \$24.7 million before deducting offering costs of \$3.8 million, resulting in net proceeds of \$20.9 million.

In addition, each of the following occurred in connection with the completion of the IPO:

- The conversion of all outstanding shares of convertible preferred stock into an aggregate 49,761,755 shares of common stock;
- The conversion, of all outstanding preferred stock warrants into common stock warrants; the fair value on date of conversion of the preferred stock warrant liability of \$168,734 was reclassified as additional paid-in-capital; and,
- The conversion of an aggregate of \$5.5 million of outstanding convertible notes and accrued interest into an aggregate of 6,260,206 shares of common stock.

#### *COVID-19 Pandemic*

In March 2020, the World Health Organization announced the novel coronavirus COVID-19 as a global pandemic. COVID-19 began causing disruptions in the U.S. and Australia, causing significant volatility in capital markets around the world. 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) eliminated all Company retirement plan (401(k)) matching contributions, which is still in place as of December 31, 2020, (ii) a reduction in force consisting of 20 employees, (iii) temporarily reduced all employees’ salaries from 100% to a range of 85-90% of base salary, with a return to regular salaries phased over June to November 2020, (iv) executed a 6 month interest-only amendment to the previously-outstanding Silicon

# Zebit, Inc.

## Notes to Consolidated Financial Statements

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Valley Bank (“SVB”) Term Loan, (v) negotiated a two-month payment deferral on the Company’s office space for July and August 2020, (vi) entered into an agreement to sublease all of the square footage of the Company’s primary office space, effective beginning February 2021, and in November, management moved the Company to a much smaller and lower cost office space while COVID-19 restrictions continue to make working from an office challenging, and (vii) took on additional borrowings in the form of a \$1.1M Paycheck Protection Program Loan (“the PPP”) as part of the United States Government stimulus or Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), which was fully forgiven in January 2021.

### ***Financial Statement Presentation and Use of Estimates***

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

The Company’s consolidated financial statements are prepared on a consolidated basis and include the accounts of the Zebit Be Free, 2020-1 Statutory Trust (“Zebit Be Free”) for which the Company is the sole beneficial owner, and responsible for the organizational expenses of the trust. Zebit Be Free was established in 2020 in connection with the Company’s credit facility discussed in Note 6. Prior to this, the Company consolidated the Zebit Be Free, 2018-1 Statutory Trust, which had been established in 2018 in connection with the Company’s previous credit facility, and for which the Company was also the sole beneficial owner. Upon termination of the previous credit facility in October 2020, Zebit Be Free, 2018-1 was made dormant and is in the process of dissolution. All transactions between Zebit, Inc. and Zebit Be Free, and Zebit, Inc. and Zebit Be Free, 2018-1, 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 certain stock warrants classified as liabilities, and income taxes, among others. The convertible debt instrument and the liability-classified stock warrants were previously recorded at fair value, until their conversion to common stock and common stock warrants, respectively, upon the October 2020 IPO. 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

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### **Restricted Cash**

As of December 31, 2020, restricted cash is composed of 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, 2020-1 trust agreement. As of December 31, 2019, restricted cash is composed of 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, 2018-1 trust agreement and a cash reserve account required under the Company's previous credit facility, which was subject to the control of the lender's collateral agent. Upon termination of the previous credit facility in October 2020, Zebit Be Free, 2018-1 is currently dormant and in the process of dissolution.

### **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 until delivered to our customers. All inventory in-transit is recorded at cost on the balance sheet. No substantial losses on inventory were incurred during the years ended December 31, 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 December 31, 2020 or 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 amounts against accounts receivable. In determining the amount of the allowance, 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 can experience significant credit losses on accounts receivable.

### **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

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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 14 for further information.

### ***Revenue Recognition***

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

### ***Cost of Revenues***

Cost of revenues consists of the purchase price of goods sold to customers, outbound shipping costs, and dropship processing fees. Dropship processing fees represent vendor charges for fulfilling orders, including receiving, inspecting, picking, packaging and preparing goods for shipment. Shipping costs for the years ended December 31, 2020 and 2019 were \$2.8 million and \$2.8 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. Advertising costs for the years ended December 31, 2020 and 2019 were \$3.4 million and \$3.3 million, respectively.

### ***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 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

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### ***Fair Value Election***

Prior to the conversion to common stock, the Company accounted for 2019 IPO convertible notes issued in December 2019 at fair value, pursuant ASC 825, *Financial Instruments*. The Company determined to elect the fair value option due to complexity associated with various potential settlement outcomes per the terms of the notes. Upon the completion of the IPO, the convertibles notes and accrued interest were converted into common stock.

### ***Fair Value Measurements***

Prior to the conversion to common stock, the Company used fair value measurements for the 2019 IPO convertible notes issued in December 2019 for which the Company had elected the fair value option pursuant to ASC 825. In addition, prior to their conversion to common stock warrants, the Company used fair value measurements for certain liability-classified stock warrants. Upon the completion of the IPO, the convertibles notes (and accrued interest) were converted into common stock, and the warrants were converted into common stock warrants and were no longer liability-classified and subject to fair value measurement.

ASC 820, *Fair Value Measurement*, establishes a framework for measuring fair value and requires disclosures about fair value measurements. The standard establishes a fair value hierarchy which distinguishes between inputs that are observable in the marketplace, and therefore more objective, and those that are unobservable and therefore more subjective. Companies are required to use observable inputs when available. Additional disclosures are required for unobservable inputs.

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

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

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

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

### ***Income Taxes***

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

# Zebit, Inc.

## Notes to Consolidated Financial Statements

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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. The result of the CARES Act on the business was the receipt of a \$1.1 million PPP Loan, received in May 2020 and forgiven by the U.S. Small Business Administration (“the SBA”) in January 2021.

### ***Net Loss Per Share***

Basic net loss per share is computed by dividing net loss by the weighted average number of common shares outstanding during the same period. Diluted net loss per share is computed by dividing net loss by the weighted average number of common and common equivalent shares outstanding during the same period. The Company excludes common stock equivalents from the calculation of diluted net loss per share when the effect is anti-dilutive.

For purposes of the diluted net loss per share calculation, the convertible preferred stock, convertible notes, stock warrants, and stock options are considered to be dilutive securities. Basic and diluted net loss attributable to common stockholders per share is presented in conformity with the two class method required for participating securities as the convertible preferred stock is considered a participating security. The Company’s participating securities do not have a contractual obligation to share in the Company’s losses. As such, the net loss was attributed entirely to common stockholders. Accordingly, for the years ended December 31, 2020 and 2019, there is no difference in the number of shares used to calculate basic and diluted shares outstanding.

# Zebit, Inc.

## Notes to Consolidated Financial Statements

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The following securities that could potentially decrease net loss per share in the future were not included in the determination of diluted loss per share as their effect is anti-dilutive:

<i>December 31,</i>	<b>2020</b>	<b>2019</b>
Shares issuable upon conversion of convertible preferred stock	-	49,761,755
Outstanding stock options	<b>13,245,814</b>	8,440,309
Convertible notes (1)	-	4,657,490
Warrants to purchase common stock	<b>568,935</b>	568,945
	<b>13,814,749</b>	<b>63,428,499</b>

(1) The conversion of the convertible notes into common stock assumes a conversion price of \$0.88 per share and includes the conversion of the principal balance and all accrued interest as of the stated date (see Note 6).

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

## **2. Revenue**

The Company recognizes revenue in accordance with Accounting Standards Codification ("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



## Zebit, Inc.

### Notes to Consolidated Financial Statements

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customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and, (v) recognize revenue when (or as) the entity satisfies a performance obligation.

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

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

The Company collects a down payment upon the customer's completion of the order. The amount that the Company collects from customers prior to the delivery of goods and the recognition of revenue is recorded as a customer deposit in accrued liabilities until the goods are delivered. As of December 31, 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 vendors, who are resellers of the goods, are not visible to customers and have no contractual obligations to customers. 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

## Zebit, Inc.

### Notes to Consolidated Financial Statements

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collected from the customer, net of the amount paid or due to the warrantor for purchase of the warranties by the Company.

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

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

The Company's revenues have been entirely sourced in the United States. The following tables shows the Company's revenues for each of the years ended December 31, 2020 and 2019 by significant product type (in thousands):

	2020		2019	
E-certificates	\$	45,253	\$	44,174
Electronics		27,413		27,127
All other		14,985		14,184
Total revenue	\$	87,651	\$	85,485

### 3. Property and Equipment, Net

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

<i>December 31,</i>	2020		2019	
Computer equipment	\$	113	\$	100
Furniture and fixtures		51		51
Leasehold improvements		5		5
Property and equipment, gross		169		156
Less accumulated depreciation		(129)		(96)
Total property and equipment, net	\$	40	\$	60

Depreciation expense was \$33,165 and \$34,966 for the years ended December 31, 2020 and 2019, respectively.

## Zebit, Inc.

### Notes to Consolidated Financial Statements

#### 4. Intangible Assets, Net

Intangible assets consisted of the following (in thousands):

<i>December 31,</i>	<b>2020</b>	<b>2019</b>
Patents and trademarks	\$ 18	\$ 18
Software (purchased or developed)	1,580	1,397
Software under development	-	201
Intangible, gross	<b>1,598</b>	1,616
Less accumulated amortization	<b>(901)</b>	(446)
Total intangibles, net	<b>\$ 697</b>	<b>\$ 1,170</b>

Amortization expense was \$495,136 and \$317,558 for the years ended December 31, 2020 and 2019, respectively. The net carrying value of intangible assets as of December 31, 2020 is expected to be recognized over a weighted average amortization period of 1.9 years. As of December 31, 2020, future amortization expense for intangible assets is \$391,986 in 2021, \$253,957 in 2022 and \$47,817 in 2023.

#### 5. Fair Value Measurement

Prior to their conversion to common stock, the Company used fair value measurements for convertible notes issued in December 2019 (“2019 IPO Notes”) for which the Company had elected the fair value option pursuant to ASC 825. In addition, prior to their conversion to common stock warrants, the Company used fair value measurements for certain liability-classified stock warrants. These liabilities were subject to recurring measurement and measured using Level 3 inputs per the fair value hierarchy established in ASC 820. Refer to Note 6 regarding the 2019 IPO Notes, and Note 9 regarding the stock warrants. Upon the completion of the IPO, the convertibles notes (and accrued interest) were converted into common stock, and the warrants were converted into common stock warrants, at which time both of these instruments were no longer liability-classified and subject to fair value measurement, and were reclassified to equity.

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

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

# Zebit, Inc.

## Notes to Consolidated Financial Statements

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

The changes in the fair values of these instruments for the years ended December 31, 2020 and 2019 were as follows (in thousands):

	2019 IPO Notes	Stock Warrants
Fair value as of December 31, 2018	-	57
Issuance	4,115	-
Change in fair value	6	(34)
Fair value as of December 31, 2019	4,121	23
Issuance	1,263	-
Change in fair value	1,540	146
Conversion to common stock/common stock warrants	(6,924)	(169)
Fair value as of December 31, 2020	\$ -	\$ -

The fair value of the 2019 IPO Notes was determined to be equal to the transaction price of the notes at initial recognition. As of December 31, 2019, the Company concluded that there was no change in the fair value of the notes since initial recognition, as there were no changes in conditions that would have impacted the fair value of the notes between the issuance date of December 17, 2019 and the balance sheet measurement date of December 31, 2019, other than for interest at the annual coupon rate of 4%, which was \$6,497. Reference to the initial transaction price to determine the fair value as of December 31, 2019 is a considered a Level 3 (unobservable) input. Until their conversion to common stock upon the IPO in October 2020, the fair value of the notes was determined by assessing the discounted probability-weighted expected return which are considered Level 3 inputs. The fair value of the 2019 IPO notes immediately prior to their conversion was estimated based on the number of share of common stock into which the notes would convert upon an IPO, using the IPO offering price of \$1.11, with a 100% probability assigned to the outcome that the notes would convert to common stock on the date of the IPO.

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

### *Bastion Credit Facility*

In September 2020, the Company entered into a credit facility with Bastion Consumer Funding II LLC. The initial facility provides up to \$15.0 million in principal borrowings, subject to a borrowing

# Zebit, Inc.

## Notes to Consolidated Financial Statements

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base limitation of 90% of the cost of goods sold on eligible customer receivables. In February 2021 the facility was amended to increase the principal borrowing amount to \$35.0 million. The facility can be drawn upon until the day before the date that is 30 months following the closing date, or through 15 March 2023, or earlier upon an event of default or early amortization event, as defined in the agreement. All principal amounts borrowed are due 36 months from the closing date, or 15 September 2023, 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, the Zebit Be Free 2020-1 Statutory Trust ("Zebit Be Free"). Zebit Be Free is the debtor under the credit facility and the Company is the servicer responsible for servicing the eligible receivables. An eligible customer receivable is one that meets the eligibility criteria of the agreement. Customer payments on eligible receivables are required to be remitted into a lockbox account and the payments deposited into the lockbox account are transferred to a collections account (subject to a deposit account control agreement) whereby such available collections are distributed to make the interest payment and any required principal payment with the excess amount funded to the parent company, Zebit, Inc., as beneficial owner of the trust certificate. Outstanding borrowings bear interest, payable monthly, at a rate of 3-month LIBOR (subject to a 1% LIBOR floor) plus 12%, unless outstanding loan amounts exceed \$20.0 million in which such rate shall be 3-month LIBOR plus 10.5%.

The Company must adhere to certain covenants during the term of the agreement. Failure to meet financial covenants, 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. Also, pursuant to the agreement, the Company will be prohibited from issuing any other additional senior debt and will be prohibited from making any other distributions or paying any dividends except that the Company will be permitted to make tax distributions and other distributions to its members once cumulative retained earnings are positive, but at such time distributions will be limited to 50% of current year earnings. As of December 31, 2020, the Company was in compliance with the covenants.

The Company incurred \$290,600 in costs related to entry into the credit facility, which were recorded as deferred financings costs in other assets and are being amortized on a straight-line basis over the term of the credit facility.

As of December 31, 2020, the principal balance outstanding was \$15.0 million and the interest rate applicable to the principal balance outstanding was 13.0%. As of December 31, 2020, the aggregate receivables held by Zebit Be Free pursuant to the terms of the credit facility agreement was \$33.4 million.

### ***Paycheck Protection Program***

In May 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 SBA.

## Zebit, Inc.

### Notes to Consolidated Financial Statements

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The PPP Loan was originally scheduled to mature in April 2022 and bore a stated interest rate of 1.00% per annum. 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. In December 2020, the Company applied for forgiveness of the PPP loan, and in January 2021, the Company received notice that the entire principal balance and accrued interest were forgiven. No payments of principal or interest were required or made prior to forgiveness.

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 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.

As of December 31, 2020, the short-term and long-term principal balances outstanding for the PPP Loan were \$760,041 and \$380,020 respectively.

#### ***Silicon Valley Bank Term Debt***

In December 2015, the Company entered into a Loan and Security Agreement with Silicon Valley Bank ("SVB") which, as amended, provided for term loans in an aggregate amount up to \$3,000,000.

The Company used IPO proceeds to repay all amounts due to SVB in October 2020.

#### ***Route 66 Credit Facility***

In August 2018, the Company entered into a credit facility with Route 66 HF Holdings, LLC. The facility initially provided up to \$10,000,000 in principal borrowings (increased to \$12.0 million in September 2019 and \$14.0 million in December 2019), subject to a borrowing base limitation of 90% of the cost of goods sold on eligible customer receivables. Borrowings were collateralized by all of the Company's personal property, including eligible receivables which were required to be held in a separate, wholly owned legal entity, Zebit Be-Free 2018-1.

As of December 31, 2019, the Company was not in compliance with the minimum liquidity ratio. The Company worked with RT66 on an amendment to the definition in February 2020 and in September 2020, the Company refinanced Route 66 with the new Bastion facility, discussed above. All principal and interest outstanding under the Route 66 credit facility was repaid and the facility was terminated.

#### ***June 2019 Convertible Notes***

In June 2019, the Company issued subordinated convertible promissory notes ("2019 Notes") to certain investors, including certain existing beneficial owners, whereby the Company sold, and the 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,

## Zebit, Inc.

### Notes to Consolidated Financial Statements

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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, and the principal amount of the notes and \$60,265 of accrued interest automatically converted into 5,060,268 shares of Series B preferred stock, at the conversion price of \$1.00 per share.

#### ***December 2019 IPO Convertible Notes***

In December 2019, the Company issued subordinated convertible promissory notes ("2019 IPO Notes") to certain accredited investors, whereby the Company agreed to sell, and the accredited investors agreed to purchase, convertible notes in the aggregate principal amount \$4,114,450. During the year ended December 31, 2020, the Company issued additional notes in the aggregate principal amount of \$1,262,500 (net of the note repurchase, discussed below). The 2019 IPO Notes bore 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 was due upon the earlier of (i) December 31, 2020 or (ii) the occurrence of an event of default. The Outstanding Amount would 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. The 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.

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 a secondary investor. The Company, the

# Zebit, Inc.

## Notes to Consolidated Financial Statements

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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 December 31, 2019, the principal balance outstanding was \$4,114,450, and the fair value carrying amount was \$4,120,947.

In October 2020, the Company completed a qualified IPO, as defined in the 2019 IPO Notes, and the outstanding principal amount of the notes of \$5,376,950 and \$162,092 of accrued interest automatically converted into 6,260,206 shares of common stock, at a conversion price of \$0.8848 per share.

### 7. Convertible Preferred Stock

As of 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

#### *Conversion Ratio*

Each share of preferred stock is convertible, at the option of the holder, into shares of common stock as is determined by dividing the original issue price by the conversion price of \$1.00.

#### *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



# Zebit, Inc.

## Notes to Consolidated Financial Statements

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dividend at least equal to the dividend per share as if the preferred share had been converted into common stock.

### ***Liquidation***

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

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

### ***Voting***

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

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

### ***Conversion Rights***

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

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

# Zebit, Inc.

## Notes to Consolidated Financial Statements

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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.

Upon the IPO in October 2020, the preferred stockholders, pursuant to the election available in the then-effective certificate of incorporation, as amended, consented to the conversion of preferred stock to common stock. All outstanding preferred stock was converted to common stock.

In September and October 2019, the Company completed an extension of its Series B preferred stock offering whereby the Company issued an additional 5,051,287 shares of Series B preferred stock for a cash price of \$1.00 per share. No warrants were issued. The Company also issued 5,060,268 shares of Series B preferred stock upon the conversion of outstanding June 2019 Convertible Notes triggered by the extended Series B equity financing.

## **8. Common Stock**

As of December 31, 2020, and December 31, 2019, the Company was authorized to issue up to 250,000,000 and 84,188,640 respectively, of \$0.0001 par value common stock. As of December 31, 2020, and December 31, 2019, 94,443,190 and 16,029,022 shares, respectively, were issued and outstanding. Each holder of common stock is entitled to one vote for each share of common stock held. The holders of common stock are entitled to receive dividends when, as and if declared by the board of directors.

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.

In October 2020, the Company completed its IPO, in which it sold an aggregate of 22,151,899 shares of the Company's common stock at a public offering price of AUD 1.58 (USD 1.11) per share. The Company received gross cash proceeds of \$24.7 million, before deducting offering costs of \$3.8 million.

In addition, each of the following occurred in connection with the completion of the IPO:

- The conversion of all outstanding shares of convertible preferred stock into an aggregate 49,761,755 shares of common stock; and,
- The conversion of an aggregate of \$5.5 million of the outstanding 2019 IPO Notes and accrued interest into an aggregate of 6,260,206 shares of common stock.

### ***Registration Rights Agreement***

In October 2020, the Company entered into a registration rights agreement with certain holders of its common stock, including certain members of, and affiliates of, the Company's directors, and its chief executive officer, which provides the holders of common stock with certain

# Zebit, Inc.

## Notes to Consolidated Financial Statements

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registration rights, including the rights to demand that the Company file a registration statement or request that their shares be covered by a registration statement that the Company is otherwise filing. The rights to demand that the Company file a registration statement are effective after the earlier of (i) five (5) years after the date of this Agreement or (ii) one hundred eighty (180) days after the effective date of the registration statement for the Company's first underwritten public offering of its Common Stock under the U.S. Securities Act of 1933 (the "Securities Act"). If the Company receives a request from holders of at least thirty percent (30%) of the registerable securities then outstanding that the Company file a registration statement, and if net offering proceeds would exceed \$15 million, then the Company shall give notice to all other holders, and in any event within thirty 30 days of such request, file a registration statement under the Securities Act covering all securities requested to be registered.

### 9. Stock Warrants

Prior to completion of the IPO in October 2020, the Company's preferred shares that may have been issuable upon the exercise of warrants contained a contingent redemption feature, which would have required 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 then-current certificate of incorporation). Accordingly, the Company accounted for these warrants as liabilities at their estimated fair values, which were subject to re-measurement at each balance sheet date. Changes in fair value of the stock warrant liabilities were recognized in the statement of operations. Upon the IPO, all outstanding preferred stock warrants were converted into common stock warrants. At that time, the warrant liabilities were adjusted to their fair value at the date of conversion, with changes to the fair value recorded in the statements of operations and the final fair value of \$168,734 was then 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 had the characteristics of a prepaid forward sale of equity. The warrants were recorded as additional paid in capital at their relative fair value at issuance and were 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.

As of December 31, 2020 and 2019 there were 568,935 and 568,945 warrants to purchase common stock outstanding, respectively, with an exercise price of \$1.00 per share. The warrants are exercisable any time prior to their expiration. Of the 568,935 warrants outstanding, 508,935 expire upon the earlier of December 31, 2021, the closing of an IPO pursuant to the Securities Act of 1933, or a sale of the Company; 40,000 expire ten years from their issuance date of December 18, 2015; and, 20,000 expire ten years from their issuance date of September 30, 2017.

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## Notes to Consolidated Financial Statements

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### 10. Equity Incentive Plan

The Company's board of directors adopted the 2020 Equity Incentive Plan on August 12, 2020 (the "Plan"). The Plan allows the Company to grant restricted stock, restricted stock units, stock appreciation rights and stock option awards, all issuable in shares of common stock of the Company, to directors, employees and consultants of the Company. To date, no awards have been issued pursuant to restricted stock, restricted stock unit, or stock appreciation rights agreements. The Plan is administered by the Company's board of directors who determines the vesting provisions, exercise price and other terms for each award, provided that the exercise price of a stock option may not be less than the fair market value of a share of stock on the effective date of grant. As of December 31, 2020, up to 17,493,140 shares of common stock were authorized for issuance under the Plan and 3,845,805 shares remained available for future issuance. Incentive Plan contains an "evergreen" provision that allows annual increases in the number of shares available for issuance on the first day of each calendar year in an amount equal to the lesser of: (i) 5% of the total number of shares of common stock outstanding as of December 31 of the preceding calendar year, or (ii) such lesser number of shares as determined by the Board. Restricted stock unit awards may be granted upon such conditions as the Committee shall determine, including, without limitation, upon the attainment of one or more performance goals.

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

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

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

- Fair value of common stock - Subsequent to the IPO completed in October 2020, the fair of the shares of common stock underlying stock options is determined based on the closing trading price of the Company's common stock on the effective date of the grant. Prior to the IPO, the fair value of the shares of common stock underlying stock options was determined by the board of directors. Because there was no public market for the Company's common stock prior to the IPO in October 2020, the fair value was estimated at the time of grant using a number of variables including the common stock value of comparable, public companies, sales of the Company's preferred stock, the Company's historical and projected financial performance, general and industry-specific economic outlook, and a marketability adjustment to reflect the lack of liquidity for the Company's common stock, amongst other factors.

## Zebit, Inc.

### Notes to Consolidated Financial Statements

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- Expected term - The expected term is the period that options are expected to be outstanding. As the Company does not have significant historical exercise behavior, it determines the expected life assumption using the simplified method, which is an average of the contractual option term and its vesting period.
- Expected volatility - Since the Company's stock was not traded in an active market until October 2020, the Company calculates volatility by using the stock price volatility of similar public companies for a historical period the same as the expected term of the Company's options, and averaging the volatilities of these companies.
- Risk-free interest rate - The Company bases the risk-free interest rate on the market yield in effect at the time of option grant provided from the Federal Reserve Board's statistical releases and historical publications from the U.S. Department of Treasury constant maturities rates for terms equivalent to the expected term of the option.
- Dividends - The Company has not, and does not expect to pay dividends over the expected term of options. Therefore, the Company uses an expected dividend yield of zero.

The following weighted-average assumptions were used to estimate the fair value of options granted for the years ended December 31, 2020 and 2019:

	2020	2019
Common stock price	\$0.97	\$0.19
Risk free interest rate	1.01%	2.51%
Expected term (years)	6.0	6.0
Expected volatility	56%	52%
Dividend rate	0%	0%
Weighted average grant date fair value	\$0.73	\$0.10

## Zebit, Inc.

### Notes to Consolidated Financial Statements

Following is a summary of the Company's stock option activity for the years ended December 31, 2020 and 2019:

	Number of Shares Underlying Outstanding Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
<b>Outstanding at December 31, 2018</b>	8,441,538	\$0.29	8.11	-
Granted	77,000	\$0.20		-
Exercised	-	-		-
Forfeited	(78,229)	\$0.29		-
<b>Outstanding at December 31, 2019</b>	8,440,309	\$0.29	7.12	\$ -
Granted	5,568,831	\$0.43		\$ -
Exercised	240,298	\$0.26		\$ -
Forfeited and Expired	(523,028)	\$0.23		\$ -
<b>Outstanding at December 31, 2020</b>	13,245,814	\$0.35	7.51	\$ 5,264
<b>Exercisable at December 31, 2020</b>	6,631,179	\$0.30	6.11	\$ 2,942
<b>Vested and expected to vest at December 31, 2020</b>	12,562,087	\$0.34	7.42	\$ 5,064

Options granted during the years ended December 31, 2020 and 2019 had a weighted average grant date fair value of \$0.73 and \$0.10, respectively. Options vested during the years ended December 31, 2020 and 2019 had an aggregate fair value of \$744,458 and \$236,706, respectively.

The intrinsic value of an option is the difference between the option exercise price and fair value of the common stock. As of December 31, 2020, the intrinsic value of outstanding stock options was \$5.3 million. As of December 31, 2019, the exercise prices of outstanding stock options exceeded the fair value of the common stock, therefore the intrinsic value of outstanding options was zero.

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The Company recognized stock-based compensation expense for the years ended December 31, 2020 and 2019 as follows in the statements of operations (in thousands):

	2020		2019
General and administrative	\$ 828	\$	277
Sales and marketing	42		11
<b>Total stock-based compensation</b>	<b>\$ 870</b>	<b>\$</b>	<b>288</b>

As of December 31, 2020, there was \$2,960,472 of unrecognized stock-based expense to be recognized over a weighted-average remaining service period of 2.79 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, deferment 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 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 year ended December 31, 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 and was granted a loan of \$1.1 million under the Paycheck Protection Program, which was fully forgiven in January 2021.

## Zebit, Inc.

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#### 12. Income Taxes

For the years ended December 31, 2020 and 2019, income tax expense was \$21,918 and \$17,386, respectively, and consisted of the following components (in thousands):

	2020	2019
<b>Current</b>		
Federal	\$ -	\$ -
State	22	17
<b>Deferred</b>		
Federal	(929)	(2,537)
State	(206)	(220)
Valuation allowance	1,135	2,757
<b>Net provision</b>	<b>\$ 22</b>	<b>\$ 17</b>

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

<i>As of December 31,</i>	2020	2019
Net operating loss carryforward	\$ 9,166	\$ 8,097
Reserves and allowances	1,429	1,767
R&D and other tax credit carryforwards	78	99
Disallowed interest	279	-
Accrued liabilities	(56)	(54)
Other	178	35
Net deferred tax assets before valuation allowance	11,074	9,944
Valuation allowance	(11,074)	(9,944)
<b>Net deferred tax assets</b>	<b>\$ -</b>	<b>\$ -</b>

The Company has established a full valuation allowance against its net deferred tax assets due to significant uncertainty surrounding the realization of such assets considering the cumulative operating losses incurred by the Company through December 31, 2020.

As of December 31, 2020 and 2019, the Company does not have any unrecognized tax benefits. The Company has not recorded any material interest or penalties in its historical financial statements. Any interest or penalties incurred in future periods will be recorded as a component of income tax expense (provision).

At December 31, 2020, the Company had federal and state net operating loss carryforwards of approximately \$40.2 million and \$12.5 million, respectively. Federal net operating losses originating after 2017 have no expiration date, however utilization of these net operating loss



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carryforwards to offset future taxable income is limited to 80% of taxable income each year beginning after December 31, 2020. The total amount of federal operating loss carryforwards originating prior to 2018, and state operating loss carryforwards, will begin to expire in 2035. Pursuant to Internal Revenue Code Sections 382 and 383, use of the Company's federal net operating loss and credit carryforwards may be limited upon a cumulative change in ownership of more than 50% within a three-year period. The Company has not performed an analysis to determine if an ownership change has occurred.

The Company's income tax returns may be subject to examination by federal and state taxing authorities for the years 2017 - 2020. Because application of tax laws and regulations for many types of transactions is susceptible to varying interpretations, amounts reported in the consolidated financial statements could be changed later upon final determination by taxing authorities. Management believes that the Company has no uncertain tax positions that could materially affect its financial statements.

### 13. Vendor Concentration

During 2020 the company had 3 vendors that accounted for approximately \$45.6 million or 74.2% of the company's total cost of products. At December 31, 2020 the amount payable to these vendors was \$6.1 million. During 2019 the company had 3 vendors that accounted for approximately \$40.6 million or 67.3% of the company's total cost of products. At December 31, 2019 the amount payable to these vendors was \$3.0 million.

### 14. 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 July 2022 with no renewal options. In December 2020, and effective February 2021, the Company entered into an agreement to sublease all of the square footage of its corporate office location to a third party beginning in February 2021 for a term ending contemporaneously with the term of the Company's lease agreement for the lease of the office location. The monthly sublease rate is approximately 90%

## Zebit, Inc.

### Notes to Consolidated Financial Statements

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of the monthly rate the Company pays to lease the location, a result of the suppressed commercial real estate market driven by COVID-19. The loss upon exit of the lease facility was not material.

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

Operating lease expense for the years ended December 31, 2020 and 2019, was \$434,633 and \$399,334, respectively.

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

As of December 31, 2020, future annual minimum lease payments for the corporate office lease were as follows (in thousands):

*Years ending December 31,*

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2021	\$	491
2022		263
<hr/>		
Total lease payments		754
Less: imputed interest		(32)
<hr/>		
Lease liability as of December 31, 2020	\$	722

#### ***Employee Benefit Plan***

The Company had a defined contribution 401(k) benefit plan (the "401(k) Plan") for all eligible employees, which was terminated in June 2020. The 401(k) Plan permitted participants to contribute up to the amount allowable under federal limits of annual pre-tax compensation to the 401(k) Plan. The Company matched 100% of the first 4% of the employee's contribution, which fully vested upon contribution. The Company contributed \$62,300 and \$165,732 to the 401(k) Plan for the years ended December 31, 2020 and 2019.

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### *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.

### **15. 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 February 25, 2021, the date the financial statements were issued.