ACTIAN CORPORATION

Consolidated Financial Statements

December 31, 2019 and 2018

(With Independent Auditors' Report Thereon)

KPMG LLP
Mission Towers I
Suite 100
3975 Freedom Circle Drive
Santa Clara, CA 95054

Independent Auditors' Report

The Board of Directors
Actian Corporation:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Actian Corporation and its subsidiaries (the Company), which comprise the consolidated balance sheet as of December 31, 2019, and the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the 2019 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Actian Corporation and its subsidiaries as of December 31, 2019, and the results of their operations and their cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 2 to the consolidated financial statements, in 2019 the Company adopted new accounting guidance Financial Accounting Standards Board's Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*. Our opinion is not modified with respect to this matter.

Other Matter

The accompanying consolidated financial statements of Actian Corporation and its subsidiaries as of December 31, 2018 and for the year then ended were audited by other auditors, whose report thereon dated May 30, 2019, and expressed an unmodified opinion on those financial statements.

KPMG LLP

Santa Clara, California
June 12, 2020

ACTIAN CORPORATION

Consolidated Balance Sheets

December 31, 2019 and 2018

(In thousands, except share and per share data)

Assets		**2019**	**2018**
Current assets:			
Cash and cash equivalents	$	13,815	13,576
Accounts receivable (net of allowance of $0 and $111 as of December 31, 2019 and 2018, respectively)		31,116	23,848
Prepaid expenses and other current assets		8,356	5,049
Total current assets		53,287	42,473
Property and equipment – net		2,434	1,701
Goodwill		86,063	86,033
Intangible assets – net		7,956	11,325
Deferred tax assets		4,741	11,426
Other assets		2,836	1,176
Total assets	$	157,317	154,134
Liabilities and stockholders' equity			
Current liabilities:			
Accounts payable	$	1,690	730
Accrued compensation		9,465	9,596
Accrued liabilities		4,382	4,541
Accrued liabilities – related parties		2,212	—
Current portion of notes payable – related parties		1,280	1,280
Preferred stock warrant liability		—	—
Income taxes payable		3,832	317
Deferred revenue		26,134	47,323
Other current liabilities		—	61
Total current liabilities		48,995	63,848
Notes payable – long term:			
Notes payable with related parties		115,120	126,400
Income taxes payable – long term		3,769	2,663
Deferred revenue – long term		1,271	2,067
Deferred income tax liabilities		2,333	2,807
Deferred rent – long term		327	39
Total liabilities		171,815	197,824
Commitments and contingencies (note 12)			
Stockholders' equity:			
Common stock, $0.01 par value per share 1,000 shares authorized, issued and outstanding as of December 31, 2019 and 2018		—	—
Additional paid-in capital		39,645	37,215
Accumulated other comprehensive loss		(2,049)	(1,734)
Accumulated deficit		(52,094)	(79,171)
Total stockholders' equity (deficit)		(14,498)	(43,690)
Total liabilities and stockholders' equity	$	157,317	154,134

See accompanying notes to consolidated financial statements.

ACTIAN CORPORATION

Consolidated Statements of Operations

Years ended December 31, 2019 and 2018

(In thousands)

	2019	2018
Revenue:		
Subscription license fees	$ 62,680	62,316
Perpetual license fees	28,746	27,065
Maintenance and support	19,054	16,461
Professional services and training	2,261	3,523
Total revenue	112,741	109,365
Costs of revenue:		
Costs of license fees, professional services, and training	17,122	16,488
Amortization of acquired intangible assets	992	1,481
Total costs of revenue	18,114	17,969
Gross profit	94,627	91,396
Operating expenses:		
Sales and marketing	26,189	20,723
Research and development	23,445	23,369
General and administrative	15,840	14,732
Acquisition, restructuring and retention costs	6,080	16,022
Amortization of acquired intangible assets	2,362	2,957
Total operating expenses	73,916	77,803
Income from operations	20,711	13,593
Other income (expenses):		
Interest and other income	58	48
Change in value of preferred stock warrant liability	—	(1,148)
Interest and other expense	(9,427)	(10,120)
Loss on extinguishment of debt	—	(6,675)
Income (loss) before income taxes	11,342	(4,302)
Income tax expense (benefit)	3,920	(451)
Net income (loss)	$ 7,422	(3,851)

See accompanying notes to consolidated financial statements.

ACTIAN CORPORATION

Consolidated Statements of Comprehensive Income (Loss)

Years ended December 31, 2019 and 2018

(In thousands)

		2019	2018
Net income (loss)	$	7,422	(3,851)
Other comprehensive income (loss) – foreign currency translation – net of tax		(315)	(555)
Comprehensive income (loss) – net of tax	$	7,107	(4,406)

See accompanying notes to consolidated financial statements.

ACTIAN CORPORATION

Consolidated Statements of Stockholders' Equity

Years ended December 31, 2019 and 2018

(In thousands, except share amounts)

	Stockholders' equity										
	Convertible preferred stock							Accumulated			
	Series A		Series B		Common stock		Additional	other		Total	
	Shares	Amount	Shares	Amount	Shares	Amount	paid-in capital	comprehensive loss	Accumulated deficit	stockholders' equity	Total equity
Balance – December 31, 2017	40,000,000	$ 400	3,221,372	$ 32	1,391,431	$ 13	88,440	(1,179)	(75,320)	12,386	12,386
Exercise of stock options	—	—	—	—	10,000	—	9	—	—	9	9
Extinguishment of previously outstanding equity upon acquisition (note 1)	(40,000,000)	(400)	(3,221,372)	(32)	(1,401,431)	(13)	(75,969)	—	—	(76,414)	(76,414)
Additional investment by Parent in connection with the acquisition of the Company (note 1)	—	—	—	—	1,000	—	23,630	—	—	23,630	23,630
Stock-based compensation	—	—	—	—	—	—	1,105	—	—	1,105	1,105
Net loss	—	—	—	—	—	—	—	—	(3,851)	(3,851)	(3,851)
Foreign currency translation	—	—	—	—	—	—	—	(555)	—	(555)	(555)
Balance – December 31, 2018	—	—	—	—	1,000	—	37,215	(1,734)	(79,171)	(43,690)	(43,690)
Dividend	—	—	—	—	—	—	—	—	(6,373)	(6,373)	(6,373)
Cumulative effect of the adoption of ASC 606	—	—	—	—	—	—	—	—	26,028	26,028	26,028
Additional investment by Parent in connection with the acquisition of the company (note 1)	—	—	—	—	—	—	2,430	—	—	2,430	2,430
Net income	—	—	—	—	—	—	—	—	7,422	7,422	7,422
Foreign currency translation	—	—	—	—	—	—	—	(315)	—	(315)	(315)
Balance – December 31, 2019	—	$ —	—	$ —	1,000	$ —	39,645	(2,049)	(52,094)	(14,498)	(14,498)

See accompanying notes to consolidated financial statements.

ACTIAN CORPORATION

Consolidated Statements of Cash Flows

Years ended December 31, 2019 and 2018

(In thousands)

		2019	2018
Cash flows from operating activities:			
Net income (loss)	$	7,422	(3,851)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Amortization of intangible assets		3,354	4,438
Deferred income taxes		(1,258)	(2,521)
Loss on disposal of fixed assets		13	65
Depreciation and amortization of property and equipment		902	1,156
Commissions amortization		1,736	—
Stock-based compensation		340	1,105
Loss on extinguishment of debt		—	3,525
Amortization of debt issuance costs		—	481
Change in value of preferred stock warrant liability		—	1,148
Changes in current assets and liabilities:			
Accounts receivable		(3,092)	(1,910)
Prepaid expenses and other assets		(5,169)	(1,711)
Accounts payable		955	53
Accrued compensation		(457)	2,661
Accrued liabilities		3,512	923
Income taxes payable		4,479	673
Deferred revenue		4,402	4,607
Net cash provided by operating activities		17,139	10,842
Cash flows from investing activities:			
Purchases of property and equipment		(1,405)	(1,053)
Return of capital on investment		158	—
Change in restricted cash		—	20
Net cash used in investing activities		(1,247)	(1,033)
Cash flows from financing activities:			
Debt issuance costs		—	(25)
Dividend payment		(6,371)	—
Proceeds from issuance of common stock		—	9
Proceeds from borrowings with related parties		5,000	—
Repayment of borrowings with related parties		(16,280)	(320)
Repayment of borrowings with nonrelated parties		—	(47,650)
Additional investment by HCL in connection with the acquisition of the company (see note 1)		2,430	15,701
Net cash used in financing activities		(15,221)	(32,285)
Effect of exchange rates on cash and cash equivalents		(432)	(1,740)
Net increase (decrease) in cash and cash equivalents		239	(24,216)
Cash and cash equivalents – beginning of year		13,576	37,792
Cash and cash equivalents – end of year	$	13,815	13,576
Supplemental cash flow information:			
Income taxes paid	$	446	2,641
Interest paid		9,085	12,729
Noncash investing and financing activities:			
Property and equipment additions unpaid at end of year	$	248	22
Merger-related accrued liabilities paid by the Parent		—	7,929
Extinguishment of previously outstanding debt, preferred stock, common stock and preferred stock warrants in exchange for related-party debt		—	128,000

See accompanying notes to consolidated financial statements.

(1) Description of Business

Actian Corporation (Actian or the Company), a Delaware corporation, is a wholly owned subsidiary of HCL Technologies SEP Holdings, Inc. (Parent), which was formed on March 28, 2018 as a Delaware corporation. The Parent is a legal entity for whom 80% of its common shares are owned by HCL America, Inc. and the remaining 20% of its common shares are owned by Sumeru Equity Partners, L.P. (SEP).

The Company's primary business operation is to provide enterprise data management, integration and analytics software products and services that are designed to meet the big data management demands of Fortune 500 customers, partners, and third-party hardware and software applications.

On July 17, 2018 (acquisition date), Actian entered into a purchase agreement whereby the Parent acquired Actian and its subsidiaries for cash proceeds of $330 million (hereafter referred to as the Acquisition). The Acquisition was effected by the Parent, which is a direct subsidiary of HCL America, Inc. and ultimately of HCL Technologies Limited, the latter of which is a publicly registered company in India. HCL Technologies Limited (and the two parents of Actian Corporation) has concluded that the accounting acquirer of Actian was the Parent. HCL Technologies Limited and its subsidiaries have elected not to apply pushdown accounting for this acquisition as it was concluded that this would not be relevant to the users of the financial statements. Upon completion of the acquisition, all of the previously outstanding preferred stock (Series A and Series B), common stock, preferred stock warrants, and certain vested common stock were settled and extinguished in exchange for cash consideration in the acquisition.

In connection with the payment of the proceeds for the acquisition, HCL America, Inc. repaid approximately $57.3 million of the Company's previously outstanding debt with GSO Capital Partners. The remaining balance of the outstanding debt obligation with GSO Capital Partners, approximately $47.7 million, was repaid by the Company with its remaining cash as of the date of the acquisition. In exchange for this repayment, as well as other working capital funding provided to Actian, HCL America, Inc. entered into an intercompany loan with Actian for $128 million for which principal payments are due quarterly with final payment due in 2022. Refer to note 10 for further discussion of the Company's debt arrangements.

In addition to the above contractual agreements established in connection with the acquisition, the Company established certain merger bonus plans for certain of its employees. Payment of such bonuses were based on a combination of factors including (a) the comparison of shareholdings of certain key employee to a target sale price (the Carve-out Plan), and (b) short-term incentive plan relative to certain key employees who assisted in effecting the acquisition. Total amounts for these bonuses were $6.1 million and were accrued and paid upon completion of the acquisition and have been included within "Acquisition and retention costs" on the consolidated statement of operations for the year ended December 31, 2018.

In October 2019 the Company received an addition $2.4 million in cash from the Parent as a deferred acquisition payout that was recorded in additional paid-in capital.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation and Consolidation

The consolidated financial statements include the accounts of the Company and its wholly or majority owned subsidiaries. Intercompany balances and transactions have been eliminated upon consolidation.

(b) Certain Significant Risks and Uncertainties

The Company operates in a dynamic, high-technology industry and believes that changes in any of the following areas could have a material adverse effect on the Company's future financial position, results of operations, and cash flows; ability to obtain additional financing; economic and/or political conditions or regulations; volatility in foreign currency exchange rates; fundamental changes in the technology underlying the Company's software products; market acceptance of the Company's products recently released and those products under development; loss of significant customers; changes in the overall demand for products offered by the Company; changes in certain strategic relationships or customer relationships; successful and timely completion of product development efforts; competitive pressures in the form of new product introductions by competitors or price reductions on current products; development of sales channels; litigation or other claims against the Company based on intellectual property, patent, product, regulatory, or other factors; failure to adequately protect the Company's intellectual property; ability to successfully integrate recently acquired businesses; and the hiring, training, and retention of key employees.

The COVID-19 pandemic is expected to result in a global economic slowdown, which is likely to decrease demand for a broad variety of goods and services. The severity, duration, and economic consequences of the COVID-19 pandemic are uncertain and rapidly changing. The Company expects this to have a negative impact on sales and the results of operations. In preparing the consolidated financial statements, the Company is required to make estimates, assumptions and judgments that may affect the amounts reported in the consolidated financial statements.

(c) Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, as well as reported amounts of revenue and expenses during the reporting period. Significant estimates made by management affect revenues, goodwill, provision for income taxes, uncertain tax positions, and accrued liabilities. The severity, duration, and economic consequences of the COVID-19 pandemic are uncertain and rapidly changing. As such, our accounting estimates and assumptions may change over time in response to COVID-19, and actual results could differ from those estimates materially in future periods.

(d) Revenue Recognition

The Company derives its revenues from the following sources: (i) subscription licenses, (ii) perpetual licenses, (iii) maintenance and support, and (iv) professional services.

For each arrangement, the Company recognizes revenue through the following steps: (a) identifying the contract with the customer, (b) identifying the performance obligations, (c) determining the transaction price, (d) allocating the transaction price to each of the obligations, (e) revenue is recognized as the performance obligation is satisfied.

Contracts with customers often include promises for multiple performance obligations. When a contract is established, the Company identifies the performance obligations, and allocates the determined transaction price to each of the performance obligations based on the stand-alone selling price. The Company estimates the stand-alone selling price of its performance obligations by maximizing the use of observable inputs. This includes considering actual historical selling prices for performance obligations sold on a stand-alone basis when available. When stand-alone selling prices may not be directly observable (e.g., the performance obligation is not sold separately), the Company maximizes the use of observable inputs by considering historical selling prices for similar products and selling models as well as the Company's normal pricing practices. Management applies significant judgment in estimating the stand-alone selling price of its performance obligations.

(i) *Subscription Licenses*

Subscription licenses, or term-based licenses, provide customers with an on-premise software license with related maintenance and support for a fixed period of time. The license and the maintenance and support are distinct performance obligations, with revenue from the license recognized at the point in time the software license key is made available to the customer. The maintenance and support revenue for subscription licenses is recognized on a straight-line basis over the subscription term as the underlying service is a stand-ready performance obligation. Revenue recognized for term-based licenses as well as the related maintenance and support is recorded within subscription license fees in the consolidated statement of operations.

Term-based licenses are generally offered with subscription periods of between one and five years; the majority of the Company's subscriptions have a one-year term. The Company sells its products through two principal channels: (1) direct, which includes sales by the Company's sales force; and (2) indirect, which includes sales to resellers and OEMs.

(ii) *Perpetual Licenses*

The majority of perpetual license revenue results from sales to end users and royalties from resellers, including traditional value-added resellers, systems integrators, and OEMs or other vendors who redistribute the Company's products to their external third-party customers, either separately or as a part of an integrated product. The Company's perpetual licenses are typically sold in multiple performance obligation arrangements that includes maintenance and support. Arrangements may also include professional services.

Revenue for perpetual licenses is recognized at the point in time the software license key is made available to the customer. Royalty revenues are recognized in the period of the customer's usage. Revenues related to reseller license sales involving nonrefundable fixed minimum license fees are recognized upon delivery of the product master or first copy.

(iii) *Maintenance and Support*

Maintenance and support includes telephone and web-based support and rights to software updates and upgrades on a when-and-if-available basis. Maintenance and support revenue is recognized on a straight-line basis over the service contract term as the underlying service is a stand-ready performance obligation. Maintenance and support in the consolidated statements of operations represents the revenue for these services for perpetual licenses.

(Continued)

(iv) *Professional Services and Training Revenue*

Professional services includes consulting services for installation and implementation of the Company's software, operational services, and customer training. Professional services are not considered essential to the functionality of the associated product. Training consists of customer training and education services. Professional services are sold on time-based or fixed-price arrangements, and revenue is recognized as the services are performed. Revenue for operational services is considered a stand-ready obligation and includes consulting and remote support and is recognized over the service contract term, which is commiserate with how the performance obligation is delivered.

(e) Deferred Revenue

Deferred revenue consists of billings or payments received in advance of revenue recognition, primarily from the Company's maintenance and subscription agreements described above, and is recognized as revenue when transfer of control to customers has occurred. For subscription licenses, the Company generally invoices its customers annually in advance or in quarterly installments. For perpetual licenses, customers are generally invoiced when control of the license has been transferred to the customer. Accordingly, the deferred revenue balance does not represent the total contract value of annual or multiyear arrangements and noncancelable subscription agreements. Deferred revenue that will be recognized during the succeeding 12-month period is recorded as current deferred revenue and the remaining portion is recorded as noncurrent deferred revenue.

(f) Costs of Revenue

Costs of revenue consist of costs incurred in providing training, technical support, and professional services to customers and business partners, including salaries and benefits of operations, sustaining engineering and support personnel, licensing costs, and royalties paid to third parties for purchased technology embedded in the Company's products, allocated overhead, related equipment depreciation, and amortization of developed technology intangible assets.

(g) Cash Equivalents

Cash equivalents include all highly liquid investments maturing within three months from the original maturity date.

(h) Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts to reserve for potentially uncollectible trade receivables. The Company determines provisions based on historical loss patterns, the number of days that billings are past due, and an evaluation of the potential risk of loss associated with delinquent accounts.

(Continued)

(i) Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash, cash equivalents, and trade accounts receivable. Cash and cash equivalents are deposited with major U.S. and foreign banks that management believes are creditworthy. Deposits held with banks may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and, therefore, bear minimal interest rate risk. The carrying amounts of the Company's financial instruments, including cash, cash equivalents, and receivables, approximate fair value due to the short-term nature of these instruments.

No customer accounted for more than 10% of the Company's total accounts receivable at December 31, 2019 or 2018. No customer accounted for more than 10% of total revenue in 2019 or 2018.

(j) Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is calculated on a straight-line basis over their estimated useful lives of three to five years as follows:

Computer equipment	3 Years
Computer software	3 Years
Office furniture and fixtures	5 Years

Capitalized equipment leases and leasehold improvements are amortized over the shorter of their estimated useful lives or the remaining term of the lease. Upon retirement or sale, the cost and related accumulated depreciation or accumulated amortization are removed from the consolidated balance sheets and the resulting gain or loss is reflected in general and administrative expenses in the consolidated statements of operations. Maintenance and repairs are charged to operations as incurred.

(k) Foreign Currency Translation

The functional currency of the Company's foreign subsidiaries is generally the local currency. Adjustments resulting from translating foreign functional currency financial statements into the U.S. dollars are recorded as part of a separate component of stockholders' equity and reported in the statements of comprehensive income (loss). All assets and liabilities related to these operations are translated at the current exchange rates at the end of each year. The resulting cumulative translation adjustments are recorded directly to the accumulated other comprehensive loss account in stockholders' equity. Revenues and expenses are translated at average exchange rates in effect during the year.

The foreign exchange gains (losses) from foreign currency transactions have been reflected as incurred in "Interest and other expense" of $217,000 and $163,000 for the years ended December 31, 2019 and 2018, respectively.

(l) Goodwill and Intangible Assets

Goodwill is tested for impairment annually in the fourth quarter or more frequently if facts and circumstances warrant a review. Goodwill is considered impaired if the carrying value of the reporting unit exceeds its fair value. The Company conducted its annual impairment test of goodwill in the fourth quarter of 2019 and 2018 and determined that no adjustment to the carrying value of goodwill was required.

Intangible assets consist of developed technology, customer relationships, and trade names acquired through prior acquisitions. Intangible assets with definite lives are amortized over their estimated useful lives, ranging from 2 to 15 years. Intangible assets related to certain of our acquisitions have been amortized based on expected future cash flows; all other intangibles are amortized ratably over their expected life. Developed technology and contract-based intangible assets are amortized and included as a component of costs of revenues. Other intangible assets are amortized and included as a component of operating expenses.

(m) Impairment of Long-Lived Assets

Long-lived asset groups are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset group may not be recoverable. When such events occur, the Company compares the carrying amounts of the assets to their undiscounted expected future cash flows. If this comparison indicates that there is impairment, the amount of the impairment is calculated using discounted expected cash flows at the Company’s weighted average cost of capital. No material impairment charges related to long-lived assets have been recognized during the years ended December 31, 2019 or 2018.

(n) Income Taxes

The Company accounts for income taxes using the asset-and-liability approach. The asset-and-liability approach requires the recognition of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in the Company’s consolidated financial statements or tax returns. The measurement of current and deferred tax liabilities and assets is based on provisions of the enacted tax law; the effects of future changes in tax laws or rates are not anticipated. The measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realized.

(o) Research and Development Costs

Research and development costs are charged to operations as incurred. The accounting guidance for the costs of computer software to be sold, leased, or otherwise marketed requires the capitalization of certain computer software costs incurred upon the establishment of technological feasibility. The Company believes its current process for developing software is essentially completed concurrently with the establishment of technological feasibility; therefore, no costs have been capitalized to date.

(p) Advertising Costs

Advertising costs are expensed as incurred and included in sales and marketing expenses in the consolidated statement of operations.

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(q) Stock-Based Compensation

The Company settled all stock-based compensation plans in 2018 after the acquisition in July 2018. There were no option grants during 2018 or 2019.

In 2019, the Company implemented a Phantom Share Appreciation Rights plan where the CEO and CFO were granted Phantom Share awards in the Parent entity of Actian. Under the terms of the plan, there are two tranches of awards. The vesting for one tranche of awards is satisfied through a service condition over four years, while the vesting for the second tranche is tied to performance conditions against (1) an EBITDA target for 2019 and 2020 and (2) a separate EBITDA target for 2021 and 2022. As of December 31, the Company has recorded $340,000 of expense for the first tranche of awards which is recorded in general and administrative expenses in the consolidated statement of operations. For the second tranche of awards, the Company determined that the performance condition was not probable as of the balance sheet date and no expense has been recorded for the year ended December 31, 2019. As the instruments are cash settled, the instruments are classified as a liability and recorded in accrued compensation within the consolidated balance sheets as of December 31, 2019.

Stock-based compensation expense recognized in the Company's consolidated statements of operations for the years ended December 31, 2019 and 2018, was as follows (in thousands):

		2019	2018
Costs of revenue	$	—	10
Research and development		—	71
Sales and marketing		—	23
General and administrative		340	1,001
Total stock-based compensation	$	340	1,105

(r) Recently Adopted Accounting Guidance

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Further, the guidance requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. Topic 606 also includes Subtopic 340-40, *Other Assets and Deferred Costs – Contracts* with Customers, which requires the capitalization of incremental costs to obtain a contract with a customer. Prior to the adoption of the new revenue recognition standard, the Company recognized sales commissions expense as incurred. Under the new revenue recognition standard, the Company recognizes these expenses over the period of benefit associated with these costs. This results in a deferral of sales commissions expense each period and subsequent amortization of those costs over the estimated benefit period.

(Continued)

The Company adopted the new revenue recognition accounting standard effective January 1, 2019 utilizing the modified retrospective method of transition. We applied the new revenue recognition standard only to contracts that were not completed as of January 1, 2019, consistent with the transition guidance.

The impact of the new accounting standard on a consolidated basis was as follows (in thousands).

		As of December 31, 2018	Topic 606 adoption adjustments	As of January 1, 2019
Assets:				
Accounts receivable	$	23,848	3,833	27,681
Deferred tax asset		11,426	(7,469)	3,957
Prepaid expenses and other current assets		5,049	1,353	6,402
Other assets		1,176	1,645	2,821
Liabilities and stockholders’ equity:				
Deferred revenue	$	49,390	(26,550)	22,840
Accumulated deficit		79,171	(26,012)	53,159

The most significant impact of the new revenue standard is the timing of revenue recognition for our term-based software licenses bundled with maintenance and support. Under the previous standard, revenue attributable to these software licenses was recognized ratably over the term of the arrangement because vendor-specific objective evidence (VSOE) did not exist for the undelivered maintenance and support element as it is not sold separately. The requirement to have VSOE for undelivered elements to enable the separation of revenue recognition for delivered software licenses is eliminated under the new revenue standard. Accordingly, under the new revenue standard we recognize as revenue a portion of the arrangement fee upon delivery of the software licenses. The standard also impacts our accounting for certain incremental costs to obtain contracts and the requirement to amortize these amounts over the expected period of benefit. Under the previous standard, the Company expensed costs related to the acquisition of revenue-generating contracts as incurred.

(Continued)

Adoption of the new revenue standard impacted the Company's consolidated statement of operations for the year ended December 31, 2019 as follows:

		As reported	Adjustments	Balance without Topic 606 adoption impact
Revenue:				
Subscription license fees	$	62,680	3,323	66,003
Perpetual license fees		28,746	112	28,858
Maintenance and support		19,054	(1,091)	17,963
Professional services and training		2,261	282	2,543
Total revenue	$	112,741	2,626	115,367
Sales and marketing	$	26,189	(356)	25,833
Provision for income taxes		3,920	3,636	7,556
Net income (loss)		7,422	(722)	6,700

Adoption of the new revenue standard impacted the Company's consolidated balance sheet as of December 31, 2019 as follows:

		As reported	Adjustments	Balance without Topic 606 adoption impact
			(In thousands)	
Assets:				
Accounts receivable (net of allowance of $0 and $111 as of December 31, 2019 and 2018, respectively)	$	31,116	(1,728)	29,388
Prepaid expenses and other current assets		8,356	(1,313)	7,043
Deferred tax assets		4,741	301	5,042
Other assets		2,836	(1,329)	1,507
Liabilities and stockholders' equity:				
Deferred revenue, current	$	26,134	25,205	51,339
Deferred revenue, long term		1,271	978	2,249
Accumulated deficit		(52,094)	(26,734)	(78,828)

(Continued)

There was no net impact to our consolidated statements of comprehensive income and consolidated statements of cash flows resulting from the adoption of the new revenue standard other than the impact to reported net income as presented above. The impact to our consolidated statements of stockholders' equity was only to retained earnings, as presented above.

(s) Recently Issued Accounting Guidance

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which requires lessees to recognize leases on balance sheet and disclose key information about leasing arrangements. Topic 842 establishes a Right-Of-Use (ROU) model that requires a lessee to recognize an ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement. Additionally, in 2018 and 2019, the FASB issued the following Topic 842-related ASUs:

- 2018-01, *Land Easement Practical Expedient for Transition to Topic 842*, which clarifies the applicability of Topic 842 to land easements and provides an optional transition practical expedient for existing land easements.

- 2018-10, *Codification Improvements to Topic 842, Leases*, which makes certain technical corrections to Topic 842.

- 2018-11, *Leases (Topic 842): Targeted Improvements*, which allows companies to adopt Topic 842 without revising comparative period reporting or disclosures and provides an optional practical expedient to lessors to not separate lease and non-lease components of a contract if certain criteria are met.

- 2019-01, *Leases (Topic 842): Codification Improvements*, which provides guidance for certain lessors on determining the fair value of an underlying asset in a lease and on the cash flow statement presentation of lease payments received. ASU 2019-01 also clarifies disclosures required in interim periods after adoption of ASU 2016-02 in the year of adoption.

- 2019-10, *Financial Instruments – Credit Losses (Topic 326)*, Derivatives and Hedging (Topic 815), and Leases (Topic 842), Effective Dates, which defers the effective date of ASU 2016-02 and all related Topic 842 ASUs by one year to January 1, 2021, with early adoption permitted.

The Company is planning to adopt this guidance beginning January 1, 2020.

(Continued)

(3) Balance Sheet Components

(a) Property and Equipment

Property and equipment as of December 31, 2019 and 2018, consisted of the following (in thousands):

		2019	2018
Computer equipment	$	8,764	7,368
Office furniture and fixtures		1,476	1,321
Leasehold improvements		371	501
Computer software		654	605
Construction in progress		—	161
Total property and equipment		11,265	9,956
Accumulated depreciation and amortization		(8,831)	(8,255)
Property and equipment – net	$	2,434	1,701

Depreciation and amortization expense was $0.9 million and $1.2 million for the years ended December 31, 2019 and 2018, respectively.

(b) Deferred Revenue

Deferred revenue as of December 31, 2019 and 2018, consisted of the following (in thousands):

		2019	2018
Subscription license fees	$	1,062	36,074
Maintenance and support		24,675	9,032
Perpetual license fees		—	2,820
Professional services and training		1,668	1,464
Total	$	27,405	49,390
Current portion	$	26,134	47,323
Long-term portion		1,271	2,067
Total	$	27,405	49,390

The adjusted opening balance of deferred revenue as of January 1, 2019 was $22.8 million. Significant movements in deferred revenue during the period consisted of increases due to payments received prior to transfer of control of the underlying performance obligations to the customer, which were offset by decreases due to revenue recognized in the period.

(Continued)

(4) Goodwill

The changes in goodwill for the years ended December 31, 2019 and 2018, were as follows (in thousands):

Balance – December 31, 2017	$	86,209
Other adjustments		(176)
Balance – December 31, 2018		86,033
Other adjustments		30
Balance – December 31, 2019	$	86,063

The other adjustments above relate to the remeasurement of the Company's effective of exchange rates on goodwill at certain of our foreign subsidiaries.

The Company's chief operating decision maker is its CEO. The Company has concluded that the Company has one operating segment and one reporting unit as of December 31, 2019 and 2018.

No indicators or instances of impairment of goodwill were identified during the fiscal years ended December 31, 2019 or 2018.

(5) Intangible Assets

Identifiable intangible assets and their useful lives consist of the following:

Developed technology	5–13 Years
Customer relationships	2–15 Years
Trade name	5–14 Years

Amortization expense associated with developed technology is recorded as a component of costs of revenue and was $1.0 million and $1.5 million for the years ended December 31, 2019 and 2018, respectively. Amortization expense associated with customer relationships and trade names is recorded as a component of operating expenses and was $2.4 million and $2.9 million for the years ended December 31, 2019 and 2018, respectively.

No indicators or instances of impairment of intangible assets were identified during the fiscal years ended December 31, 2019 or 2018.

A summary of identifiable intangible assets as of December 31, 2019 and 2018, were as follows (in thousands):

		2019			2018		
		Gross amount	**Accumulated amortization**	**Net amount**	**Gross amount**	**Accumulated amortization**	**Net amount**
Developed technology	$	24,730	(23,808)	922	25,290	(23,376)	1,914
Customer relationships		36,508	(29,924)	6,584	36,569	(27,895)	8,674
Trade name		3,002	(2,552)	450	3,043	(2,306)	737
Total identifiable intangible assets	$	64,240	(56,284)	7,956	64,902	(53,577)	11,325

The estimated amortization expense on identifiable intangible assets for the next five years and their remaining useful lives as of December 31, 2019, were as follows (dollars in thousands):

		Developed technology	**Customer relationships**	**Trade name**	**Total**
2020	$	532	1,640	260	2,432
2021		211	1,296	132	1,639
2022		86	1,025	16	1,127
2023		36	809	13	858
2024		31	639	11	681
After 2025		26	1,175	18	1,219
Total estimated future amortization expense	$	922	6,584	450	7,956
Remaining useful lives – December 31, 2019		2–6 Years	7–9 Years	2–7 Years	

(6) Revenue

(a) Disaggregation of Revenue

The following table provides information about disaggregated revenue by primary geographical markets (dollars in thousands):

		2019
North America	$	46,769
EMEA		48,239
APAC		17,733
Total	$	112,741

(b) Remaining Performance Obligations

Remaining performance obligations represents expected future billings not yet recognized in revenue that are contractually committed under our existing contract. This includes deferred revenue amounts and backlog (or unbilled amounts) that will be recognized as revenue in future periods.

As of December 31, the Company had remaining performance obligations of approximately $28.2 million. Of these remaining performance obligations, the Company expects to recognize revenue of 96% of this balance over the next 12 months and 4% thereafter.

(c) Contract Cost Assets

The Company recognizes an asset for the incremental costs of obtaining a contract with a customer if we expect the benefit of those costs to be longer than one year. The costs capitalized are primarily sales commissions paid to sales employees. Capitalized costs to obtain a new contract are amortized over the expected period of benefit, which we have determined to be five years. Capitalized costs as related to renewals are amortized on a portfolio basis over the weighted average of the renewal period for the product which ranges from one to three years. The Company has determined the period of benefit taking into consideration the expected subscription term and expected renewal periods of its customer contracts including historical renewals.

Amortization of capitalized costs is included in sales and marketing expense in the consolidated statements of operations. During the year ended December 31, 2019, we amortized $1.7 million of capitalized contract acquisition costs. The Company did not incur any impairment losses.

The opening balance of capitalized contract acquisition costs as of January 1, 2019 was $3.0 million. As of December 31, 2019, the balance of capitalized contract acquisition costs was $2.6 million, of which $1.3 million was recorded in prepaid expenses and other current assets, and $1.3 million was recorded in other assets within the consolidated balance sheets.

(Continued)

(7) Preferred Stock

As part of the acquisition of the Company by the Parent, all previously issued shares of preferred stock were exchanged for cash by the Parent and were extinguished and were no longer outstanding as of the acquisition date. The Company's certificate of incorporation, as amended on the date of the acquisition, no longer authorizes the Company to issue shares of convertible preferred stock. As such, no preferred stock was authorized or outstanding as of December 31, 2019 or 2018.

(8) Warrants for Preferred Stock

As part of the acquisition of the Company by the Parent, all previously issued warrants were exchanged for cash by the Parent and were extinguished and were no longer outstanding as of the acquisition date. The previously outstanding preferred stock warrants were subject to remeasurement to fair value at each balance sheet date with changes in fair value recognized as a component of other income (expenses) in the consolidated statements of operations.

The Company's Series A preferred stock warrant liability extinguished as of December 31, 2018 was as follows (dollar amounts in thousands):

		2007 Warrants	2009 Warrants	2010 Warrants	Total
Fair value – December 31, 2017	$	733	153	131	1,017
Increase in fair value in 2018		827	172	149	1,148
Extinguishment of warrants upon acquisition of the Company		(1,560)	(325)	(280)	(2,165)
Fair value – December 31, 2018	$	—	—	—	—
Number of underlying warrants outstanding – December 31, 2018	$	—	—	—	—

(9) Common Stock

The Company's certificate of incorporation, as amended, designates and authorizes the Company to issue 1,000 shares of common stock of which 1,000 were issued to the Company's Parent on the acquisition date and were outstanding as of December 31, 2019 or 2018. There are no shares reserved for issuance as of December 31, 2019 or 2018.

(10) Stock Plan

Upon completion of the acquisition of the Company by the Parent, the previously outstanding stock plans (discussed further below) were terminated. The remainder of this note reflects the stock plan activity prior to the date of acquisition.

On January 27, 2016, the board of directors adopted the 2016 Equity Incentive Plan (the 2016 Plan) as a successor to and continuation of the Company's previously outstanding option plans which expired on November 22, 2015. The 2016 Plan allows for grants of (i) Incentive Stock Options, (ii) nonstatutory stock options, (iii) stock appreciation rights, (iv) restricted stock awards, (v) restricted stock unit awards, and

(vi) other stock awards and is intended to help the Company secure and retain the services of eligible award recipients, provide incentives for such persons to exert maximum efforts for the success of the Company and any affiliate, and provide a means by which the eligible recipients may benefit from increases in value of the common stock. A total of 3,563,484 shares that were available for issuance at the date of termination under the Company's previously outstanding option plan were added to the share reserve of the 2016 Plan and became immediately available for grants and issuance pursuant to stock awards under the Plan.

As of December 31, 2018, there were no shares authorized for issuance under the 2016 Plan.

Stock option activity for the year ended December 31, 2018, was as follows:

		Options outstanding		
	Options available for grant	Number of options outstanding	Weighted-average exercise price per share	Weighted-average remaining contractual term
Balance – December 31, 2017	2,098,669	10,268,400	1.01	8.53 years
Cancellation of vested options in in exchange for cash payment	—	(8,106,350)	—	
Cancellation of unvested options in exchange for future cash payment	1,903,500	(1,903,500)	—	
Canceled and expired	248,550	(248,550)	—	
Cancellation of authorized shares upon termination of 2016 Plan	(4,250,719)	—		
Exercised	—	(10,000)	0.91	
Balance – December 31, 2018	—	—	—	

The total intrinsic value of options exercised during the years ended December 31, 2018 was $0. Total cash received from employees as a result of employee stock option exercises during the year ended December 31, 2018 was $9,000.

(11) Loan Agreements

The Company's borrowings as of December 31, 2019 and 2018, were as follows (in thousands):

With related parties		2019 Carrying value	2018 Carrying value
Total borrowings	$	116,400	127,680
Current portion		(1,280)	(1,280)
Long-term portion	$	115,120	126,400

Intercompany Loan with HCL America, Inc.

On July 17, 2018, the Company entered into a loan agreement with HCL America, Inc., a parent company of Actian Corporation, (the HCL Agreement) to borrow $127 million. On August 10, 2018, the HCL Agreement was amended to increase the amount borrowed to $128 million. Principal amounts under the HCL Agreement are payable in quarterly installments commencing with the fiscal quarter ending December 31, 2018 at a rate of 0.25% of the original principal amount. The HCL Agreement matures on July 17, 2022 with the remaining principal due upon maturity and has placed as collateral all of the property of the Company. Interest is payable quarterly in arrears at an annual interest rate of either 5.0% or 5.5% plus LIBOR depending on whether the leverage ratio for the trailing 12-month period is equal to or less than 3.25 to 1.00 or exceeds 3.25 to 1.00, respectively. The LIBOR rate resets every quarter. For the quarters ended March 31, 2019, June 30, 2019, September 30, 2019, and December 31, 2019, the HCL Agreement bore interest at a rate of 7.597%, 7.330%, 7.104%, and 6.945%, respectively. For the periods of July 17, 2018 through September 30, 2018 and from October 1, 2018 through December 31, 2018, the HCL Agreement bore interest at a rate of 7.336% and 7.803%, respectively.

The HCL Agreement includes covenants to maintain minimum net leverage ratio as well as certain other nonfinancial covenants. The Company was in compliance with the covenants of the HCL Agreement as of December 31, 2019 and 2018.

The Company made interest payments of $10.5 million and $4.3 million during the years ended December 31, 2019 and 2018, respectively.

On August 21, 2018, the Company entered into a short-term unsecured line of credit agreement with HCL America, Inc. to borrow up to $10 million before March 31, 2019, when any borrowings under this agreement must be repaid. On January 4, 2019, the Company borrowed $5 million and then fully repaid the amount borrowed plus $30,000 of interest on March 6, 2019.

GSO Debt Agreement

On June 30, 2017, the Company entered into a loan agreement with a consortium of lenders led by GSO Capital Partners (GSO), to borrow $105 million (the GSO Agreement). All of the assets of the Company were pledged as collateral as per the terms of the GSO Agreement. The GSO Agreement was set to mature on June 30, 2022 with the full $105 million principal balance due upon maturity. Interest on the GSO Agreement was payable quarterly in arrears at an annual interest rate of 7.0% plus LIBOR. The

LIBOR rate resets every six months. For the periods of December 30, 2017 through June 28, 2018, and from June 29, 2018 through July 17, 2018, the GSO Agreement bore interest at a rate of 8.83% and 9.50%, respectively.

If all or a portion of the principal balance was repaid within the first year after the closing of the GSO Agreement, then the Company would be required to pay a fee equal to the sum of 3% of the prepaid principal amount plus the present value of all interest that would have been due from the prepayment date through the first anniversary of the closing. If all or a portion of the principal balance was repaid within the second year after the closing of the GSO Agreement, then the Company would be required to pay a fee equal to 2% of the prepaid principal amount. If all or a portion of the principal balance was repaid within the third year after the closing of the GSO Agreement, then the Company would be required to pay a fee equal to 1% of the prepaid principal amount. No fees will be due if all or a portion of the principal was repaid after the third anniversary of the closing of the GSO Agreement.

The GSO agreement included covenants to maintain minimum net leverage ratios. The Company was in compliance with the covenants of the GSO Agreement during 2018.

The Company made interest payments of $5.2 million, debt issuance cost payments of $25,000 and amortized $481,000 of debt issuance costs associated with the GSO Agreement during the year ended December 31, 2018.

In July 2018, the Company used the net proceeds from the HCL Agreement to fully repay the outstanding borrowings under the GSO Agreement. The Company recognized a loss on extinguishment of debt of approximately $6.7 million during the year ended December 31, 2018. The loss of $6.7 million is reflected in loss on extinguishment of debt on the consolidated statements of operations and is comprised of $3.5 million for the write-off of the remaining unamortized issuance costs related to the GSO debt and $3.5 million prepayment penalty.

(12) Income Taxes

For the periods after the acquisition by the Parent, a consolidated income tax return is prepared by HCL America Inc. with certain of its U.S.-based subsidiaries. The Company has elected the accounting policy to prepare its income tax provision on a stand-alone basis.

The components of income (loss) before income taxes for the years ended December 31, 2019 and 2018, were as follows (in thousands):

		2019	2018
United states	$	8,684	(7,844)
International		2,658	3,542
Total income (loss) before income taxes	$	11,342	(4,302)

Income tax expense (benefit) provision for the years ended December 31, 2019 and 2018, was composed of the following (in thousands):

		2019	2018
Current:			
Federal	$	3,937	269
State		491	414
International		920	1,458
		5,348	2,141
Deferred:			
Federal		(1,400)	(2,447)
State		(44)	(280)
International		16	135
		(1,428)	(2,592)
Income tax expense (benefit) provision	$	3,920	(451)

The components of the net deferred tax assets and liabilities as of December 31, 2019 and 2018, were as follows (in thousands):

		2019	2018
Deferred tax assets:			
Net operating loss carryforwards	$	4,984	5,379
Credits		1,199	1,998
Accruals and reserves		1,164	1,767
Property and equipment		(80)	56
Deferred revenue		141	2,995
Sparql City capital loss carryover		458	461
Interest limitation		2,015	2,191
Other		103	47
Gross deferred tax assets		9,984	14,894
Valuation allowance		(5,243)	(3,468)
Net deferred tax assets		4,741	11,426
Deferred tax liabilities:			
Intangibles		(1,543)	(2,262)
Unrealized FX loss		(650)	(472)
Prepaids		(141)	(72)
Other		1	(1)
Gross deferred tax liabilities		(2,333)	(2,807)
Net deferred tax assets	$	2,408	8,619
Noncurrent deferred tax asset	$	4,741	11,426
Noncurrent deferred tax liabilities		(2,333)	(2,807)
Net deferred taxes	$	2,408	8,619

Due to improvements in the Company's operations and after considering all positive and negative evidence, the Company believes it is more likely than not that the Company will utilize its U.S. net deferred tax assets. As such, the Company has provided a partial valuation allowance of $2.1 million against its federal deferred tax asset, which primarily relates to the capital loss carryforward and 163j interest limitation, as it is more likely than not that the future benefit will not be realized due to the Company not expecting to recognize any capital gains within the next five years. Additionally, the Company has provided a partial valuation allowance of $3.2 million against its California deferred tax asset, which primarily relates to net operating loss carryforwards and research and development credit carryforwards as it is more likely than not that these future benefits will not be realized due to reduced California apportionment.

(Continued)

As of December 31, 2019, the Company had federal, and state net operating loss carryforwards of approximately $13.7 million, and $30.2 million, respectively. These net operating loss carryforwards will expire in varying amounts beginning 2021. As of December 31, 2019, the Company has California research and development credit carryforwards of $4.7 million. The California research and development credit may be carried forward indefinitely. These net operating loss carryforwards and tax credit carryforwards have been adjusted for applicable Section 382 limitations.

The total amount of gross unrecognized tax benefits was $7.7 million and $7.7 million, including penalties and interest of $311,000 and $191,000 as of December 31, 2019 and 2018, respectively. As of December 31, 2019 and 2018, the amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was $4.5 million and $4.4 million, respectively, including penalties and interest for each year. The Company estimates that there will be no material change in its uncertain tax positions in the next 12 months.

The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. Total interest and penalties recognized in the consolidated statements of operations were $311,000 and $191,000 in 2019 and 2018, respectively.

The Company conducts business globally and, as a result, files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities throughout the world, including such major jurisdictions as the United States, California, Germany, and the United Kingdom. The Company is currently under audit or examination by the IRS for 2017, the state of New York for 2016 through 2018, Actian France for 2017 and 2018 and Actian Germany for 2016 through 2018. The federal statute of limitations remains open for years 2007 through 2018. The California statute of limitations remains open for years 2006 through 2018. The United Kingdom statute of limitations remains open for years 2011 through 2018. The German statute of limitations remains open for years 2014 through 2018.

The company has provided for U.S. federal and state income taxes on all of the non-U.S. subsidiaries' undistributed earnings as of December 31, 2019 because such earnings are not intended to be indefinitely reinvested. As of December 31, 2019, cumulative unremitted foreign earnings that are considered to not be permanently invested outside of the United States and on which U.S. taxes have been provided were approximately $390,000. The U.S. tax impact, when such amounts are remitted would be zero.

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act (TCJA), thereby enacting the law. The TCJA subjects a U.S. shareholder to tax on GILTI earned by certain foreign subsidiaries. An entity can make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or to provide for the tax expense related to GILTI in the year the tax is incurred as a period expense only. At December 31, 2018, we finalized our policy and have elected to use the period cost method for GILTI provisions and, therefore, have not recorded deferred taxes for basis differences expected to reverse in future periods.

(13) Commitments and Contingencies

(a) Operating Leases

The Company leases its facilities under operating leases that expire through 2027. Approximate remaining future minimum lease payments under these leases as of December 31, 2019, were as follows (in thousands):

Years ending December 31:		
2020	$	1,535
2021		722
2022		683
2023		725
2024		746
2025 and later		2,237
Total	$	6,648

Rent expense under the Company's operating leases was approximately $2.0 million and $2.4 million for the years ended December 31, 2019 and 2018, respectively.

(b) Contingencies

From time to time, the Company may have certain contingent liabilities that arise in the ordinary course of its business activities. The Company accrues a liability for such matters when it is probable that future expenditures will be made and such expenditures can be reasonably estimated.

(c) Commitments

As of December 31, 2019, the Company had $1.1 million of contingent commitments, with remaining terms of more than one year, to SaaS providers, which commitments become due if the Company terminates any of these agreements prior to their expiration. At present, the Company does not intend to terminate any of these agreements prior to their expiration. Future required payments as of December 31, 2019 were as follows (in thousands):

		Contingent commitments
Years ending December 31:		
2020	$	670
2021		252
2022		150
Total	$	1,072

(d) Guarantees and Indemnification Obligations

The Company has agreements whereby the Company indemnifies its officers and directors for certain events or occurrences while the officer or director is, or was, serving in such capacity. The term of the indemnification period is for the officer's or director's lifetime for actions performed by the officer or director while with the Company. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has directors' and officers' liability insurance coverage that limits its exposure and enables it to recover a portion of any future amounts paid up to policy limits.

The Company's commercial agreements contain indemnification provisions in the ordinary course of business. Pursuant to these provisions, the Company indemnifies and agrees to reimburse the indemnified party for losses incurred by the indemnified party, generally the Company's customers, in connection with any intellectual property right infringement claim by any third party with respect to the Company's software. The term of these indemnification obligations is described in the contract signed with the respective third party. This provision is often heavily negotiated, and the Company makes an effort to have the intellectual property indemnification limited to the value of the contract signed with the respective third party. In each of these circumstances, payment by the Company is conditioned on the other party making a claim pursuant to the procedures specified in the particular contract, which procedures typically allow the Company to challenge the other party's claim. Further, the Company's obligations under these agreements may in certain cases be limited in terms of time and/or amount, and in some instances, the Company may have recourse against the third parties for certain payments made by the Company. There are occasions, however, where the maximum potential amount of future payments the Company could be required to make under these intellectual property indemnification provisions is unlimited. It is not possible to predict the maximum potential amount of future payments under these or similar agreements due to the conditional nature of the Company's obligations and the facts and circumstances involved in each particular agreement. The Company does not record a liability for claims related to indemnification unless the Company concludes that the likelihood of a material claim is probable and estimable. Based on historical experience and information known as of December 31, 2019, the Company has not incurred any costs for these indemnities.

The Company warrants that its products will perform in all material respects in accordance with its standard published specification documentation in effect at the time of delivery of the licensed products to the customer for the warranty period of the product. For professional service engagements, the Company warrants that the work will be performed in a skilled and competent manner. If necessary, the Company would provide for the estimated cost of warranties based on specific warranty claims and claim history; however, the Company has not incurred significant expense to date under its warranties. As a result, the Company believes that any liability under these agreements is nominal and has not recognized any related warranty accrual.

(14) Related-Party Transactions

The Company has agreements for management services with HCL America, Inc. and Sumeru Equity Partners L.P., majority shareholders of the Parent, which wholly owns the Company. During the years ended December 31, 2019 and 2018, the Company recorded $1,600,000 and $729,000, respectively, related to these services, which are reflected in general and administrative expense in the consolidated statements of operations and comprehensive income (loss).

During 2019 the Company engaged HCL to perform certain services and recorded the following expenses related to these services:

- $617,000 in costs of license fees, professional services, and training
- $26,000 in sales and marketing
- $1,878,000 in research and development
- $486,000 in general and administrative

During 2019, the Company declared and paid dividends of $6.4 million to the Parent.

During 2018, the Company entered into a loan agreement with HCL America, Inc., a parent company of Actian Corporation, (the HCL Agreement) to borrow $128 million, and a short-term unsecured line of credit agreement for up to $10 million. Refer to note 11.

(15) Subsequent Events

The Company has evaluated subsequent events from the balance sheet date through June 12, 2020, the date at which the consolidated financial statements were available to be issued.

On April 30, 2020, the Company lent HCL $5 million under a loan agreement, in which the Company agreed to lend HCL one or more loans in an aggregate amount not to exceed $25 million. The intent of this loan is to invest the Company’s excess cash with HCL on a short-term basis and earn interest at LIBOR plus 0.70%.

Additionally, on May 13, 2020, the Company declared a dividend payment to the Parent for $2.2 million to the shareholders of record as of June 15, 2020.