# Actian Corporation

Consolidated Financial Statements as of and for the
Years Ended December 31, 2018 and 2017, and
Independent Auditors' Report

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**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors and Stockholders of
Actian Corporation
Palo Alto, California

We have audited the accompanying consolidated financial statements of Actian Corporation and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for the years 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company'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 Company'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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2018 and 2017, and the consolidated results of their operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

May 30, 2019

# ACTIAN CORPORATION

## CONSOLIDATED BALANCE SHEETS
## AS OF DECEMBER 31, 2018 AND 2017
## (In thousands, except share and per share data)

| | 2018 | 2017 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 13,576 | $ 37,792 |
| Restricted cash | - | 21 |
| Accounts receivable (net of allowance of $111 and $182 as of December 31, 2018 and 2017, respectively) | 23,848 | 22,147 |
| Prepaid expenses and other current assets | 5,049 | 3,569 |
| Total current assets | 42,473 | 63,529 |
| PROPERTY AND EQUIPMENT—Net | 1,701 | 1,875 |
| GOODWILL | 86,033 | 86,209 |
| INTANGIBLE ASSETS—Net | 11,325 | 15,801 |
| DEFERRED TAX ASSETS | 11,426 | 10,396 |
| OTHER ASSETS | 1,176 | 1,049 |
| TOTAL ASSETS | $154,134 | $178,859 |

(Continued)

# ACTIAN CORPORATION

## CONSOLIDATED BALANCE SHEETS
## AS OF DECEMBER 31, 2018 AND 2017
## (In thousands, except share and per share data)

| | 2018 | 2017 |
|---|---|---|
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | $ 730 | $ 686 |
| Accrued compensation | 9,596 | 6,991 |
| Accrued liabilities | 4,541 | 3,599 |
| Current portion of notes payable - related parties | 1,280 | - |
| Preferred stock warrant liability | - | 1,017 |
| Income taxes payable | 317 | 276 |
| Deferred revenue | 47,323 | 42,967 |
| Other current liabilities | 61 | 200 |
| Total current liabilities | 63,848 | 55,736 |
| NOTES PAYABLE—Long term: | | |
| Notes payable with related parties | 126,400 | - |
| Notes payable with nonrelated parties | - | 101,019 |
| Total notes payable-long term | 126,400 | 101,019 |
| INCOME TAXES PAYABLE—Long term | 2,663 | 2,012 |
| DEFERRED REVENUE—Long term | 2,067 | 3,404 |
| DEFERRED INCOME TAX LIABILITIES | 2,807 | 4,201 |
| DEFERRED RENT—Long term | 39 | 101 |
| Total liabilities | 197,824 | 166,473 |
| COMMITMENTS AND CONTINGENCIES (Note 12) | | |
| STOCKHOLDERS' EQUITY: | | |
| Series A convertible preferred stock, $0.01 par value per share—authorized, 0 shares and 40,555,207 shares; as of December 31, 2018 and 2017, respectively; issued and outstanding 0 shares and 40,000,000 shares as of December 31, 2018 and 2017, respectively | - | 400 |
| Series b convertible preferred stock, $0.01 par value per share—authorized, 0 shares and 4,000,000 shares; as of December 31, 2018 and 2017, respectively; issued and outstanding 0 shares and 3,221,372 shares as of December 31, 2018 and 2017, respectively | - | 32 |
| Common stock, $0.01 par value per share—authorized, 1,000 shares and 60,000,000 shares as of December 31, 2018 and 2017, respectively; issued and outstanding 100 shares and 1,391,431 shares as of December 31, 2018 and 2017, respectively | - | 13 |
| Additional paid-in capital | 37,215 | 88,440 |
| Accumulated other comprehensive loss | (1,734) | (1,179) |
| Accumulated deficit | (79,171) | (75,320) |
| Total stockholders' equity (deficit) | (43,690) | 12,386 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $154,134 | $178,859 |

See notes to consolidated financial statements. (Concluded)

## ACTIAN CORPORATION

### CONSOLIDATED STATEMENTS OF OPERATIONS
### FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
### (In thousands)

| | 2018 | 2017 |
|---|---|---|
| REVENUE: | | |
| Subscription license fees | $ 62,316 | $ 55,600 |
| Perpetual license fees | 27,065 | 28,683 |
| Maintenance and support | 16,461 | 18,627 |
| Professional services and training | 3,523 | 4,208 |
| Total revenue | 109,365 | 107,118 |
| COSTS OF REVENUE: | | |
| Costs of license fees, professional services, and training | 16,488 | 18,102 |
| Amortization of acquired intangible assets | 1,481 | 2,160 |
| Total costs of revenue | 17,969 | 20,262 |
| GROSS PROFIT | 91,396 | 86,856 |
| OPERATING EXPENSES: | | |
| Sales and marketing | 20,723 | 17,633 |
| Research and development | 23,369 | 23,000 |
| General and administrative | 14,732 | 14,192 |
| Acquisition, restructuring and retention costs | 16,022 | 2,285 |
| Amortization of acquired intangible assets | 2,957 | 3,689 |
| Total operating expenses | 77,803 | 60,799 |
| INCOME FROM OPERATIONS | 13,593 | 26,057 |
| OTHER INCOME (EXPENSES): | | |
| Interest and other income | 48 | 60 |
| Change in value of preferred stock warrant liability | (1,148) | 74 |
| Interest and other expense | (10,120) | (10,197) |
| Loss on extinguishment of debt | (6,675) | (2,070) |
| INCOME (LOSS) BEFORE INCOME TAXES | (4,302) | 13,924 |
| INCOME TAX BENEFIT | (451) | (5,075) |
| NET INCOME (LOSS) | (3,851) | 18,999 |
| LESS NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTEREST | - | 421 |
| NET INCOME (LOSS) ATTRIBUTABLE TO EQUITY OWNERS OF ACTIAN CORPORATION | $ (3,851) | $ 18,578 |

See notes to consolidated financial statements.

## ACTIAN CORPORATION

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**
**(In thousands)**

| | 2018 | 2017 |
|---|---|---|
| NET INCOME (LOSS) | $(3,851) | $18,999 |
| OTHER COMPREHENSIVE INCOME—Foreign currency translation—net of tax | (555) | 1,161 |
| COMPREHENSIVE INCOME (LOSS)—Net of tax | (4,406) | 20,160 |
| LESS COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTEREST | - | 421 |
| COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO EQUITY OWNERS OF ACTIAN CORPORATION | $(4,406) | $19,739 |

See notes to consolidated financial statements.

## ACTIAN CORPORATION

### CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
### FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
### (In thousands, except share amounts)

| | Stockholders' Equity | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Convertible Preferred Stock | | | | | | | | | | | |
| | Series A | | Series B | | Common Stock | | Additional Paid-In Capital | Accumulated Other Comprehensive Loss | Accumulated Deficit | Total Stockholders' Equity | Non-Controlling Interest | Total Equity |
| | Shares | Amount | Shares | Amount | Shares | Amount | | | | | | |
| BALANCE—December 31, 2016 | 40,000,000 | $ 400 | 3,221,372 | $ 32 | 1,383,729 | $ 13 | $ 86,810 | $(2,340) | $(83,898) | $ 1,017 | $ (71) | $ 946 |
| Exercise of stock options | - | - | - | - | 7,702 | - | 12 | - | - | 12 | - | 12 |
| Payment to non-controlling interest holders | - | - | - | - | - | - | - | - | - | - | (350) | (350) |
| Stock-based compensation | - | - | - | - | - | - | 1,618 | - | - | 1,618 | - | 1,618 |
| Preferred stock dividends | - | - | - | - | - | - | - | - | (10,000) | (10,000) | - | (10,000) |
| Net income | - | - | - | - | - | - | - | - | 18,578 | 18,578 | 421 | 18,999 |
| Foreign currency translation | - | - | - | - | - | - | - | 1,161 | - | 1,161 | - | 1,161 |
| 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 (See 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 (See Note 1) | - | - | - | - | 100 | - | 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 | - | $ - | - | $ - | 100 | $ - | $ 37,215 | $(1,734) | $(79,171) | $(43,690) | $ - | $(43,690) |

See notes to consolidated financial statements.

# ACTIAN CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS
## FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
## (In thousands)

| | 2018 | 2017 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income (loss) | $ (3,851) | $ 18,999 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Amortization of intangible assets | 4,438 | 5,849 |
| Loss on disposal of fixed assets | 65 | 39 |
| Deferred income taxes | (2,521) | (6,652) |
| Depreciation and amortization of property and equipment | 1,156 | 1,424 |
| Stock-based compensation | 1,105 | 1,618 |
| Loss on extinguishment of debt | 3,525 | 2,070 |
| Amortization of debt issuance costs | 481 | 1,773 |
| Change in value of preferred stock warrant liability | 1,148 | (74) |
| Change in provision for allowance for doubtful accounts | (68) | (576) |
| Changes in current assets and liabilities: | | |
| Accounts receivable | (1,842) | (476) |
| Prepaid expenses and other assets | (1,711) | 2,009 |
| Accounts payable | 53 | (211) |
| Accrued compensation | 2,661 | 274 |
| Accrued liabilities | 1,122 | 1,198 |
| Deferred rent | (199) | (84) |
| Income taxes payable | 673 | 618 |
| Deferred revenue | 4,607 | (5,353) |
| Net cash provided by operating activities | 10,842 | 22,445 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | (1,053) | (828) |
| Change in restricted cash | 20 | - |
| Net cash used in investing activities | (1,033) | (828) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Debt issuance costs | (25) | (5,911) |
| Preferred stock dividends | - | (10,000) |
| Payment to Sparql City shareholders | - | (350) |
| Proceeds from issuance of common stock | 9 | 12 |
| Proceeds from borrowings with nonrelated parties | - | 105,000 |
| Repayment of borrowings with related parties | (320) | |
| Repayment of borrowings with nonrelated parties | (47,650) | (103,091) |
| Additional investment by Parent in connection with the acquisition of the Company (see Note 1) | 15,701 | - |
| Net cash used in financing activities | (32,285) | (14,340) |

(Continued)

## ACTIAN CORPORATION

### CONSOLIDATED STATEMENTS OF CASH FLOWS
### FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
### (In thousands)

| | 2018 | 2017 |
|---|---|---|
| EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS | $ (1,740) | $ 2,281 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (24,216) | 9,558 |
| CASH AND CASH EQUIVALENTS—Beginning of year | 37,792 | 28,234 |
| CASH AND CASH EQUIVALENTS—End of year | $ 13,576 | $ 37,792 |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | |
| Income taxes paid | $ 2,641 | $ 779 |
| Interest paid | $ 12,729 | $ 8,422 |
| NONCASH INVESTING AND FINANCING ACTIVITIES | | |
| Property and equipment additions unpaid at end of year | $ 22 | $ 11 |
| 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 notes to consolidated financial statements. (Concluded)

### 1. ORGANIZATION

**Organization**—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 outstanding equity is owned by HCL America, Inc. and the remaining 20% of its outstanding equity is owned by Sumeru Equity Partners, L.P. ("SEP").

On July 17, 2018 ("acquisition date"), Actian and its subsidiaries were acquired by the Parent 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 push down 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. Refer to Notes, 6 (Preferred Stock), 7, (Preferred Stock Warrants), 8 (Common Stock), and 9 (Stock plan) for further discussion.

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 have been 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.

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. The Company derives its revenues from customers primarily from two sources: (i) perpetual and subscription-based license and maintenance for its enterprise technologies and (ii) professional services and training revenue.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation and Consolidation**—The consolidated financial statements include the accounts of the Company and its wholly or majority owned subsidiaries. All subsidiaries acquired by the Company are included in the Company's operations from the date on which the Company obtains control until the date when such control ceases. Intercompany balances and transactions have been eliminated upon consolidation.

**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.

**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 include the valuation of the previously outstanding common stock and preferred stock, valuation of the previously outstanding preferred stock warrants, assumptions used in stock-based compensation for previously outstanding common stock options, valuation of deferred tax assets, and allowance for doubtful accounts. Actual results could differ from those estimates and such differences may be material to the consolidated financial statements.

**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 when (a) persuasive evidence of an arrangement exists, (b) delivery of the product has occurred and no significant Company obligations with regard to implementation remain, (c) the fee is fixed or determinable, and (d) collection of the fee is deemed reasonably assured. The Company establishes persuasive evidence of an arrangement for each type of revenue transaction based on either a customer purchase order or sales order, a signed agreement with the end user/customer, a signed distribution agreement with original equipment manufacturers (OEMs) and other resellers, or, in the case of professional services, a signed agreement or statement of work and, in the case of training services, a signed training agreement. Delivery of licenses is considered to have occurred upon electronic transfer of the license key that provides immediate availability of the product to the purchaser or upon shipment. Delivery of professional services is considered to have occurred when the services are performed.

At the time of each transaction, the Company assesses whether the fees associated with the transaction are fixed or determinable. In the limited instances in which a significant portion of a fee is due after the Company's normal payment terms, revenues are deferred and recognized when payments become due and payable or when the rights to refund or forfeiture, concession, or adjustment, if any, lapse upon customer acceptance, assuming all other revenue recognition criteria are met. The Company assesses whether collection is reasonably assured based on a number of factors, including the creditworthiness of the customer as determined by credit checks and analysis, past transaction history, geographic location, and financial viability.

Refer below for a discussion of the significant accounting policies related to the Company's four primary revenue streams:

***Subscription Revenue***—Subscription revenue consists of sales of the Company's enterprise technologies and related postcontract customer support (PCS) over a specific term. Accounts receivable and deferred revenue are recorded at the time a customer enters into a binding subscription agreement and the Company has a legal right to enforce the contract, including the right to collect payment. Delivery is considered to have occurred when the Company provides the customer with the software license. The deferred revenue amount is recognized as revenue ratably over the life of the subscription. Actian enterprise technologies 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 base subscription generally entitles the end user to both the technology license and PCS consisting of a specified level of customer support and security, bug fixes, functionality enhancements to the technology, and upgrades to new versions of the technologies, each on a when-and-if-available basis, during the term of the subscription. 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. The Company recognizes revenue from the sale of its subscriptions ratably over the contract period beginning on the commencement date of the subscription agreement.

The Company has determined that vendor-specific objective evidence (VSOE) of the fair value of PCS has not been established for its subscription products, given that PCS for time-based licenses associated with subscription arrangements is never sold separately from the time-based licenses. Consequently, the Company recognizes subscription revenue ratably over the period of each arrangement. If an arrangement is also bundled with training, consulting, or other nonessential services along with PCS, revenue is recognized over the longest contracted service period, provided all other revenue recognition criteria are met.

Revenue from arrangements that include a right to specified upgrades is deferred until the upgrade rights are delivered because there is no VSOE of the fair value of specified upgrades.

***Perpetual License***—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. Royalty revenues are generally recognized based upon the customer's reported usage. The Company's perpetual licenses are typically sold in multiple-element arrangements comprising its enterprise technologies and PCS and may include professional services.

Revenues related to the sale of perpetual licenses on a stand-alone basis are generally recognized upon the receipt of persuasive evidence of the arrangement and delivery of the perpetual license key.

Revenues related to the sale of perpetual licenses bundled with undelivered elements (namely PCS or professional services) are recognized using the residual method to recognize revenue when one or more elements are to be delivered at a future date and VSOE of all undelivered elements exist. Typically, only PCS remains undelivered after the perpetual license is delivered. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the consideration is recognized as revenue for the delivered elements. If evidence of the fair value of one or more undelivered elements does not exist, all revenue is generally deferred until the earlier of when delivery of those elements occurs or when fair value can be established. To the extent that VSOE for the undelivered elements has not been determined, the Company recognizes perpetual license revenue ratably over the period of each arrangement.

Revenues related to reseller license sales involving nonrefundable fixed minimum license fees are recognized upon delivery of the product master or first copy, assuming all other revenue recognition criteria are met. Per-copy royalties related to reseller license agreements in excess of a fixed minimum amount are recognized as revenue when such amounts are reported to the Company.

The determination of VSOE is based upon the Company's normal pricing and discounting practices for those deliverables when sold separately. VSOE is generally evidenced by a substantial majority of historical stand-alone transactions falling within a reasonably narrow range. In addition, the Company considers customer classifications, geographic distribution of customers, and other variables in determining VSOE. The Company has established VSOE for maintenance and support on many of its products by reviewing stand-alone maintenance renewals. The Company has established VSOE for its professional services by reviewing stand-alone professional services contracts with reference to the rate per hour for the Company's professional services group.

***Maintenance and Support***—Maintenance and support or PCS, which generally has a contractual term of 12 months, includes telephone and Web-based support and rights to software updates and upgrades on a when-and-if-available basis. Maintenance revenue is recognized on a straight-line basis over the service contract term.

***Professional Services and Training Revenue***—The Company's products may include professional services, including 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. Revenue for customer training and education services is recognized on the dates the services are complete. Professional services are sold on time-based or fixed-price arrangements, and revenue is generally recognized as these services are performed. Revenue for operational services includes consulting and remote support and is recognized over the service contract term. If professional services are contracted within a short period of time of a license contract, the Company considers the two contracts as one arrangement, and the fees generated from both contracts are bundled and recognized as noted in "Subscription Revenue" and "Perpetual License" above.

**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 the revenue recognition criteria are met. Amounts are recorded as deferred revenue and accounts receivable when the Company has a legal right to enforce the contract and invoice the customer. The Company generally invoices its customers annually or in quarterly installments for time-based licenses and at the time of delivery for perpetual licenses. Accordingly, the deferred revenue balance does not represent the total contract value of annual or multiyear maintenance 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.

**Sales, Use, and Value-Added Taxes**—Sales, use, and value-added tax receivables and payables are recorded on a net basis by jurisdiction and have been presented within "Prepaid and other current assets" and "Accrued liabilities" within the consolidated balance sheets.

**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.

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

**Restricted Cash**—The Company pledged as security in trust certificates of deposit securing its operating leases. The certificates of deposit were classified as restricted cash on the Company's consolidated balance sheets, carrying a balance of $0 and $21,000 as of December 31, 2018 and 2017, respectively.

**Allowance for Doubtful Accounts**—The Company maintains an allowance for doubtful accounts to reserve for potentially uncollectible trade receivables. The allowance is recorded through a reduction of the accounts receivable balances and an offsetting reduction of the related deferred revenue balance or through a charge to general and administrative expenses if a related deferred revenue balance does not exist. The Company reviews its trade receivables by aging category to identify significant customers with known disputes or collection issues. For accounts not specifically identified, the Company provides reserves based on historical bad debt loss experience.

**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.

The Company's accounts receivable are derived from customers, primarily located in the United States, Europe, and Asia-Pacific, and are denominated in U.S. dollars and international currencies. The Company performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral.

No customer accounted for more than 10% of the Company's total accounts receivable at December 31, 2018 and 2017. No customer accounted for more than 10% of total revenue in 2018 and 2017.

**Fair Value of Financial Instruments**—Assets and liabilities recorded at fair value in the consolidated financial statements are categorized based upon the level of judgment associated with the inputs used to measure their fair value. The Company categorizes its financial instruments into a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Hierarchical levels that are directly related to the amount of subjectivity associated with the inputs to the valuation of these assets or liabilities are as follows:

***Level 1***—Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities.

***Level 2***—Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

***Level 3***—Unobservable inputs are used when little or no market data is available.

The Company's financial assets and liabilities that were measured at fair value as of December 31, 2017, by level within the fair value hierarchy, were as follows (in thousands):

| **2017** | **Category** | **Carrying Amount** | **Fair Value** |
|---|---|---|---|
| Liabilities—preferred stock warrant liability (Note 7) | Level 3 | $1,017 | $1,017 |

There were no financial assets or liabilities that were measured at fair value as of December 31, 2018.

| | **Fair Value Measurements Using Significant Unobservable Inputs (Level 3)** | |
|---|---|---|
| **Preferred Stock Warrant Liability** | **2018** | **2017** |
| Balance—beginning of year | $ 1,017 | $1,091 |
| Revaluation of preferred stock warrant liability | 1,148 | (74) |
| Extinguishment of previously outstanding warrants upon acquisition of the Company | (2,165) | - |
| Balance—end of year | $ - | $1,017 |

In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-13, Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement, which changes the fair value disclosure requirements. The new guidance requires that for nonpublic entities in lieu of a rollforward for Level 3 fair value measurements, to disclose transfer into and out of level 3 fair value hierarchy as well as the purchases and issuance of level 3 assets and liabilities. The guidance is effective after December 15, 2019. The Company elected to early adopt this guidance effective December 31, 2018. The Company's policy is to recognize transfers in and transfers out at the end of the year and there were no Level 3 transfers in or transfers out during 2018 or 2017.

**Property and Equipment**—Property and equipment are stated at cost, less accumulated depreciation and amortization and are depreciated or amortized 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.

**Comprehensive Income (Loss) and Foreign Currency Translation**—Comprehensive income (loss) includes net income (loss) and unrealized gains or losses on foreign currency translation adjustments that have been excluded from the determination of net income (loss).

The foreign currency translation adjustment results from those subsidiaries not using the U.S. dollar as their functional currency since the majority of their economic activities are primarily denominated in their applicable local currency. Accordingly, 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 $163,000 for the year ended December 31, 2018 and "Interest and other income" of $27,000 for the year ended December 31, 2017.

**Goodwill and Other Intangibles**—In accordance with the Accounting Standards Codification (ASC) 350, *Intangibles—Goodwill and Other*, the Company reviews goodwill for impairment annually in its fourth quarter or more frequently if facts and circumstances warrant a review. ASC 350 requires that a two-step test be performed to assess goodwill for impairment. First, the fair value of each reporting unit is compared to its carrying value. If the fair value exceeds the carrying value, goodwill is not impaired and no further impairment testing is performed. The second step is performed if the carrying value exceeds the fair value. The implied fair value of the reporting unit's goodwill must be determined and compared to the carrying value of the goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, an impairment loss equal to the difference will be recorded. See Note 4 for further discussion of the results of the Company's goodwill impairment evaluation.

Other intangible assets primarily consist of developed technology, customer relationships, and trade names acquired through our prior acquisitions. Intangible assets with definite lives are amortized over their estimated useful lives, ranging from 2 to 15 years. Intangible assets related to the 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.

As required by ASC 350, the Company continually monitors events and changes in circumstances that could indicate that the carrying amounts of its intangible assets may not be recoverable. When such events or changes in circumstances occur, the Company assesses the recoverability of intangible assets by determining whether the carrying value of such assets will be recovered through the undiscounted expected future cash flows. If the future undiscounted cash flows are less than the carrying amount of the intangible assets, the Company recognizes an impairment loss based on the excess of the carrying amount over the fair value of the assets. See Note 5 for further discussion of the results of the Company's intangible asset impairment evaluations.

**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. As of December 31, 2018 and 2017, the Company concluded that no such impairment had occurred.

**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.

**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.

**Stock-Based Compensation**—The Company accounts for stock-based compensation in accordance with the accounting guidance for share-based payments, which requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The Company uses the Black-Scholes option-pricing model to determine the fair value of its stock options. The determination of the fair value of stock-based awards on the date of grant using an option-pricing model is affected by the Company's stock price, as well as assumptions regarding a

number of complex and subjective variables. These variables include the expected stock price volatility over the term of the awards, the expected life of stock options, actual and projected employee stock option exercise behaviors, risk-free interest rate, and expected dividends. The Company's expected volatility is derived from an average of historical volatilities of comparable companies within the technology sector. The expected life of an award is based on the simplified model prescribed per the accounting guidance for share-based payments. The interest rate assumption is based upon the observed treasury yield curve rates appropriate for the Company's stock options. The Company does not anticipate paying any cash dividends in the foreseeable future and, therefore, uses an expected dividend yield of zero in the option-pricing model. The Company uses historical data to estimate prevesting option forfeitures and records stock-based compensation expense only for those awards that are expected to vest.

The assumptions used to value option grants for the year ended December 31, 2017 were as follows:

| | |
|---|---|
| Risk-free interest rate | 1.93%–2.19% |
| Expected dividend yield | -% |
| Expected term (in years) | 5.0–6.35 |
| Expected volatility | 39.5%–42.7% |

There were no option grants during 2018.

Stock-based compensation costs are amortized over the requisite service periods of the stock-based awards.

Stock-based compensation expense recognized in the Company's consolidated statements of operations for the years ended December 31, 2018 and 2017, was as follows (in thousands):

| | **2018** | **2017** |
|---|---|---|
| Costs of revenue | $ 10 | $ 44 |
| Research and development | 71 | 91 |
| Sales and marketing | 23 | 57 |
| General and administrative | 1,001 | 1,426 |
| Total stock-based compensation | $1,105 | $1,618 |

**Preferred Stock Warrant Liability**—The Company has accounted for its previously outstanding freestanding warrants to purchase shares of the Company's convertible preferred stock as liabilities at fair value upon issuance. Prior to the acquisition, the Company has recorded the warrants as liabilities because of the down-round protection in the underlying shares of previously outstanding convertible preferred stock.

The previously outstanding preferred stock warrants were subject to remeasurement to fair value at each balance sheet date until the warrants expire or are exercised and any change in fair value is recognized as a component of other income (expenses) in the consolidated statements of operations. The Company estimated the fair value of the preferred stock warrants at the respective balance sheet dates using a Black-Scholes option-pricing model that used several assumptions that are subject to significant management judgment (see Note 7).

**Recently Issued Accounting Guidance (Not Yet Adopted)**—In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance. 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. ASU 2014-09 is effective for privately held companies for periods beginning after December 15, 2018, and permits companies to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption, through a cumulative adjustment. ASU 2014-09 is effective for the Company beginning on January 1, 2019.

The Company adopted the new revenue recognition accounting standard, codified as ASC 606, effective January 1, 2019. The new revenue recognition standard changed the way the Company recognizes revenue, including the identification of contractual performance obligations and the allocation of transaction price, to depict the transfer of promised goods or services to customers at the amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. The Company adopted the new revenue recognition standard on a modified retrospective basis and applied the new revenue recognition standard only to contracts that were not completed contracts prior to January 1, 2019. The Company is continuing to evaluate the impact of ASC 606 and the Company's estimate is subject to change. Based on our current evaluation of the accounting standard, the Company anticipates that the adjustment will primarily impact accumulated deficit and deferred revenue and is expected to decrease both accumulated deficit and deferred revenue by an amount greater than $15 million as of January 1, 2019. In addition, the Company estimates that an adjustment for contract costs associated with the adoption of this standard will increase other current assets and accumulated deficit by an amount greater than $1 million as of January 1, 2019.

The new revenue recognition standard materially impacts the timing of revenue recognition related to the Company's term-base subscription revenue agreements. Prior to our adoption of the new revenue recognition standard, the historically recognized revenue related to term-based subscription revenue agreements ratably over the term of the licensing agreement. These revenues were then included in subscription revenues on the consolidated statements of operations. Under the new revenue recognition standard, revenue allocable to the license portion of these arrangements is recognized in license revenues upon delivery of the license. Revenues allocated to maintenance services continue to be recognized ratably and are included in "Maintenance and Support" revenues on the consolidated statements of operations. Under the new revenue recognition standard, the Company allocate total transaction price to performance obligations based on estimated standalone selling prices, which impacts the timing of revenue recognition depending on when each performance obligation is recognized. These impacts to the timing of revenue recognition also affect the deferred revenue balances.

The new revenue recognition standard requires the capitalization of certain incremental costs of obtaining a contract, which impacts the periods in which the Company records its sales commissions expense. 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.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes the lease accounting requirements in Topic 840. ASU 2016-02 requires a dual approach for lessee accounting under which a lessee would account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of use asset and a corresponding lease liability. For finance leases, the lessee would recognize interest expense and amortization of the right-of-use asset, and for operating leases, the lessee would recognize a straight-line total lease expense. The guidance also requires qualitative and specific quantitative disclosures to supplement the amounts recorded in the consolidated financial statements so that users can understand more about the nature of an entity's leasing activities, including significant judgments and changes in judgments. This guidance is effective for fiscal years beginning after December 15, 2019 and is effective for the Company in its fiscal year ending December 31, 2020. The Company is currently evaluating the potential impact of this standard on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*, which is intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This guidance is effective for fiscal years beginning after December 31, 2017 and was effective for the Company in its fiscal year ending December 31, 2018. The Company has concluded that there was no material impact of the adoption of this standard on its consolidated financial statements.

## 3. BALANCE SHEET COMPONENTS

**Allowance for Doubtful Accounts**—The Company's allowance for doubtful accounts as of December 31, 2018 and 2017, was as follows (in thousands):

| | **2018** | **2017** |
|---|---|---|
| Balance—beginning of year | $182 | $ 2,323 |
| Increases (decreases) in reserves | (71) | (576) |
| Write-offs | - | (1,565) |
| Balance—end of year | $111 | $ 182 |

During the year-ended December 31, 2017 the Company wrote-off approximately $1.2 million of accounts receivable and corresponding reserves related to certain Actian customers that were deemed uncollectable and that had been fully reserved during the year-end December 31, 2016.

**Property and Equipment**—Property and equipment as of December 31, 2018 and 2017, consisted of the following (in thousands):

| | 2018 | 2017 |
|---|---|---|
| Computer equipment | $ 7,368 | $ 7,239 |
| Office furniture and fixtures | 1,321 | 1,559 |
| Leasehold improvements | 501 | 665 |
| Computer software | 605 | 567 |
| Construction in progress | 161 | - |
| Total property and equipment | 9,956 | 10,030 |
| Accumulated depreciation and amortization | (8,255) | (8,155) |
| Property and equipment—net | $ 1,701 | $ 1,875 |

Depreciation and amortization expense was $1.2 million and $1.4 million for the years ended December 31, 2018 and 2017, respectively.

**Accrued Liabilities**—Accrued liabilities as of December 31, 2018 and 2017, consisted of the following (in thousands):

| | 2018 | 2017 |
|---|---|---|
| Sales, use, and value-added tax payable | $2,005 | $1,248 |
| Other accrued liabilities | 2,536 | 2,351 |
| Total | $4,541 | $3,599 |

On March 31, 2018, the Company exited its leased facility in Greenville, South Carolina. The Company recorded a restructuring charge of $207,000 related to its future lease and common area maintenance commitments. As of December 31, 2018, the remaining restructuring liability for this lease loss included in the "Accrued liabilities" line item on the Company's consolidated balance sheet was $67,000 (and within "Other accrued liabilities" in the table above). The Company expects to complete payments for this excess facility charge upon expiration of the lease in June 2019.

On June 30, 2017, the Company exited from a portion of its leased facility in Austin, Texas. The Company recorded a restructuring charge of $2.0 million related to its future lease, common area maintenance and property tax commitments for the portion of the facility that was vacated. As of December 31, 2018, the remaining restructuring liability for this lease loss included in the "Accrued liabilities" line item on the Company's consolidated balance sheet was $5,000 (and within "Other accrued liabilities" in the table above). The Company completed payments for this excess facility charge upon expiration of the lease in January 2019.

**Deferred Revenue**—Deferred revenue as of December 31, 2018 and 2017, consisted of the following (in thousands):

| | 2018 | 2017 |
|---|---|---|
| Subscription license fees | $36,074 | $33,952 |
| Maintenance and support | 9,032 | 7,998 |
| Perpetual license fees | 2,820 | 2,254 |
| Professional services and training | 1,464 | 2,167 |
| Total | $49,390 | $46,371 |
| Current portion | $47,323 | $42,967 |
| Long term portion | 2,067 | 3,404 |
| Total | $49,390 | $46,371 |

## 4. GOODWILL

The changes in goodwill for the years ended December 31, 2018 and 2017, were as follows (in thousands):

| | |
|---|---|
| Balance—December 31, 2016 | $85,857 |
| Other adjustments | 352 |
| Balance—December 31, 2017 | 86,209 |
| Other adjustments | (176) |
| Balance—December 31, 2018 | $86,033 |

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, 2018 and 2017.

No indicators or instances of impairment of goodwill were identified during the fiscal years ended December 31, 2018 or 2017.

## 5. IDENTIFIABLE 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 $1.5 million and $2.2 million for the years ended December 31, 2018 and 2017, respectively. Amortization expense associated with customer relationships and trade names is recorded as a component of operating expenses and was $2.9 million and $3.7 million for the years ended December 31, 2018 and 2017, respectively.

No indicators or instances of impairment of intangible assets were identified during the fiscal years ended December 31, 2018 or 2017.

A summary of identifiable intangible assets as of December 31, 2018 and 2017, were as follows (in thousands):

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Gross Amount | Accumulated Amortization | Net Amount | Gross Amount | Accumulated Amortization | Net Amount |
| Developed technology | $25,290 | $(23,376) | $ 1,914 | $46,601 | $(43,206) | $ 3,395 |
| Customer relationships | 36,569 | (27,895) | 8,674 | 45,713 | (34,363) | 11,350 |
| Trade name | 3,043 | (2,306) | 737 | 4,758 | (3,702) | 1,056 |
| Total identifiable intangible assets | $64,902 | $(53,577) | $11,325 | $97,072 | $(81,271) | $15,801 |

The estimated amortization expense on identifiable intangible assets for the next five years and their remaining useful lives as of December 31, 2018, was as follows (dollars in thousands):

| | Developed Technology | Customer Relationships | Trade Name | Total |
|---|---|---|---|---|
| 2019 | $ 992 | $2,079 | $288 | $ 3,359 |
| 2020 | 532 | 1,643 | 260 | 2,435 |
| 2021 | 211 | 1,298 | 132 | 1,641 |
| 2022 | 86 | 1,026 | 16 | 1,128 |
| 2023 | 36 | 811 | 13 | 860 |
| After 2024 | 57 | 1,817 | 28 | 1,902 |
| Total estimated future amortization expense | $1,914 | $8,674 | $737 | $11,325 |
| Remaining useful lives— December 31, 2018 | 3–7 years | 8–10 years | 3–8 years | |

## 6. 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 further preferred stock was authorized nor outstanding as of December 31, 2018.

The remainder of this Note 6 describes the rights, preferences, privileges, and restrictions of the Series A and B convertible preferred stock prior to the date of acquisition.

**Voting**—Former holders of the Company's Series A and B convertible preferred stock (the "Series A and B Stockholders") were entitled to the number of votes equal to the number of shares of Company's common stock into which each share of convertible preferred stock was then convertible. In addition to any other vote or consent of stockholders required by law or by the Company's certificate of incorporation, as amended, the consent of the holders of at least 85% of the outstanding shares of Series A and B convertible preferred stock voting separately as a single class is required to alter, amend, or repeal any provision of the certificate of incorporation or the Company's bylaws relating to the voting powers, preferences, or special rights of the Series A and B convertible preferred stock.

**Dividends**—Former Series A and B Stockholders are entitled to receive dividends at the rate of 8% per annum of the original purchase price for each share of Series A and B convertible preferred stock when, as, and if declared by the Company's board of directors (the "Board of Directors"). The original purchase price was deemed to be $1.50 per share and $4.66 per share, as adjusted for stock splits, stock dividends, combinations, or similar events with respect to such shares for Series A and B shares, respectively. The dividends were cumulative from the date of issuance of the Series A and B convertible preferred stock. The Former Series A and B Stockholders were entitled to receive dividends prior and in preference to any dividends being paid to former holders of common stock. Former Series A and B Stockholders were entitled to participate, pro rata with the holders of common stock, on an as-converted to common stock basis in any dividends or other distributions declared or paid to the former holders of common stock.

In July 2017, the Board of Directors declared and in August 2017, the Company paid a dividend of $0.06 per share and $0.186256 per share to the Company's Series A and Series B stockholders, respectively, for an aggregate dividend of $3.0 million. In October 2017, the Board of Directors declared and in November 2017, the Company paid a dividend of $0.14 per share and $0.43459 per share to the Company's Series A and Series B stockholders, respectively, for an aggregate dividend of $7.0 million. The dividends paid in 2017 to the Series A and Series B stockholders were direct reductions of the cumulative, unpaid dividends earned since the date of issuance of the respective series of preferred stock and also reduced the liquidation preference for each of the outstanding classes of preferred stock.

**Liquidation Rights**—In certain events, including the liquidation, dissolution, or winding-up of the Company, either voluntary or involuntary, before any distribution of payments would be made to holders of common stock, the Former Series A and B Stockholders were entitled to be paid first out of the assets and surplus funds of the Company an amount per share, as adjusted for stock splits, stock dividends, combinations, or similar events with respect to such shares, equal to the original purchase price, plus any accrued but unpaid dividends to the date of payment (whether or not earned or declared), in each case determined as of the payment date (the "Series A and B Liquidation Preference"). If the assets of the Company were insufficient to permit payment in full to the Former Series A and B Stockholders, then the assets of the Company that are available for distribution were to be paid ratably among the Former Series A and B Stockholders. After payment of the Series A and B Liquidation Preference, the Former Series A and B Stockholders were entitled to participate in the distribution of the remaining assets of the Company to the same extent they would have if each such holder had converted all of its Series A and B convertible preferred stock into common stock on the payment date. A liquidation, dissolution, or winding-up of the Company included the acquisition of the Company by

another entity, unless the stockholders of record immediately prior to such acquisition will, immediately after such acquisition, hold at least 50% of the voting power of the surviving or acquiring entity, or a sale of all or substantially all of the assets of the Company, provided that holders of at least 85% of the outstanding shares of Series A and B convertible preferred stock may, by written consent, determine that any such transaction shall not be deemed to be a liquidation, dissolution, or winding-up of the Company.

**Conversion**—Each share of Series A and B convertible preferred stock was convertible into one share of common stock at any time. The initial conversion price was $1.50 per share and $4.66 per share for Series A and B, respectively, subject to certain antidilutive adjustments. In addition, each share of Series A and B convertible preferred stock would automatically convert into common stock upon the earlier of (i) the completion of a firm commitment underwritten public stock offering pursuant to an effective registration statement under the Securities Act of 1933, as amended, involving aggregate gross proceeds of at least $30 million or (ii) the date on which at least 85% of the then-outstanding shares of Series A and B convertible preferred stock elects to convert.

**Redemption**—The Series A and B convertible preferred stock was not redeemable.

## 7. 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 remainder of this note reflects the warrants prior to the date of acquisition.

In 2007, in connection with the Growth Capital Loan and Security Agreement (the "Loan Agreement"), the Company issued a fully exercisable warrant ("2007 Warrant") to TriplePoint Capital LLC ("TriplePoint") to purchase 399,999 shares of the Company's Series A convertible preferred stock at an exercise price of $1.50 per share with a contractual life of the greater of (i) seven years from June 29, 2007, the effective date of the Loan Agreement or (ii) five years from the effective date of the Company's initial public offering. At the date of issuance, the Company valued the warrant at $834,000, which was accounted for as a liability and as a discount on the related borrowings and amortized to interest expense over the term of the debt, using the effective interest method.

On December 23, 2009, in connection with an amendment to the Loan Agreement, the Company issued an additional warrant to TriplePoint for 83,333 shares of the Company's Series A convertible preferred stock ("2009 Warrant") at an exercise price of $1.50 per share with a contractual life of greater of the (i) seven years from December 23, 2009 or (ii) five years from the effective date of the Company's initial public offering. At the date of issuance, the Company valued the warrant at $113,000, which was accounted for as a liability and as a discount on the related borrowings and amortized to interest expense over the term of the debt, using the effective interest method.

On September 10, 2010, in connection with an amendment to the Loan Agreement, the Company issued an additional warrant to TriplePoint for 71,875 shares of the Company's Series A convertible preferred stock ("2010 Warrant") at an exercise price of $1.50 per share with a contractual life of greater of the (i) seven years from September 10, 2010 or (ii) five years from the effective date of the Company's initial public offering. At the date of issuance, the Company valued the warrant at $97,000, which was accounted for as a liability and as a discount on the related borrowings and amortized to interest expense over the term of the debt, using the effective interest method.

The Company's Series A preferred stock warrant liability as of December 31, 2018 and 2017, was as follows (dollar amounts in thousands):

| | 2007 Warrants | 2009 Warrants | 2010 Warrants | Total |
|---|---|---|---|---|
| Fair value—December 31, 2016 | $ 786 | $ 164 | $ 141 | $ 1,091 |
| Decrease in fair value in 2017 | (53) | (11) | (10) | (74) |
| 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 | - | - | - | - |

The fair value of the preferred stock warrants at each valuation date was determined using the Black-Scholes option-pricing model with the following assumptions:

| | Date of Issuance | December 31, 2017 |
|---|---|---|
| 2007 Warrants: | | |
| Preferred stock price | $ 2.65 | $ 3.18 |
| Expected volatility | 82 % | 38 % |
| Contractual terms (years) | 7 | 3 |
| Risk-free interest rate | 4.96 % | 1.98 % |
| Expected dividends | None | None |
| 2009 Warrants: | | |
| Preferred stock price | $ 2.12 | $ 3.18 |
| Expected volatility | 55 % | 38 % |
| Contractual terms (years) | 7 | 3 |
| Risk-free interest rate | 3.26 % | 1.98 % |
| Expected dividends | None | None |
| 2010 Warrants: | | |
| Preferred stock price | $ 2.12 | $ 3.18 |
| Expected volatility | 55 % | 38 % |
| Contractual terms (years) | 7 | 3 |
| Risk-free interest rate | 2.40 % | 1.98 % |
| Expected dividends | None | None |

The Company determined that the use of the Black-Scholes option-pricing model was appropriate in determining fair value of the warrants since the likelihood of raising additional equity at a price below the Series A price is remote.

## 8. COMMON STOCK

**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 100 were issued to the Company's Parent on the acquisition date and were outstanding as of December 31, 2018. There are no shares reserved for issuance as of December 31, 2018.

## 9. 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 and 2017, was $0 and $0, respectively. Total cash received from employees as a result of employee stock option exercises during the years ended December 31, 2018 and 2017, was $9,000 and $12,000, respectively.

The weighted-average estimated per share fair value of options granted under the 2016 Stock Plan, including the replacement grants made pursuant to the UK Sub-Plan during the years ended December 31, 2017, was $0.38.

## 10. LOAN AGREEMENTS

The Company's borrowings as of December 31, 2018 and 2017, were as follows (in thousands):

| | | 2017 | | |
|---|---|---|---|---|
| **With Related Parties** | **2018 Carrying Value** | **Gross** | **Debt Issuance Costs** | **Net of Debt Issuance Costs** |
| Total borrowings | $127,680 | $ - | $ - | $ - |
| Current portion | (1,280) | - | - | - |
| Long-term portion | $126,400 | $ - | $ - | $ - |

| | | 2017 | | |
|---|---|---|---|---|
| **With Nonrelated Parties** | **2018 Carrying Value** | **Gross** | **Debt Issuance Costs** | **Net of Debt Issuance Costs** |
| Total borrowings | $ - | $105,000 | $3,981 | $101,019 |
| Current portion | - | - | - | - |
| Long-term portion | $ - | $105,000 | $3,981 | $101,019 |

**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 twelve 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 periods of July 17, 2018 through September 30, 2018 and from the period 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 rations as well as certain other non-financial covenants. The Company was in compliance with the covenants of the HCL Agreement as of December 31, 2018.

The Company made interest payments of $4.3 million the HCL Agreement during the year ended December 31, 2018.

On August 21, 2018, the Company entered into an unsecured line of credit agreement with HCL America, Inc. to borrow up to $10 million. Repayment of any borrowings are due no later than March 31, 2019 (See Note 15). Interest is payable at LIBOR plus 0.70%. There were no borrowings under this agreement as of December 31, 2018.

**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% plus LIBOR. The LIBOR rate reset 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. For the periods of June 30, 2017 through December 29, 2017, and from December 29, 2017 through December 31, 2017, the GSO Agreement bore interest at a rate of 8.45% and 8.83%, 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.

**TC Lending Debt Agreement:** On April 10, 2013, the Company entered into a loan agreement, amended on April 24, 2013, July 31, 2013, March 7, 2014, February 11, 2015, and December 30, 2016, with TC Lending ("TC Lending"), to borrow $150 million (the "TCL Agreement"). The term loan was repaid in consecutive quarterly installments of $1.9 million and would have matured on April 10, 2018. All of the assets of the Company were pledged as collateral as per the terms of the loan agreement with TC Lending.

For the periods of April 10, 2013, through March 7, 2014, and from March 8, 2014, through December 31, 2016, the loan bore interest at a rate of 8.5% and 7.5%, respectively. The Company incurred $50,000 of debt issuance costs associated with the TC Lending debt in 2017, respectively. The Company made principal payments of $103 million, interest payments of $3.9 million, fee payments of $50,000, and amortized $3.4 million of debt issuance costs in the year ended December 31, 2017 associated with the TC Lending debt.

The TCL Agreement included covenants to maintain minimum fixed charge and leverage ratios, minimum cash, and maximum overseas deposits. The Company was in compliance with the loan covenants of the TCL Agreement during 2016 with the exception of certain financial covenants in June 2016 and September 2016 (for which TC Lending provided a waiver), late delivery of the audited financial statements for the year ended December 31, 2015 (for which TC Lending provided a waiver).

In February 2015, the TCL Agreement was amended to lower the requirements for the minimum fixed charge and leverage ratios. In December 2016, the TCL Agreement was amended to revise the definition of "Consolidated EBITDA" within minimum fixed charge and leverage ratios and to lower the requirements for the leverage ratio for all future quarters commencing with December 31, 2016.

In June 2017, the Company used the net proceeds from the GSO Agreement to fully repay the outstanding borrowings under the TCL Agreement. The Company recognized a loss on extinguishment of debt of approximately $2.1 million during the year ended December 31, 2017, representing the write-off of the remaining unamortized issuance costs related to the TC Lending debt. This write-off has been recorded within "Loss on extinguishment of debt" on the consolidated statements of operations.

## 11. INCOME TAXES

For the periods after the acquisition by the Parent, a consolidated income tax return will be prepared by HCL Technologies Limited with certain of its US based subsidiaries. The Company has elected the accounting policy to prepare its income tax provision on a standalone basis.

The components of income (loss) before income taxes for the years ended December 31, 2018 and 2017, were as follows (in thousands):

| | **2018** | **2017** |
|---|---|---|
| United States | $(7,844) | $12,516 |
| International | 3,542 | 1,408 |
| Total income (loss) before income taxes | $(4,302) | $13,924 |

Income tax (benefit) provision for the years ended December 31, 2018 and 2017, was composed of the following (in thousands):

| | 2018 | 2017 |
|---|---|---|
| Current: | | |
| Federal | $ 269 | $ - |
| State | 414 | 301 |
| International | 1,458 | 1,195 |
| | 2,141 | 1,496 |
| Deferred: | | |
| Federal | (2,447) | (5,984) |
| State | (280) | (488) |
| International | 135 | (99) |
| | (2,592) | (6,571) |
| Income tax (benefit) provision | $ (451) | $(5,075) |

The principal items giving rise to the difference between the Company's effective tax rate and statutory U.S. federal income tax rate for 2018 and 2017 were as follows:

| | 2018 | 2017 |
|---|---|---|
| Tax provision at federal statutory rate | 21.00 % | 35.00 % |
| State—net of federal effect | (1.65) | 1.66 |
| Tax credits | 6.44 | (3.09) |
| Foreign rate differential | (13.69) | (0.24) |
| Valuation allowance | - | (100.18) |
| Foreign exchange gain on intercompany loan settlement | - | 5.95 |
| Change in deferred rate | (0.87) | 14.16 |
| Provision for tax settlements | (17.65) | 3.87 |
| Change in valuation allowance | 2.32 | (0.68) |
| Other nondeductible expenses | 26.59 | 1.30 |
| Unremitted earnings of foreign subsidiaries | 9.66 | 0.28 |
| Other | (21.67) | 5.52 |
| Effective tax rate | 10.48 % | (36.45)% |

The components of the net deferred tax assets and liabilities as of December 31, 2018 and 2017, were as follows (in thousands):

| | 2018 | 2017 |
|---|---|---|
| Deferred tax assets: | | |
| Net operating loss carryforwards | $ 5,379 | $ 5,951 |
| Credits | 1,998 | 4,549 |
| Accruals and reserves | 1,767 | 1,369 |
| Stock-based compensation | - | 857 |
| Property and equipment | 56 | 146 |
| Deferred revenue | 2,995 | 550 |
| SPARQL City capital loss carryover | 461 | 468 |
| Interest limitation | 2,191 | - |
| Other | 47 | 74 |
| Gross deferred tax assets | 14,894 | 13,964 |
| Valuation allowance | (3,468) | (3,568) |
| Net deferred tax assets | 11,426 | 10,396 |
| Deferred tax liabilities: | | |
| Intangibles | (2,262) | (3,246) |
| Unrealized FX gain (loss) | (472) | (176) |
| Prepaids | (72) | (86) |
| Other | (1) | (277) |
| Unremitted earnings of foreign subsidiaries | - | (416) |
| Gross deferred tax liabilities | (2,807) | (4,201) |
| Net deferred tax assets | $ 8,619 | $ 6,195 |
| Noncurrent deferred tax asset | $11,426 | $10,396 |
| Noncurrent deferred tax liabilities | (2,807) | (4,201) |
| Net deferred taxes | $ 8,619 | $ 6,195 |

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 $0.4 million against its Federal deferred tax asset, which primarily relates to the capital loss carryforward, 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 5 years. Additionally, the Company has provided a partial valuation allowance of $3.0 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.

As of December 31, 2018, the Company had federal, and state net operating loss carryforwards of approximately $15 million, and $31.8 million, respectively. These net operating loss carryforwards will expire in varying amounts beginning 2021. As of December 31, 2018, the Company has federal and California research and development credit carryforwards of $0.6 million and $4.7 million, respectively. The federal research and development credits will start expiring in 2031. The California research and development credit may be carried forward indefinitely. As of December 31, 2018, the Company has federal foreign tax credit carryforwards of $0.7 million, which will start expiring in 2024. 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 $7.8 million, including penalties and interest of $191,000 and $102,000 as of December 31, 2018 and 2017, respectively. As of December 31, 2018 and 2017, the amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was $4.4 million and $4.6 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 was $191,000 and $102,000 in 2018 and 2017, 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 not currently under audit or examination by any of these major jurisdictions with the exception of a recently completed examination of Actian Germany and Actian France. 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, 2018 because such earnings are not intended to be indefinitely reinvested. As of December 31, 2018, cumulative un-remitted 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 $1.5 million. 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. This law has had significant impact on the Company's U.S. taxes. Changes include, but are not limited to, a federal corporate tax rate decrease from 35% to 21%, effective for tax years beginning after December 31, 2017, the transition of U.S. international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings.

As of December 31, 2017, the Company had applied the guidance permitted under Staff Accounting Bulletin No. 118 ("SAB 118") to address the application of U.S. GAAP in situations when a company does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of TCJA. The FASB has indicated that private companies may also apply SAB 118, which established that companies' financial statements should include:

- Income tax effects of TCJA for which the ASC 740 accounting is complete;
- Provisional income tax effects for specific TCJA components for which the ASC 740 accounting is incomplete but a reasonable estimate can be made; or
- For specific TCJA components for which a reasonable estimate cannot be made, the registrant should apply pre-TCJA law when determining the tax effects to include in the financial statements.

In accordance with SAB 118, the Company, as of December 31, 2017 initially determined that the $2 million recorded in connection with the re-measurement of certain deferred tax assets and liabilities was a provisional amount and a reasonable estimate at December 31, 2017. At that time, the Company concluded that additional work was necessary for a more detailed analysis of its deferred tax assets and liabilities. In addition, the Company has determined that its calculation of the deemed repatriation of foreign earnings is provisional as it requires additional analysis. The provisional amount related to the one-time transition tax on the mandatory deemed repatriation of foreign earnings was immaterial based on cumulative foreign deficits from its foreign subsidiaries. Any subsequent adjustment to these amounts may be recorded to current tax expense in 2018 when the analysis is complete.

The Company completed its analysis of the impacts of the TCJA in the fourth quarter of 2018 and determined there were no significant adjustments to the provisional tax amounts recorded in the fourth quarter of 2017.

In addition to the above mentioned impacts of the TJCA, the Act 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. Because the Company was evaluating the provision of GILTI as of December 31, 2017, no GILTI-related deferred amounts were recorded in 2017. 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.

## 12. COMMITMENTS AND CONTINGENCIES

**Operating Leases**—The Company leases its facilities under operating leases that expire through 2022. Approximate remaining future minimum lease payments under these leases as of December 31, 2018, were as follows (in thousands):

| Years Ending December 31 | |
|---|---|
| 2019 | $1,668 |
| 2020 | 1,350 |
| 2021 | 720 |
| 2022 | 683 |
| 2023 | 725 |
| 2024 and later | 2,986 |
| Total | $8,132 |

Rent expense under the Company's operating leases was approximately $2.4 million and $2.9 million for the years ended December 31, 2018 and 2017, respectively.

**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.

In connection with its announced plan in July 2016 to discontinue certain AAP support availability (the "Wind Down"), the Company received written correspondence from four customers alleging that the Wind Down would breach the customers' contracts with the Company. The Company denies any wrongdoing, and as of the date of this report, two of those customers have reached a resolution with the Company with no payments required from the Company. For the remaining two, the Company has responded in writing refuting their claims and intends to defend itself and its rights vigorously if either of these customers proceeds to file a claim or lawsuit or pursue other action. At this point, it is not possible to determine what level of liability, if any, will result from these claims.

**Commitments**—As of December 31, 2018, the Company had $1.6 million of contingent commitments, with remaining terms of more than one year, to bandwidth colocation and 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 2018 were as follows (in thousands):

| Years Ending December 31 | Contingent Commitments |
|---|---|
| 2019 | $ 744 |
| 2020 | 522 |
| 2021 | 150 |
| 2022 | 150 |
| Total | $1,566 |

**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, 2018, 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.

## 13. EMPLOYEE BENEFIT PLANS

The Company has a 401(k) retirement and savings plan (the "401(k) Plan") covering substantially all employees. The 401(k) Plan allows each participant to contribute up to an amount not to exceed an annual statutory maximum. The Company may contribute a discretionary matching contribution. For the years ended December 31, 2018 and 2017, the Company made a $178,000 and $201,000 matching contribution, respectively.

The Company has a defined contribution pension plan for its employees in certain foreign subsidiaries. The pension plan allows each participant to contribute up to an amount not to exceed an annual statutory maximum. The Company also contributes the amount required by the applicable local laws. The Company contributed and recognized $121,000 and $121,000 as an expense for the years ended December 31, 2018 and 2017, respectively.

## 14. RELATED-PARTY TRANSACTIONS

The Company has agreements for management services with HCL America, Inc. and Sumeru Equity Partners L.P., the majority shareholders of HCL Technologies SEP Holdings, Inc. which wholly owns Actian Corporation. During the year ended December 31, 2018, the Company recorded $729,000 related to these services which are reflected in General and administrative expense in the consolidated statements of operations and comprehensive income.

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, refer to Note 10.

In August 2013, the Company contributed $2 million and certain intellectual property in exchange for convertible preferred stock in SPARQL City, Inc., a provider of high-performance SPARQL-based NoSQL analytics. In June 2014, the Company contributed another $1.2 million in exchange for additional shares of convertible preferred stock. SPARQL City, Inc., was founded by certain then-current and former ParAccel employees. As of December 31, 2016, the Company owned approximately 80% of SPARQL City, Inc., with a noncontrolling interest of approximately 20%.

On January 7, 2016, SPARQL City, Inc., sold intellectual property rights in Sparqlverse Software to a third party for a total consideration of $2.0 million. The consideration was payable as follows: $0.5 million, on the transaction date (January 7, 2016), $0.5 million on the six-month anniversary of the transaction date (July 7, 2016), and $1.0 million on the 12-month anniversary of the effective date. The final payment from this sale was recorded on January 6, 2017. The Company recorded the gain relative to this sale within "Interest and Other Income" within the consolidated statements of operations in 2016.

On May 18, 2017 the Company distributed to the convertible preferred shareholders of Sparql City, Inc. $350,000 as a repayment of their initial investment. On June 30, 2017 the Company fully liquidated Sparql City, Inc.

## 15. OTHER SUBSEQUENT EVENTS

On January 4, 2019 the Company borrowed $5 million per the terms of the Working Capital Line of Credit with HCL. This was a short-term intercompany loan and was repaid to HCL on March 6, 2019, including the interest owed of $30,000. As of March 31, 2019, the Line of Credit expired. See Note 10 for further discussion.

Additionally, the Company declared a dividend payment to HCL Technologies SEP Holdings, Inc. for $1.97 million as of April 18th, 2019.

The Company determined that the consolidated financial statements were available for issuance on May 30, 2019, the date that the Company completed its review of the consolidated financial statements for the year ended December 31, 2018.

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