



**ACTIAN CORPORATION**

Consolidated Financial Statements

December 31, 2023 and 2022

(With Independent Auditors' Report Thereon)



KPMG LLP  
Suite 600  
205 North 10th Street  
Boise, ID 83702-5798

## Independent Auditors' Report

The Board of Directors  
Actian Corporation:

### *Opinion*

We have audited the consolidated financial statements of Actian Corporation and its subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

### *Basis for Opinion*

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

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

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

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

### *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.



In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

*KPMG LLP*

Boise, Idaho  
May 24, 2024

**ACTIAN CORPORATION**

## Consolidated Balance Sheets

As of December 31, 2023 and 2022

(In thousands, except share and per share data)

	<b>2023</b>	<b>2022</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 25,305	\$ 20,900
Accounts receivable (net of allowance of \$7 and \$10 as of December 31, 2023 and 2022, respectively)	90,148	83,215
Prepaid expenses and other current assets	<u>13,217</u>	<u>11,485</u>
Total current assets	128,670	115,600
PROPERTY AND EQUIPMENT—Net	1,384	1,130
GOODWILL	85,981	85,845
INTANGIBLE ASSETS—Net	1,897	2,750
LEASE ASSETS	2,943	3,314
DEFERRED TAX ASSETS	17,660	11,451
OTHER ASSETS	<u>19,111</u>	<u>6,336</u>
<b>TOTAL ASSETS</b>	<u>\$ 257,646</u>	<u>\$ 226,426</u>

**ACTIAN CORPORATION**

Consolidated Balance Sheets As  
of December 31, 2023 and 2022

(In thousands, except share and per share data)

	<b>2023</b>	<b>2022</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 319	\$ 722
Accrued compensation	16,833	22,814
Accrued liabilities	4,241	5,460
Accrued liabilities - related parties	2,051	1,006
Lease liability	902	1,250
Current portion of notes payable - related parties	26,280	52,560
Income taxes payable	29,665	4,380
Deferred revenue	16,112	24,785
Total current liabilities	96,403	112,977
LEASE LIABILITY—Long term	2,390	2,777
INCOME TAXES PAYABLE—Long term	3,321	3,696
DEFERRED REVENUE—Long term	370	1,032
DEFERRED INCOME TAX LIABILITIES	<u>4,150</u>	<u>4,412</u>
Total liabilities	<u>106,634</u>	<u>124,894</u>
<b>COMMITMENTS AND CONTINGENCIES (Note 12)</b>		
<b>STOCKHOLDERS' EQUITY:</b>		
Common stock, \$0.01 par value per share; 1,000 shares authorized, issued, and outstanding as of December 31, 2023 and 2022	-	-
Additional paid-in capital	39,645	56,488
Accumulated other comprehensive loss	(1,532)	(4,153)
Retained Earnings	<u>112,899</u>	<u>49,197</u>
Total stockholders' equity	<u>151,012</u>	<u>101,532</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 257,646</u>	<u>\$ 226,426</u>

See accompanying notes to consolidated financial statements.

**ACTIAN CORPORATION**

## Consolidated Statements of Operations

For the years ended December 31, 2023 and 2022

(In thousands)

	<b>2023</b>	<b>2022</b>
REVENUE:		
Subscription license fees	\$ 180,836	\$124,521
Perpetual license fees	16,982	24,648
Maintenance and support	11,416	14,331
Professional services and training	<u>2,555</u>	<u>3,107</u>
Total revenue	<u>211,789</u>	<u>166,607</u>
COSTS OF REVENUE:		
Costs of license fees, professional services, and training	26,095	19,746
Amortization of acquired intangible assets	<u>36</u>	<u>86</u>
Total costs of revenue	<u>26,131</u>	<u>19,832</u>
GROSS PROFIT	<u>185,658</u>	<u>146,775</u>
OPERATING EXPENSES:		
Sales and marketing	46,245	29,800
Research and development	39,142	29,350
General and administrative	16,712	14,893
Acquisition, restructuring and retention costs	-	7,255
Amortization of acquired intangible assets	<u>820</u>	<u>1,035</u>
Total operating expenses	<u>102,919</u>	<u>82,333</u>
INCOME FROM OPERATIONS	82,739	64,442
OTHER INCOME (EXPENSES):		
Interest and other income	230	220
Interest and other expense	<u>(4,335)</u>	<u>(5,297)</u>
INCOME BEFORE INCOME TAXES	78,634	59,365
INCOME TAX EXPENSE	<u>14,932</u>	<u>10,786</u>
NET INCOME	63,702	48,579

See accompanying notes to consolidated financial statements.

**ACTIAN CORPORATION**

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2023 and 2022

(In thousands)

	<b>2023</b>	<b>2022</b>
NET INCOME	\$ 63,702	\$ 48,579
OTHER COMPREHENSIVE INCOME—Foreign currency translation, net of tax	<u>2,621</u>	<u>(2,138)</u>
COMPREHENSIVE INCOME ATTRIBUTABLE TO EQUITY OWNERS OF ACTIAN CORPORATION	<u>\$ 66,323</u>	<u>\$ 46,441</u>

See accompanying notes to consolidated financial statements.

**ACTIAN CORPORATION**

Consolidated Statements of Stockholders' Equity

For the years ended December 31, 2023 and 2022

(In thousands, except share amounts)

	<b>Stockholders' Equity</b>									
	<b>Convertible Preferred Stock</b>				<b>Common Stock</b>		<b>Additional Paid-In Capital</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Retained Earnings</b>	<b>Total Stockholders' Equity</b>
	<b>Series A</b>		<b>Series B</b>		<b>Shares</b>	<b>Amount</b>				
	<b>Shares</b>	<b>Amount</b>	<b>Shares</b>	<b>Amount</b>	<b>Shares</b>	<b>Amount</b>				
BALANCE—December 31, 2021	<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>1,000</u>	<u>\$ -</u>	<u>\$ 43,997</u>	<u>\$ (2,015)</u>	<u>\$ 618</u>	<u>\$ 42,600</u>
Tax Sharing Agreement with Parent	-	-	-	-	-	-	12,491	-	-	12,491
Net income	-	-	-	-	-	-	-	-	48,579	48,579
Foreign currency translation	-	-	-	-	-	-	-	(2,138)	-	(2,138)
BALANCE—December 31, 2022	<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>1,000</u>	<u>\$ -</u>	<u>\$ 56,488</u>	<u>\$ (4,153)</u>	<u>\$ 49,197</u>	<u>\$ 101,532</u>
Tax Sharing Agreement with Parent	-	-	-	-	-	-	(16,843)	-	-	(16,843)
Net income	-	-	-	-	-	-	-	-	63,702	63,702
Foreign currency translation	-	-	-	-	-	-	-	2,621	-	2,621
BALANCE—December 31, 2023	<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>1,000</u>	<u>\$ -</u>	<u>\$ 39,645</u>	<u>\$ (1,532)</u>	<u>\$ 112,899</u>	<u>\$ 151,012</u>

See accompanying notes to consolidated financial statements.

**ACTIAN CORPORATION**

Consolidated Statements of Cash Flows

For the years ended December 31, 2023 and 2022

(In thousands)

	<b>2023</b>	<b>2022</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 63,702	\$ 48,579
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	856	1,121
Loss on disposal of fixed assets	9	15
Deferred income taxes	(6,499)	(3,923)
Depreciation and amortization of property and equipment	712	970
Commissions amortization	7,228	5,544
Additional Investment by Parent Company	-	12,491
Changes in current assets and liabilities:		
Accounts receivable	(5,140)	(40,712)
Prepaid expenses and other assets	(23,143)	(15,079)
Accounts payable	(676)	(68)
Accrued compensation	(6,144)	8,413
Accrued liabilities	1,089	2,361
Income taxes payable	7,788	3,778
Deferred revenue	<u>(9,660)</u>	<u>(2,520)</u>
Net cash provided by operating activities	<u>30,122</u>	<u>20,970</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	<u>(708)</u>	<u>(387)</u>
Net cash used in investing activities	<u>(708)</u>	<u>(387)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of borrowings with related parties	<u>(26,280)</u>	<u>(26,280)</u>
Net cash used in financing activities	<u>(26,280)</u>	<u>(26,280)</u>

Continued

**ACTIAN CORPORATION**

Consolidated Statements of Cash Flows  
For the years ended December 31, 2023 and 2022  
(In thousands)

	<u>2023</u>	<u>2022</u>
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	\$ 1,271	\$ (2,342)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,405	(8,039)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>20,900</u>	<u>28,939</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 25,305</u>	<u>\$ 20,900</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Income taxes paid	<u>\$ 11,297</u>	<u>\$ 2,411</u>
Interest paid	<u>\$ 3,832</u>	<u>\$ 5,181</u>
NONCASH INVESTING AND FINANCING ACTIVITIES		
Tax sharing reclassification from equity to liability	<u>\$ 6,843</u>	<u>\$ -</u>
Property and equipment additions unpaid at end of year	<u>\$ 49</u>	<u>\$ 10</u>

See accompanying notes to consolidated financial statements.

## ACTIAN CORPORATION

### Notes to Consolidated Financial Statements

December 31, 2023 and 2022

#### (1) Description of Business

Action Corporation (Action or the Company), a Delaware corporation, is a wholly owned subsidiary of HCL Technologies SEP Holdings, Inc. (Parent), which was formed on March 28, 2018 as a Delaware corporation. The Parent is a legal entity for whom 80% of its common shares are owned by HCL America, Inc. and the remaining 20% of its common shares are owned by Sumeru Equity Partners, L.P. (SEP). On December 29, 2021, the Parent became a wholly owned subsidiary of HCL America, Inc., who acquired the 20% ownership from SEP. The Company became a wholly owned subsidiary of HCL America, Inc. when the Parent merged into HCL America Inc. on September 1, 2022.

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

On July 17, 2018 (acquisition date), Action entered into a purchase agreement whereby the Parent acquired Action and its subsidiaries for cash proceeds of \$330 million (hereafter referred to as the Acquisition). The Acquisition was effected by the Parent, which is a direct subsidiary of HCL America, Inc. and ultimately of HCL Technologies Limited, the latter of which is a publicly registered company in India. HCL Technologies Limited (and the two parents of Action Corporation) has concluded that the accounting acquirer of Action was the Parent. HCL Technologies Limited and its subsidiaries have elected not to apply pushdown accounting for this acquisition, as it was concluded that this would not be relevant to the users of the financial statements.

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 Action, HCL America, Inc. entered into an intercompany loan with Action for \$128 million for which principal payments are due quarterly with final payment due in 2024. Refer to note 10 for further discussion of the Company's debt arrangements.

#### (2) Going Concern

These financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities and commitments in the normal course of the business.

In connection with preparing the financial statements for the year ended December 31, 2023, management evaluated its future business activities and requirements under the Accounting Standards Codification (ASC) Subtopic 205-40 – *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. As part of the evaluation, management considered whether there were conditions and events, considered in the aggregate, that raised substantial doubt about the Company's ability to continue as a going concern within one year of the date the financial statements are issued. The Company evaluated its ability to meet its obligations as they come due within one year from the date that the financial statements are issued by considering the following:

The Company has an intercompany loan with the Parent in the amount of \$26.3 million due December 31, 2024. After considering the cash flows of the Company, management believes that cash on hand as of December 31, 2023 will be sufficient to fund obligations as they come due within one year after the date that

## ACTIAN CORPORATION

### Notes to Consolidated Financial Statements

December 31, 2023 and 2022

these financial statements are issued.

### (3) Summary of Significant Accounting Policies

#### (a) *Basis of Presentation and Consolidation*

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

#### (b) *Certain Significant Risks and Uncertainties*

The Company operates in a dynamic, high-technology industry and believes that changes in any of the following areas could have a material adverse effect on the Company's future financial position, results of operations, and cash flows; 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; and the hiring, training, and retention of key employees.

#### (c) *Use of Estimates*

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the amounts reported and disclosed in the consolidated financial statements and accompanying notes. Actual results may differ from management's estimates.

Estimates and assumptions include, but are not limited to:

- The standalone selling price ("SSP") of performance obligations for revenue contracts with multiple performance obligations

#### (d) *Revenue Recognition*

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

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

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

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### Notes to Consolidated Financial Statements

December 31, 2023 and 2022

practices.

(i) *Subscription Licenses*

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

Revenue recognized for term-based licenses as well as the related maintenance and support is recorded within subscription license fees in the consolidated statement of operations.

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

(ii) *Perpetual Licenses*

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

Arrangements may also include professional services.

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

(iii) *Maintenance and Support*

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

(iv) *Professional Services and Training Revenue*

Professional services include 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.

(e) *Deferred Revenue*

Deferred revenue consists of billings or payments received in advance of revenue recognition, primarily from the Company's maintenance and subscription agreements. For subscription licenses, the Company

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### Notes to Consolidated Financial Statements

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generally invoices its customers annually in advance or in quarterly installments. For perpetual licenses, customers are generally invoiced when control of the license has been transferred to the customer. Deferred revenue that will be recognized during the succeeding 12-month period is recorded as current deferred revenue and the remaining portion is recorded as noncurrent deferred revenue.

**(f) Costs of Revenue**

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

**(g) Cash Equivalents**

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

**(h) Allowance for Doubtful Accounts**

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

**(i) Concentration of Credit Risk**

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

One customer accounted for more than 10% of the Company's total accounts receivable at December 31, 2023 and December 31, 2022, respectively. No customer accounted for more than 10% of total revenue in 2023 or 2022.

**(j) Property and Equipment**

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

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

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

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### Notes to Consolidated Financial Statements

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#### **(k) Foreign Currency Translation**

The functional currency of the Company's foreign subsidiaries is generally the local currency. Adjustments resulting from translating foreign functional currency financial statements into the U.S. dollars are recorded as part of a separate component of stockholders' equity and reported in the statements of comprehensive income. 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 loss of \$0.3 million and \$0.1 million for the years ended December 31, 2023 and 2022, respectively.

#### **(l) Goodwill and Intangible Assets**

Goodwill is tested for impairment annually in the fourth quarter or more frequently if facts and circumstances warrant a review. Goodwill is considered impaired if the carrying value of the reporting unit exceeds its fair value.

Intangible assets consist of developed technology, customer relationships, and trade names acquired through prior acquisitions. Intangible assets with definite lives are amortized over their estimated useful lives, ranging from 2 to 15 years. Intangible assets related to certain of the Company's acquisitions have been amortized based on expected future cash flows; all other intangibles are amortized ratably over their expected life.

#### **(m) Impairment of Long-Lived Assets**

Long-lived asset groups are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset group may not be recoverable. When such events occur, the Company compares the carrying amounts of the assets to their undiscounted expected future cash flows. If this comparison indicates that there is impairment, the amount of the impairment is calculated using discounted expected cash flows at the Company's weighted average cost of capital. No impairment charges related to long-lived assets have been recognized during the year ended December 31, 2023 or 2022.

#### **(n) Income Taxes**

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

#### **(o) Research and Development Costs**

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

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### Notes to Consolidated Financial Statements

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#### (p) Advertising Costs

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

#### (q) Recently Adopted Accounting Standards

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* (“ASU 2017-04”), which simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Under ASU 2017-04, goodwill impairment will be tested by comparing the fair value of a reporting unit with its carrying amount, and recognizing an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value. The new guidance must be applied on a prospective basis and is effective for periods beginning after December 15, 2022, with early adoption permitted. The Company adopted ASU 2017-04 effective January 1, 2023. The adoption of the new standard did not have a material effect on the Company’s consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* and issued certain transitional guidance and subsequent amendments within ASU No. 2018-19, ASU No. 2019-04, ASU No. 2019-05, ASU No. 2019-11, ASU No. 2020-03, and ASU No. 2022-02 (collectively, “Topic 326”). This standard requires entities to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable supportable forecasts. It also modifies the impairment model for available-for-sale debt securities and provides a simplified accounting model for purchased financial assets with credit deterioration since their origination. In November 2019, the FASB issued ASU No. 2019-10, *Financial Instruments — Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842) — Effective Dates*, which requires nonpublic companies to adopt the provisions of Topic 326 for fiscal years and interim periods within fiscal years beginning after December 15, 2022. The Company adopted ASU 2016-13 effective January 1, 2023. The adoption of the new standard did not have a material effect on the Company’s consolidated financial statements.

#### (4) Balance Sheet Components

##### (a) Property and Equipment

Property and equipment as of December 31, 2023 and 2022 consisted of the following (in thousands):

	<u>2023</u>	<u>2022</u>
Computer equipment	\$ 6,356	5,554
Office furniture and fixtures	714	710
Leasehold improvements	220	260
Computer software	<u>131</u>	<u>130</u>
Total property and equipment	7,421	6,654
Accumulated depreciation and amortization	<u>(6,037)</u>	<u>(5,524)</u>
Property and equipment – net	<u>\$ 1,384</u>	<u>1,130</u>

Depreciation and amortization expense was \$1.0 million for the years ended December 31, 2023 and

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2022, respectively.

**(b) Deferred Revenue**

Deferred revenue as of December 2023 and 2022 consisted of the following (in thousands):

	<b>2023</b>	<b>2022</b>
Subscription license fees	\$ 3,163	4,609
Maintenance and support	11,656	19,759
Professional services and training	1,663	1,449
Total	<u>\$ 16,482</u>	<u>25,817</u>
Current portion	16,112	24,785
Long-term portion	370	1,032
Total	<u>\$ 16,482</u>	<u>25,817</u>

**(5) Leases**

The Company has several noncancellable operating leases, primarily for office space that expire over the next 4 years. These leases generally contain renewal options for periods ranging from 1 to 7 years. Because the Company is not reasonably certain to exercise these renewal options, the options are not considered in determining the lease term; thus, associated potential option payments are excluded from the lease payments. The Company's leases generally do not include termination options for either party to the lease or restrictive financial or other covenants. Payments due under the lease contracts include fixed and variable payments. For the office space leases that include variable payments, those include payments for the Company's proportionate share of the building's property taxes, insurance, and common area maintenance.

The components of the lease cost for the year ended December 31, 2023 and 2022 were as follows (in thousands):

	<b>2023</b>	<b>2022</b>
Operating Lease Cost	\$ 1,470	1,492
Variable Lease Cost	<u>716</u>	<u>748</u>
Total Lease Costs	<u>\$ 2,186</u>	<u>2,240</u>

Maturities of operating lease liabilities as of December 31, 2023 are as follows:

Fiscal years ending after December 31, 2023 (in thousands):

2024	\$ 1,015
2025	937
2026	901
2027	676
2028	—
Thereafter	<u>—</u>
Total Lease Payments	<u>3,529</u>

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Less: Imputed Interest	<u>(237)</u>
Total Lease Obligations	<u>3,292</u>
Less: Current Obligations	<u>(902)</u>
Long-term Lease Obligations	<u>\$ 2,390</u>

Supplemental balance sheet information related to operating leases as of December 31, 2023 and 2022 was as follows:

	<u>2023</u>	<u>2022</u>
Weighted average remaining lease term	3.6 years	4.19 years
Weighted average discount rate	3.92%	3.61%

#### (6) Goodwill

The changes in goodwill for the years ended December 31, 2023 and 2022 were as follows (in thousands):

Balance – December 31, 2021	\$ 86,124
Translation adjustments	<u>(279)</u>
Balance – December 31, 2022	85,845
Translation adjustments	<u>136</u>
Balance – December 31, 2023	<u>\$ 85,981</u>

The Company's chief operating decision maker (CODM) is its Chief Executive Officer. The Company operates as a single operating segment and single reporting unit as the CODM reviews and evaluates financial information on a consolidated basis. No indicators or instances of impairment of goodwill were identified during the fiscal years ended December 31, 2023 or 2022.

#### (7) 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 \$0.1 million and \$0.1 million for the years ended December 31, 2023 and 2022, respectively. Amortization expense associated with customer relationships and trade names is recorded as a component of operating expenses and was \$0.8 million and \$1.0 million for the years ended December 31, 2023 and 2022, respectively.

No indicators or instances of impairment of intangible assets were identified during the fiscal year ended December 31, 2023 or 2022.

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A summary of identifiable intangible assets as of December 31, 2023 and 2022 was as follows (in thousands):

	Gross amount	2023		2022		
		Accumulated amortization	Net amount	Gross amount	Accumulated amortization	Net amount
Developed technology	\$ 3,863	(3,807)	56	3,863	(3,770)	93
Customer relationships	36,467	(34,654)	1,813	36,369	(33,754)	2,615
Trade name	402	(374)	28	402	(360)	42
Total identifiable intangible assets	\$ 40,732	(38,835)	1,897	40,634	(37,884)	2,750

The estimated amortization expense on identifiable intangible assets for the next five years and their remaining useful lives as of December 31, 2023 was as follows (dollars in thousands):

	Developed technology	Customer relationships	Trade name	Total
2024	\$ 30	638	11	679
2025	26	505	9	540
2026	—	369	8	377
2027	—	208	—	208
2028	—	93	—	93
2029 and later	—	—	—	—
Total estimated future amortization expense	\$ 56	1,813	28	1,897
Remaining useful lives – December 31, 2023	2 Years	3–5 Years	3 Years	

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#### (8) Revenue

##### (a) Disaggregation of Revenue

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

	<u>2023</u>	<u>2022</u>
North America	\$ 62,407	73,073
EMEA	105,605	65,800
APAC	43,777	27,734
Total	<u>\$ 211,789</u>	<u>166,607</u>

##### (b) Contract Cost Assets

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

Amortization of capitalized costs is included in sales and marketing expense in the Company's consolidated statements of operations. During the years ended December 31, 2023 and 2022, the Company amortized \$7.2 million and \$5.5 million of capitalized contract acquisition costs, respectively. The Company did not incur any impairment losses.

As of December 31, 2023, the balance of capitalized contract acquisition costs was \$12.2 million, of which \$5.0 million was recorded in prepaid expenses and other current assets, and \$7.2 million was recorded in other assets within the consolidated balance sheets.

#### (9) Common Stock

The Company's certificate of incorporation, as amended, designates and authorizes the Company to issue 1,000 shares of common stock of which 1,000 were issued to the Company's Parent on the acquisition date. On September 1, 2022 the Parent merged into HCL America Inc. The stock certificate issued to the Parent was canceled and a stock certificate of 1,000 shares of common stock was issued to HCL America Inc. There are no shares reserved for issuance as of December 31, 2023 or 2022.

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#### (10) Loan Agreements

The Company's borrowings as of December 31, 2023 and 2022 were as follows (in thousands):

<b>With related parties</b>	<b>2023 Carrying value</b>	<b>2022 Carrying value</b>
Total borrowings	\$ 26,280	52,560
Current portion	(26,280)	(52,560)
Long-term portion	\$ —	—

#### *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 original HCL Agreement matured on July 17, 2022; however, an amendment effective as of July 1, 2022 was signed to extend the maturity of the note to June 30, 2023. Another amendment effective as of July 1, 2023 was signed to further extend the maturity of the note to December 31, 2024. Interest is payable quarterly in arrears at an annual interest rate of SOFR plus 5%.

The HCL Agreement includes covenants to maintain minimum net leverage ratio as well as certain other nonfinancial covenants. The Company was in compliance with the covenants of the HCL Agreement as of December 31, 2023 and 2022.

#### (11) Income Taxes

After the acquisition by the Parent, a consolidated income tax return is prepared by HCL America Inc. with certain of its U.S. based subsidiaries. The Company has elected an accounting policy to prepare its income tax provision on a stand-alone basis. In addition, the Company has accounted for the income taxes owed to the parent as a capital contribution within the statement of stockholders' equity through 2022 as the Company did not intend to remit such payments to the parent. On October 6, 2023, the tax sharing agreement between Actian Corporation and HCL America Inc. has been signed. Upon signing the agreement, HCL America Inc. has requested tax reimbursement of \$16.8 million for prior periods, of which \$10 million was paid in December 2023. Therefore, the remaining \$6.8 million has been reclassified from stockholders' equity to liability as of December 31, 2023 accordingly.

The components of income before income taxes for the years ended December 31, 2023 and 2022 were as follows (in thousands):

	<b>2023</b>	<b>2022</b>
United States	\$ 62,750	51,331
International	15,884	8,034
Total income before income taxes	\$ 78,634	59,365

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The income tax provision for the years ended December 31, 2023 and 2022 was composed of the following (in thousands):

	<b>2023</b>	<b>2022</b>
Current:		
Federal	\$ 15,467	11,097
State	1,364	1,180
International	4,611	2,433
	21,442	14,710
Deferred:		
Federal	(5,488)	(3,798)
State	(726)	(175)
International	(296)	49
	(6,510)	(3,924)
Income tax provision	\$ 14,932	10,786
<b>Effective Tax Rate</b>	<b>18.99%</b>	<b>18.17%</b>

The principal items giving rise to the difference between the Company's effective tax rate and statutory U.S. federal income tax rate for December 31, 2023 and 2022, are as follows:

	<b>2023</b>	<b>2022</b>
Tax at Federal Statutory Rate	21.00%	21.00%
State, Net of Federal Benefit	1.09%	1.39%
Tax Credits	-0.86%	-1.28%
Foreign Rate Differential	1.84%	3.73%
Uncertain Tax Positions	-0.61%	-1.04%
Permanent Differences	-2.91%	-5.62%
Unremitted Earnings of Foreign Subsidiaries	0.00%	0.00%
Stock Option Cancellations	0.00%	0.00%
Prior Year True Ups and Other	-0.31%	0.60%
Change in Deferred Rate	0.01%	-0.01%
Change In VA	-0.26%	-0.60%
<b>Effective Tax Rate</b>	<b>18.99%</b>	<b>18.17%</b>

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The components of the net deferred tax assets and liabilities as of December 31, 2023 and 2022 were as follows (in thousands):

	<b>2023</b>	<b>2022</b>
Deferred tax assets:		
Net operating loss carryforwards	\$ 3,643	3,987
Credits	1,372	1,372
Accruals and reserves	1,826	1,910
Lease liabilities	713	908
Property and equipment	2	-
Deferred revenue	514	468
Section 174	12,269	5,724
Other	294	260
Gross deferred tax assets	20,633	14,629
Valuation allowance	(2,973)	(3,178)
Net deferred tax assets	17,660	11,451
Deferred tax liabilities:		
Intangibles	(398)	(533)
Lease assets	(632)	(747)
Unrealized FX loss	132	(1,078)
Prepays	(157)	(80)
Property and equipment	-	(16)
Deferred commissions	(2,410)	(1,958)
Other	(685)	(0)
Gross deferred tax liabilities	(4,150)	(4,412)
Net deferred tax assets	\$ 13,510	7,039
Noncurrent deferred tax assets	\$ 17,660	11,451
Noncurrent deferred tax liabilities	(4,150)	(4,412)
Net deferred taxes	\$ 13,510	7,039

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.

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As of December 31, 2023, the Company had federal and state net operating loss carryforwards of approximately \$8.8 million and \$25.5 million, respectively. These net operating loss carryforwards will expire in varying amounts beginning in 2023. As of December 31, 2023, the Company has federal and California research and development credit carryforwards of \$0 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, 2023, the Company has federal foreign tax credit carryforwards expired in 2021. 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 \$6.4 million and \$6.7 million, including penalties and interest of \$0.9 million and \$0.8 million, as of December 31, 2023 and 2022, respectively. As of December 31, 2023 and 2022, the amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$3.3 million and \$3.7 million, respectively, including penalties and interest for each year. The Company estimates that there will be \$2.5 million 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.

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. 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, 2023 because such earnings are not intended to be indefinitely reinvested. As of December 31, 2023, cumulative unremitted foreign earnings that are considered to not be permanently invested outside of the United States and on which U.S. taxes have been provided were approximately \$7.86 million. The U.S. tax impact, when such amounts are remitted, would not be material.

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#### (12) Commitments and Contingencies

##### (a) 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. There are no such contingent liabilities as of December 31, 2023.

##### (b) Commitments

As of December 31, 2023, the Company had \$2.0 million of contingent commitments, with remaining terms of more than one year, to bandwidth colocation and software-as-a-service providers, which commitments become due if the Company terminates any of these agreements prior to their expiration. The colocation arrangements are accounted for as service contracts as the supplier has substitution rights and can replace the servers when needed to continuously provide the quality of network services defined in the contract. The Company does not intend to terminate any of these agreements prior to their expiration. Future required payments as of December 31, 2023 were as follows (in thousands):

	<u>Contingent commitments</u>
Year ending December 31:	
2024	\$ 1,659
2025	257
2026	<u>126</u>
Total	<u>\$ 2,042</u>

##### (c) 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

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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, 2023, 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) Related-Party Transactions**

The Company engaged HCL to perform certain engineering development services and IT support, and the Company recorded the following expenses related to these services:

- \$3.9 million and \$2.7 million in costs of license fees, professional services, and training for the years ended December 31, 2023 and December 31, 2022, respectively
- \$5.1 million and \$4.8 million in research and development for the years ended December 31, 2023 and December 31, 2022, respectively
- \$1.0 million and \$0.8 million in general and administrative for the years ended December 31, 2023 and December 31, 2022, respectively

The Company did not declare any dividends to the Parent in 2023 or 2022.

### **(14) Subsequent Events**

The Company has evaluated subsequent events from the balance sheet date through May 24, 2024, the date at which the consolidated financial statements were available to be issued. On February 15, 2024, Versant India Private Limited was acquired by Sankalp Semiconductor Private Limited, another wholly-owned subsidiary of HCL Technologies Limited. On March 11, 2024, Actian Technology Private Limited was acquired by HCL Technologies UK Limited, another wholly-owned subsidiary of HCL Technologies Limited. These two transactions resulted in an immaterial loss for the Company in 2024. Accordingly, the financial statements of Versant India Private Limited and Actian Technology Private Limited have been deconsolidated by the Company in 2024.