

ACCOLADE, INC. AND SUBSIDIARIES
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Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Accolade, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Accolade, Inc. and subsidiaries (the Company) as of February 28, 2021 and February 29, 2020, the related consolidated statements of operations, convertible preferred stock and stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended February 28, 2021, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of February 28, 2021 and February 29, 2020, and the results of its operations and its cash flows for each of the years in the three-year period ended February 28, 2021, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2008.

Philadelphia, Pennsylvania
May 7, 2021

ACCOLADE, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands, except share and per share data)

	February 28(29),	
	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 433,884	\$ 33,155
Accounts receivable, net	9,112	294
Unbilled revenue	2,725	895
Current portion of deferred contract acquisition costs	2,210	1,368
Current portion of deferred financing fees	93	279
Prepaid and other current assets	5,957	12,944
Total current assets	453,981	48,935
Property and equipment, net	9,227	13,625
Goodwill	4,013	4,013
Acquired technology, net	604	2,054
Deferred contract acquisition costs	6,067	3,876
Other assets	1,618	745
Total assets	\$ 475,510	\$ 73,248
Liabilities, convertible preferred stock and stockholders' equity (deficit)		
Current liabilities:		
Accounts payable	\$ 7,390	\$ 5,273
Accrued expenses	4,845	6,580
Accrued compensation	35,379	23,838
Deferred rent and other current liabilities	567	674
Due to customers	5,015	4,674
Current portion of deferred revenue	25,879	28,919
Total current liabilities	79,075	69,958
Loans payable, net of unamortized issuance costs	—	21,144
Deferred rent and other noncurrent liabilities	5,192	5,523
Deferred revenue	395	396
Total liabilities	84,662	97,021
Convertible preferred stock:		
Preferred stock par value \$0.0001; 25,000,000 shares authorized; 0 and 19,513,939 issued and outstanding at February 28(29), 2021 and 2020, respectively	—	233,022
Commitments (note 13)		
Stockholders' equity (deficit)		
Common stock par value \$0.0001; 500,000,000 shares authorized; 55,699,052 and 6,033,450 shares issued and outstanding at February 28(29), 2021 and 2020, respectively	6	2
Additional paid-in capital	762,362	64,071
Accumulated deficit	(371,520)	(320,868)
Total stockholders' equity (deficit)	390,848	(256,795)
Total liabilities, convertible preferred stock and stockholders' equity (deficit)	\$ 475,510	\$ 73,248

See accompanying notes to consolidated financial statements.

ACCOLADE, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

(In thousands, except share and per share data)

	Fiscal Year Ended February 28(29),		
	2021	2020	2019
Revenue	\$ 170,358	\$ 132,507	\$ 94,811
Cost of revenue, excluding depreciation and amortization	93,673	73,685	60,568
Operating expenses:			
Product and technology	49,955	42,306	35,708
Sales and marketing	33,711	30,050	23,456
General and administrative	31,584	26,154	19,665
Depreciation and amortization	8,212	8,516	9,391
Total operating expenses	123,462	107,026	88,220
Loss from operations	(46,777)	(48,204)	(53,977)
Interest expense, net	(3,724)	(2,925)	(2,374)
Other expense	(147)	(107)	(90)
Loss before income taxes	(50,648)	(51,236)	(56,441)
Income tax expense	(4)	(129)	(55)
Net loss	\$ (50,652)	\$ (51,365)	\$ (56,496)
Net loss per share, basic and diluted	\$ (1.72)	\$ (9.13)	\$ (12.17)
Weighted-average common shares outstanding, basic and diluted	29,370,594	5,626,713	4,641,256

See accompanying notes to consolidated financial statements.

ACCOLADE, INC. AND SUBSIDIARIES

Consolidated Statements of Convertible Preferred Stock and Stockholders' Equity (Deficit)

(In thousands, except shares)

	Convertible Preferred Stock		Stockholders' Equity (Deficit)				
	Shares	Amount	Common stock Shares	Common stock Amount	Additional paid-in capital	Accumulated deficit	Total
Balance, March 1, 2018	16,545,536	\$ 167,010	3,242,319	\$ 1	\$ 29,310	\$ (213,007)	\$ (183,696)
Sale of Series E preferred stock, net	2,095,365	47,654	—	—	—	—	—
Issuance of common stock warrants in connection with sale of Series E preferred stock	—	—	—	—	2,279	—	2,279
Issuance of common stock in lieu of bonus payment	—	—	121,143	—	569	—	569
Exercise of stock options and common stock warrants	—	—	253,087	—	1,002	—	1,002
Stock-based compensation expense	—	—	—	—	5,721	—	5,721
Net loss	—	—	—	—	—	(56,496)	(56,496)
Balance, February 28, 2019	18,640,901	\$ 214,664	3,616,549	\$ 1	\$ 38,881	\$ (269,503)	\$ (230,621)
Sale of Series F preferred stock, net	873,038	18,358	—	—	—	—	—
Issuance of common stock warrants in connection with sale of Series F preferred stock	—	—	—	—	1,585	—	1,585
Issuance of common stock in connection with acquisition	—	—	289,320	—	6,164	—	6,164
Issuance of common stock warrants in connection with July 2019 debt	—	—	—	—	779	—	779
Issuance of common stock in connection with joint development agreement	—	—	251,211	—	3,869	—	3,869
Exercise of stock options and common stock warrants	—	—	1,876,370	1	6,791	—	6,792
Stock-based compensation expense	—	—	—	—	6,002	—	6,002
Net loss	—	—	—	—	—	(51,365)	(51,365)
Balance, February 29, 2020	19,513,939	\$ 233,022	6,033,450	\$ 2	\$ 64,071	\$ (320,868)	\$ (256,795)
Exercise of stock options and common stock warrants and vesting of restricted stock units	—	—	1,342,801	—	9,272	—	9,272
Issuance of common stock in initial public offering, net of issuance costs of \$4,596	—	—	11,526,134	1	231,227	—	231,228
Conversion of preferred stock into common stock	(19,513,939)	(233,022)	29,479,521	2	233,020	—	233,022
Automatic exercise of warrants into common stock in connection with initial public offering	—	—	1,401,836	—	—	—	—
Issuance of common stock in follow-on public offering, net of issuance costs of \$600	—	—	5,750,000	1	208,046	—	208,047
Issuance of stock options to satisfy bonus obligation	—	—	—	—	5,735	—	5,735
Issuance of common stock in connection with 2019 acquisition	—	—	97,812	—	156	—	156
Issuance of common stock in connection with the employee stock purchase plan	—	—	67,498	—	1,259	—	1,259
Stock-based compensation expense	—	—	—	—	9,576	—	9,576
Net loss	—	—	—	—	—	(50,652)	(50,652)
Balance, February 28, 2021	—	\$ —	55,699,052	\$ 6	\$ 762,362	\$ (371,520)	\$ 390,848

See accompanying notes to consolidated financial statements.

ACCOLADE, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(In thousands)

	Fiscal Year Ended February 28(29),		
	2021	2020	2019
Cash flows from operating activities:			
Net loss	\$ (50,652)	\$ (51,365)	\$ (56,496)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization expense	8,212	8,516	9,391
Amortization of deferred contract acquisition costs	1,657	985	794
Noncash interest expense	2,252	834	425
Noncash bonus	—	5,884	569
Loss on disposal of equipment	—	299	—
Stock-based compensation expense	9,576	6,002	5,721
Changes in operating assets and liabilities:			
Accounts receivable and unbilled revenue	(10,648)	(683)	6,522
Accounts payable and accrued expenses	2,991	5,838	1,515
Deferred contract acquisition costs	(4,690)	(2,399)	(2,499)
Deferred revenue and due to customers	(2,700)	2,286	16,192
Accrued compensation	16,356	(1,671)	2,381
Deferred rent and other liabilities	(505)	220	(555)
Other assets	2,919	(8,993)	(508)
Net cash used in operating activities	<u>(25,232)</u>	<u>(34,247)</u>	<u>(16,548)</u>
Cash flows from investing activities:			
Capitalized software development costs	(374)	—	(1,943)
Purchases of property and equipment	(1,991)	(3,315)	(1,175)
Net cash paid in acquisition of MD Insider	—	(206)	—
Earnout payments to MD Insider	(58)	—	—
Net cash used in investing activities	<u>(2,423)</u>	<u>(3,521)</u>	<u>(3,118)</u>
Cash flows from financing activities:			
Proceeds from public offerings, net of underwriters' discounts and commissions and offering costs	439,410	—	—
Proceeds from sale of preferred stock, net	—	19,943	49,933
Proceeds from stock purchases under employee stock purchase plan	2,379	—	—
Proceeds from stock option and warrant exercises	9,348	6,619	1,002
Proceeds from borrowings on debt	51,166	1,660	3,000
Repayments of debt principal	(73,166)	—	(5,000)
Payments related to debt retirement	(753)	—	—
Principal payments under capital leases	—	—	(102)
Net cash provided by financing activities	<u>428,384</u>	<u>28,222</u>	<u>48,833</u>
Net increase (decrease) in cash and cash equivalents	<u>400,729</u>	<u>(9,546)</u>	<u>29,167</u>
Cash and cash equivalents, beginning of period	33,155	42,701	13,534
Cash and cash equivalents, end of period	<u>\$ 433,884</u>	<u>\$ 33,155</u>	<u>\$ 42,701</u>
Supplemental cash flow information:			
Interest paid	\$ 2,296	\$ 2,391	\$ 2,609
Issuance of stock options in lieu of cash bonus	\$ 5,735	\$ —	\$ 569
Fixed assets included in accounts payable	\$ 232	\$ 45	\$ 93
Other receivable related to stock option exercises	\$ 97	\$ 173	\$ —
Income taxes paid	\$ 149	\$ 55	\$ —
Common stock issued in connection with acquisition	\$ 156	\$ 6,164	\$ —
Offering costs included in prepaid assets and accounts payable and accrued expenses	\$ —	\$ 3,042	\$ —
Common stock issued in connection with joint development agreement	\$ —	\$ 3,869	\$ —
Common stock warrants issued in connection with debt	\$ —	\$ 779	\$ —

See accompanying notes to consolidated financial statements.

Accolade, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(Dollar amounts in thousands except share and per share data)

(1) Background

(a) Business

Accolade, Inc. was initially organized as a limited liability company under the name Accretive Care LLC in Delaware on January 23, 2007. On June 14, 2010, the company converted from a limited liability company to a Delaware corporation and changed its name to Accolade, Inc. Accolade's offices and operations are in Seattle, Washington; Plymouth Meeting, Pennsylvania; Scottsdale, Arizona; Santa Monica, California; and Prague, Czech Republic.

On February 6, 2016, Accolade established a wholly owned subsidiary in the Czech Republic and on July 31, 2019, Accolade acquired all the equity interests of a Delaware corporation (together with Accolade, the Company), and their results of operations have been included in the consolidated financial statements since those respective dates.

The Company provides personalized, technology-enabled solutions that help people better understand, navigate, and utilize the healthcare system and their workplace benefits. The Company's customers are primarily employers that contract with Accolade to provide their employees and their employees' families (the members) a single place to turn for their health, healthcare, and benefits needs. The service is designed to drive better healthcare outcomes and increased satisfaction for the participants while lowering costs for the payor. The Company provides its services to customers throughout the United States.

(b) Liquidity

The Company has incurred net losses and cumulative negative cash flows from operations since inception. To date, the Company's operations have been funded by capital raised from investors, debt facilities, and revenues in the normal course of business. Management believes that the Company's cash and cash equivalents, plus customer revenues and advances and available borrowings under its debt facility, are sufficient to fund its operations through at least the next 12 months from the issuance of these consolidated financial statements. Additional financing may be required for the Company to successfully implement its long-term strategy. There can be no assurance that additional financing, if needed, can be obtained on terms acceptable to the Company. Subsequent to February 28, 2021, the Company paid approximately \$236,200 related to the acquisition of Innovation Specialists LLC d/b/a 2nd.MD (2nd.MD), including related expenses, and received \$244,900 in proceeds, net of estimated expenses (including capped calls), in an offering of convertible senior notes. See note 16 for further details.

(c) COVID-19

Due to the government-imposed quarantines and other public health safety measures put into place in March 2020, COVID-19 has caused disruption in the markets where the Company sells its offerings and related services. Although the Company has not experienced any significant financial impact as a result of the COVID-19 pandemic, there continues to be uncertainty as to the extent to which the COVID-19 pandemic may adversely impact its business and operations, and the Company will continue to closely monitor for any changes to the Company's operations and the operations of our customers.

(d) Initial Public Offering

On July 7, 2020, the Company closed its initial public offering of common stock (IPO) in which the Company issued and sold 11,526,134 shares (inclusive of the underwriters' over-allotment option to purchase 1,503,408 shares) of common stock at \$22.00 per share. The Company received net proceeds of \$231,228 after deducting underwriting

discounts and commissions, as well as offering costs of \$4,596. Upon the closing of the IPO, all shares of outstanding convertible preferred stock converted into 29,479,521 shares of common stock, and an additional 1,401,836 shares of common stock were issued upon the automatic net exercise of warrants then outstanding.

(e) Follow-on Public Offering

On October 26, 2020, the Company closed a follow-on public offering of common stock in which the Company issued and sold 5,750,000 shares (inclusive of the underwriters' over-allotment option to purchase 750,000 shares) of common stock at \$38.50 per share. The Company received net proceeds of \$208,046 after deducting underwriting discounts and commissions, as well as offering costs of \$600, all of which were paid as of February 28, 2021.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation and Principles of Consolidation

Accolade's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and include the Company's accounts and those of the Company's wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including the fair value of assets acquired and liabilities assumed for business combinations, unbilled revenues and deferred revenues, certain accrued expenses, stock-based compensation, assessment of the useful life and recoverability of long-lived assets, income taxes, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. To the extent there are material differences between these estimates, judgments, or assumptions and actual results, the Company's financial statements will be affected.

(c) Comprehensive Loss

For the fiscal years ended February 28(29), 2021, 2020, and 2019, there was no difference between comprehensive loss and net loss.

(d) Fair Value of Financial Instruments

The carrying value of the Company's financial instruments, including cash equivalents, accounts receivable, unbilled revenue, other current assets, accounts payable, and accrued expenses approximates fair value due to the short-term nature of those instruments.

The Company measures financial assets and liabilities at fair value at each reporting period using a fair value hierarchy that requires the use of observable inputs and minimizes the use of unobservable inputs. The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

- Level 1 — Quoted prices in active markets for identical assets or liabilities.
- Level 2 — Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are

observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

- Level 3 — Inputs that are generally unobservable and typically reflect the Company's estimate of assumptions that market participants would use in pricing the asset or liability.

(e) Cash and Cash Equivalents

Cash and cash equivalents is comprised of cash in banks and highly liquid investments, including certificates of deposit with a maturity date of less than 90 days, and money market treasury funds, purchased with an original maturity of three months or less. Cash equivalents consist of investments in money market funds for which the carrying amount approximates fair value, due to the short maturities of these instruments.

(f) Accounts Receivable and Unbilled Revenue

Accounts receivable are recorded at the invoiced amount and do not bear interest. The Company does not have any off-balance-sheet credit exposure related to its customers. The Company records unbilled revenue for services performed on contracts for amounts not yet billed to customers.

(g) Property and Equipment

Property and equipment are recorded at cost. Equipment acquired under capital leases is recorded at the present value of the minimum lease payments. Property and equipment are depreciated on a straight-line basis over their estimated useful lives.

Useful lives for property and equipment are as follows:

Property and Equipment	Estimated Useful Life
Office equipment and furniture	7 years
Computer equipment	3 - 5 years
Computer software	3 - 5 years
Leasehold improvements	Lesser of estimated useful life or remaining lease term

(h) Capitalized Internal-Use Software Costs

Costs related to software acquired, developed, or modified solely to meet the Company's internal requirements, including for tools that enable the Company's employees to interact with members and their providers, with no substantive plans to market such software at the time of development, are capitalized. Costs incurred during the preliminary planning and evaluation stage of the project and during the post-implementation operational stage are expensed as incurred. Costs related to minor upgrades, minor enhancements, and maintenance activities are expensed as incurred. Costs incurred during the application development stage of the project are capitalized. Internal-use software is included in property and equipment and is amortized on a straight-line basis over 3 years.

For the fiscal years ended February 28(29), 2021, 2020, and 2019, the Company capitalized \$374, \$3,005, and \$1,943, respectively, for internal-use software. Amortization expense related to capitalized internal-use software during the fiscal years ended February 28(29), 2021, 2020, and 2019, \$4,560, \$4,533, and \$5,836, respectively.

(i) Impairment of Long-Lived Assets

The Company reviews long-lived assets, such as property and equipment and acquired technology, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be

recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, then an impairment charge is recognized for the amount by which the carrying value of the asset exceeds the fair value of the asset. There were no impairment charges recorded during the fiscal years ended February 28(29), 2021, 2020, and 2019.

(j) Intangible Assets

As part of the acquisition of MDI (Note 3), the Company acquired an intangible asset in the form of acquired technology in the amount of \$2,900. This intangible asset is subject to amortization and is being amortized on the straight-line basis over its estimated useful life of two years. The Company recognized \$1,450 and \$846 in amortization expense during the fiscal years ended February 28(29), 2021 and 2020, respectively.

(k) Goodwill

Goodwill is the excess of the cost of an acquired entity over the net amounts assigned to tangible and intangible assets acquired and liabilities assumed. Goodwill is not amortized, but is subject to an annual impairment test. The Company has a single reporting unit and all goodwill relates to that reporting unit.

The Company performs its annual goodwill impairment test on an annual basis in the fourth quarter of each fiscal year or more frequently if changes in circumstances or the occurrence of events suggest that an impairment exists. If the fair value of the reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the implied fair value of the reporting unit's goodwill is less than the carrying value of the reporting unit's goodwill.

The Company's annual goodwill impairment test resulted in no impairment charges in the fiscal years ended February 28(29), 2021 and 2020.

(l) Revenue and Deferred Revenue

The Company earns revenue from its customers by providing personalized health guidance solutions to members. The Company's solutions allow its members to interact with its Accolade Health Assistants and clinicians through various means of communication, including telephony and secure messaging via its mobile application and member portal. The Company prices its personalized health guidance solutions using a recurring per-member-per-month fee (PMPM), typically with a portion of the fee calculated as the product of a fixed rate times the number of eligible members (fixed PMPM fee), plus a variable PMPM fee calculated as the product of a variable rate times the number of eligible members (variable PMPM fee). The fees associated with the variable PMPM fee can be earned through the achievement of performance metrics and/or the realization of healthcare cost savings resulting from the utilization of the Company's services. Collectively, the fixed PMPM fee and variable PMPM fee are referred to as the total PMPM fee. The Company's PMPM pricing varies by contract. In certain contracts, the maximum total PMPM fee varies during the contract term (total PMPM rate increases or decreases annually), while in other contracts, the total PMPM maximum fee is consistent over the term, yet the fixed and variable portions vary. For example, in certain contracts the fixed PMPM fee increases on an annual basis while the variable PMPM fee decreases on an annual basis, resulting in the same total PMPM fee throughout the term of the contract.

In accordance with Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers*, the Company recognizes revenue when control of the promised services is transferred to its customers, in an amount that reflects the consideration to which it expects to be entitled in exchange for those services. Accordingly, the Company determines revenue recognition through the following steps:

- identification of the contract, or contracts, with a customer;
- identification of the performance obligations in the contract;
- determination of the transaction price;

- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenue when, or as, the Company satisfies a performance obligation

At contract inception, the Company assesses the type of services being provided and assesses the performance obligations in the contract. The Company's contracts for personalized health guidance solutions include stand ready services as discussed in the following sentence and reporting performance obligations. The Company's contracts include stand ready services to provide eligible participants with access to the Company's services and to perform an unspecified quantity of interactions with members during the contract period. Accordingly, the Company's services are generally viewed as stand ready performance obligations comprised of a series of distinct daily services that are substantially the same and have the same pattern of transfer. For the stand ready services, the Company satisfies these performance obligations over time and recognizes revenue related to its services as the services are provided using a measure of progress based upon the actual number of members eligible for the service during the respective period as a percentage of the estimated members expected to be eligible for the service over the term of the contract. The Company believes a measure of progress based on the number of members is the most appropriate measurement of control of the services being transferred to the customer as the amount of internal resources necessary to stand ready is directly correlated to the number of members who can use the services. In addition, the Company's contracts may include additional add-on services as separate performance obligations that are also considered stand ready services. These add-on services have the same pattern of transfer and revenue recognition as discussed above.

The Company's personalized health guidance solutions also include a distinct performance obligation related to reporting, which is provided to the customer on a daily, monthly, and/or quarterly basis and provides the customer with insights into various operational data and performance metrics. Although reporting is performed separately over regular intervals during the term of contract period, the Company recognizes revenue in a similar pattern of recognition and using a similar measure of progress as its stand ready services because the reporting services are performed evenly throughout the term of the contract. Revenues related to reporting services were not material for the fiscal years ended February 28(29), 2021, 2020, and 2019.

Some contracts contain an additional performance obligation, pre-launch open enrollment, for which the performance obligation is satisfied before the launch of the Company's primary service. For contracts that include pre-launch open enrollment support, the Company recognizes related revenues over the pre-launch open enrollment period based on the number of eligible members.

The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis. The Company determines the standalone selling prices based on overall pricing objectives, taking into consideration market conditions and other factors, using an expected cost plus margin approach. The Company considered the variable consideration allocation exception in ASC 606 and concluded that such exception for allocating variable consideration to distinct performance obligations or distinct time periods within a series was not met primarily due to variability in its PMPM pricing.

The majority of fees earned by the Company are considered to be variable consideration due to both the uncertainty regarding the total number of members for which the Company will invoice the customer, as well as the variable PMPM fees that are dependent upon the achievement of performance metrics and/or healthcare cost savings. Performance metrics are measured monthly, quarterly, or annually, and with respect to the achievement of healthcare cost savings targets, annually (typically measured on a calendar year basis). Accordingly, at contract inception and on an ongoing basis, as part of the Company's estimate of the transaction price, the Company determines whether any such fees should be constrained, and the Company includes the estimated consideration for those fees for which a significant reversal of cumulative revenue is not probable (and is therefore considered to be unconstrained). Consideration related to the Company's achievement of healthcare cost savings is typically constrained until the end of the applicable calendar year due to uncertainty related to factors outside of the Company's control. Consideration related to other performance metrics is typically not constrained based on the Company's prior success of achieving such metrics. On an ongoing basis, the Company reassesses its estimates for variable consideration, which can change based upon its assessment of the achievement of performance metrics and healthcare cost savings, as well as the number of members.

The Company typically invoices its customers in advance of the services performed on a monthly or quarterly basis, and the amount invoiced typically represents the maximum total PMPM fee for the estimated number of eligible members over the applicable invoice period. The total PMPM fee covers both the stand ready services and reporting services in the Company's typical contracts (i.e., the performance obligations are not separately priced or invoiced). The maximum total PMPM fee that is invoiced includes both the fixed PMPM fee and the variable PMPM fee related to the performance metrics and/or the realization of healthcare cost savings that can be achieved during the period. These fees are classified as deferred revenue on the Company's consolidated balance sheet until such time that revenue can be recognized. In the event the Company fails to satisfy any of the performance metrics and/or realization of healthcare cost savings that are billed in advance, the Company will refund the applicable portion of the fee or offset the amount against a future invoice. These amounts are included in Due to Customers on the Company's consolidated balance sheet. The Company's accounts receivable represent rights to consideration that are unconditional.

As of February 28, 2021, \$211,458 of revenue is expected to be recognized from remaining performance obligations and is expected to be recognized as follows:

<u>Year Ending February 28(29),</u>	
2022	\$ 141,361
2023	49,988
2024	19,606
2025	503
Total	<u>\$ 211,458</u>

The expected revenue includes variable fee estimates for the non-cancellable term of the Company's contracts. The expected revenue does not include amounts of variable consideration that are constrained.

Significant changes to the contract liability balances during the fiscal years ended February 28(29), 2021 and 2020 were the result of revenue recognized as well as net cash received. During the fiscal years ended February 28(29), 2021 and 2020, significant changes in the deferred revenue balances were the result of recognized revenue of \$28,919 and \$22,407, respectively, that were included in deferred revenue. In addition, significant changes to the contract asset balances during the fiscal years ended February 28(29), 2021 and 2020 were the result of revenue recognized as well as transfers to accounts receivable. Contract assets relating to unbilled revenue are transferred to accounts receivable when the right to consideration becomes unconditional.

Revenue related to performance obligations satisfied in prior periods that was recognized during the years ended February 28(29), 2021 and 2020 was \$5,473 and \$4,479, respectively. These changes in estimates were primarily due to the inclusion of consideration that was previously constrained related to the Company's achievement of healthcare cost savings.

Cost to obtain and fulfill a contract

The Company capitalizes sales commissions paid to internal sales personnel that are both incremental to the acquisition of customer contracts and recoverable. These costs are recorded as deferred contract acquisition costs in the accompanying consolidated balance sheets. The Company capitalized commission costs of \$3,501 and \$1,495 for the years ended February 28(29), 2021 and 2020, respectively. The Company defers costs based on its sales compensation plans only if the commissions are incremental and would not have occurred absent the customer contract. Payments to direct sales personnel are typically made in two increments as follows: 75% upon signature of the contract, with the remaining 25% upon customer launch. The Company does not pay commissions on contract renewals.

Deferred commissions paid on the initial acquisition of a contract are amortized ratably over an estimated period of benefit of five years, which is the estimated customer life. The Company determined the period of amortization for deferred commissions by taking into consideration current customer contract terms, historical customer retention, and other factors. Amortization is included in sales and marketing expenses in the accompanying consolidated statements of operations and totaled \$1,106, \$665, and \$377 for the fiscal years ended February 28(29), 2021, 2020, and 2019, respectively. The Company periodically reviews deferred contract acquisition costs to determine whether events or

changes in circumstances have occurred that could impact the estimated period of benefit. There were no impairment losses recorded during the periods presented.

For certain customer contracts, the Company may incur direct and incremental costs related to customer set-up and implementation. The Company recorded deferred implementation costs of \$1,189 and \$904 for the fiscal years ended February 28(29), 2021 and 2020, respectively. These implementation costs are deferred and amortized over the expected useful life of the Company's customers, which is five years. Amortization is included in cost of revenues in the Company's consolidated statements of operations and totaled \$551, \$320, and \$417 for the fiscal years ended February 28(29), 2021, 2020, and 2019, respectively.

(m) Concentration of Credit Risk

Financial instruments that potentially subject us to credit risk consist principally of cash and cash equivalents. The Company maintains its cash primarily with domestic financial institutions of high credit quality, which may exceed federal deposit insurance corporation limits. The Company invests its cash equivalents in highly rated money market funds. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents and perform periodic evaluations of the credit standing of such institutions.

Significant customers are those which represent 10% or more of the Company's revenue during the period. For each significant customer, revenue as a percentage of total revenue was as follows:

	Year Ended February 28(29),		
	2021	2020	2019
Customer 1	16.0 %	23.8 %	35.3 %
Customer 2	11.8 %	12.6 %	2.7 %
Customer 3	10.2 %	11.7 %	14.3 %
Customer 4	9.8 %	10.4 %	7.7 %
Customer 5	7.4 %	9.5 %	10.9 %
Total	55.2 %	68.0 %	70.9 %

Customers representing 10% or more of the Company's revenue in each fiscal year had a total of \$5,592 and \$0 in accounts receivable outstanding at February 28(29), 2021 and 2020, respectively.

(n) Stock-Based Compensation

The Company recognizes compensation cost for awards to employees, nonemployee directors, consultants, and advisors based on the grant date fair value of stock-based awards on a straight-line basis over the period during which an award holder is required to provide service in exchange for the award. The Company estimates the fair value of each employee stock option on the date of grant using the Black-Scholes option pricing model.

(o) Cost of Revenue, excluding Depreciation and Amortization

Cost of revenue, excluding depreciation and amortization, consists primarily of personnel costs including salaries, wages, overtime, bonuses, stock-based compensation expense, and benefits, as well as software and tools for telephony, business analytics, allocated overhead costs, and other expenses related to delivery and implementation of the Company's personalized technology-enabled solutions.

(p) Product and Technology

Product and technology expenses consist of personnel expenses, including salaries, bonuses, stock-based compensation expense, and benefits for employees and contractors for engineering, product, and design teams, and allocated overhead costs, as well as costs of software and tools for business analytics, data management, and IT applications that are not directly associated with delivery of the Company's solutions to customers.

(q) Income Taxes

The provision for income taxes was determined using the asset and liability approach of accounting for income taxes. Under this approach, deferred taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. The provision for income taxes represents income taxes paid or payable for the current year plus the change in deferred taxes during the period. Deferred taxes result from differences between the financial and tax basis of the Company's assets and liabilities and are adjusted for changes in tax rates and tax laws when changes are enacted. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. Deferred tax assets and liabilities are measured using enacted tax rates applicable in the years in which they are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax law is recognized in income in the period that includes the enactment date.

In evaluating the ability to realize deferred tax assets, the Company relies on taxable income in prior carryback years, the future reversals of existing taxable temporary differences, future taxable income, and tax planning strategies.

Consistent with the provisions of FASB ASC Topic 740, *Income Taxes*, the Company does not recognize a tax benefit for a tax position in its financial statements unless it has concluded that it is more likely than not that the benefit will be sustained on audit by the taxing authority based solely on the technical merits of the associated tax position; and that the amount of tax benefit recognized is measured at the largest amount of the tax benefit that, in the Company's judgment, is greater than 50% likely to be realized. U.S. GAAP requires the evaluation of tax positions taken or expected to be taken in the course of preparing tax returns to determine whether the tax positions will more likely than not be sustained by the Company upon challenge by the applicable tax authority. Tax positions not deemed to meet the "more likely than not" threshold and that would result in a tax benefit or expense to the Company would be recorded as a tax benefit or expense in the current period. For the fiscal years ended February 28(29), 2021, 2020, and 2019, the Company did not recognize any amounts for unrecognized tax benefits. A reconciliation is not provided herein, as the beginning and ending amounts of unrecognized benefits are \$0, with no additions, reductions, or settlements during the year. Tax years 2010 through present remain subject to examination by the U.S. and state taxing authorities.

(r) Segments

The Company's chief operating decision maker, its Chief Executive Officer, reviews the financial information presented on a consolidated basis for purposes of allocating resources and evaluating its financial performance. Accordingly, the Company has determined that it operates in a single reportable operating segment.

As of February 28(29), 2021, 2020, and 2019, substantially all of Accolade's long-lived assets were located in the United States, and all revenue was earned in the United States.

(s) Deferred Offering Costs

The Company capitalizes certain legal, accounting and other third-party fees that are directly associated with in-process equity financing as deferred offering costs until such financings are consummated. After consummation of the equity financing, these costs are recorded in stockholders' deficit as a reduction of additional paid-in-capital generated as a result of the offering. Should the equity financing no longer be considered probable of being consummated, all deferred offering costs would be charged to operating expenses in the statement of operations. Deferred offering costs were \$0 and \$3,042 at February 28(29), 2021 and 2020, respectively, and are included within prepaid and other current assets on the accompanying consolidated balance sheet.

(t) New Accounting Pronouncements Not Yet Adopted

Leases: In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2016-02, *Leases* (Topic 842). In July 2018, the FASB issued ASU No. 2018-10, *Codification Improvements to Topic 842, Leases*, and ASU No. 2018-11, *Leases* (Topic 842), Targeted Improvements, which affect certain aspects of the previously issued guidance. In December 2018, the FASB issued ASU No. 2018-20,

Narrow-Scope Improvements for Lessor, Leases (Topic 842), which provides guidance on sales tax and other taxes collected from lessees. In March 2019, the FASB issued ASU No. 2019-01, *Codification Improvements to Topic 842, Leases*, which affect certain aspects of the previously issued guidance. Amendments include an additional transition method that allows entities to apply the new standard on the adoption date and recognize a cumulative effect adjustment to the opening balance of retained earnings, as well as a new practical expedient for lessors. The guidance (collectively ASC 842) will require lessees to put all leases on their balance sheets, whether operating or financing, while continuing to recognize the expenses on their income statements in a manner similar to current practice. ASC 842 states that a lessee would recognize a lease liability for the obligation to make lease payments and a right-to-use asset for the right to use the underlying asset for the lease term. ASC 842 is effective for the Company for fiscal year ended February 28, 2023, and interim periods within the fiscal year ending February 29, 2024. Early adoption is permitted. The Company is evaluating the accounting, transition and disclosure requirements of the standard and cannot currently estimate the financial statement impact of adoption.

Credit Losses: In June 2016, the FASB issued ASU No. 2016-13 *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 introduces the current expected credit loss (CECL) model, which will require entities to estimate an expected lifetime credit loss on financial assets ranging from short-term trade accounts receivable to long-term financings. ASU 2016-13 is effective for the Company for fiscal year ended February 28, 2024. Early adoption is permitted. The Company is evaluating the accounting, transition and disclosure requirements of the standard and cannot currently estimate the financial statement impact of adoption.

Goodwill: In January 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which eliminates Step 2 from the impairment test. Under the new guidance, goodwill impairment testing will be performed by comparing the fair value of the 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 ASU is effective for annual and interim goodwill impairment tests performed in fiscal years ending after December 15, 2021. The Company adopted this guidance and implemented its provisions for the annual goodwill impairment testing for the year ended February 28, 2021. The adoption of this guidance did not have a significant impact on the Company's financial position, results of operations, or cash flows.

Internal Use Software: In August 2018, the FASB issued ASU No. 2018-15, *Intangibles — Goodwill and Other-Internal-Use Software* (Subtopic 350-40): *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which aligns the requirements for capitalizing implementation costs incurred in a cloud computing arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use-software. This ASU is effective for the fiscal year ending February 28, 2022, and interim periods within the fiscal year ending February 28, 2023. Early adoption is permitted. The Company is evaluating the accounting, transition and disclosure requirements of the standard and cannot currently estimate the financial statement impact of adoption.

In August 2020, the FASB issued ASU No. 2020-06, *Debt—Debt with Conversion and Other Options* (Subtopic 470-20) and *Derivatives and Hedging—Contracts in Entity's Own Equity* (Subtopic 815-40): *Accounting for Convertible Instruments and Contracts in an Entity's Own Equity* (ASU 2020-06), which simplifies the accounting for convertible instruments by reducing the number of accounting models available for convertible debt instruments. This guidance also eliminates the treasury stock method to calculate diluted earnings per share for convertible instruments and requires the use of the if converted method. The Company early adopted the ASU effective March 1, 2021 using the modified retrospective method of adoption. The Company will apply this ASU to the convertible debt transaction entered into in March 2021 (see Note 16).

(3) Acquisition of MD Insider (MDI)

On July 31, 2019, the Company acquired the outstanding equity interests of MDI. Based in California, MDI is a provider of machine learning-enabled physician performance transparency. The following table summarizes the purchase consideration paid to MDI:

Consideration Paid	
Cash consideration	\$ 324
Fair value of equity issued	5,114
Fair value of contingent consideration	1,050
Total consideration paid	<u>\$ 6,488</u>

The aggregate purchase price consideration of \$6,488 was paid primarily through the issuance of up to 462,691 shares of the Company's common stock, of which 387,132 were issued as of February 28, 2021, with the remaining shares issuable subject to certain working capital and indemnity adjustments (if applicable). Shareholders were eligible to receive 100,607 additional shares of the Company's common stock upon the completion of a platform solution, as defined in the purchase agreement (MDI Earnout). The deadline to complete the cost transparency platform solution in order to qualify for the MDI Earnout was initially March 1, 2020, and was subsequently extended to July 1, 2020, by which time it had been earned. During August 2020, the Company issued 96,487 shares of common stock in connection with the MDI Earnout (which shares are included in the 387,132 shares issued as of February 28, 2021). The estimated fair value of the Company's common stock and MDI Earnout was \$5,114 and \$1,050, respectively. The MDI Earnout was accounted for as an equity classified instrument and was not subject to remeasurement in subsequent periods.

The Company incurred a total of \$567 in acquisition related costs that were expensed immediately and recorded in the Company's consolidated statement of operations for the fiscal year ended February 29, 2020. The acquisition was not significant to the Company's consolidated financial statements. The results of MDI's operations since July 31, 2019 have been included in the Company's consolidated financial statements. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

Assets acquired:	
Cash and cash equivalents	\$ 118
Accounts receivable	98
Prepaid expenses	5
Goodwill	4,013
Intangible assets	2,900
Other assets	17
Total assets acquired	<u>\$ 7,151</u>
Liabilities assumed:	
Accounts payable	\$ 321
Accrued expenses and other current liabilities	342
Total liabilities assumed	<u>\$ 663</u>
Net assets acquired	<u>\$ 6,488</u>

The purchase price was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date. The identifiable intangible asset principally relates to technology and is subject to amortization on a straight-line basis over two years. During the fiscal years ended February 28(29), 2021 and 2020, the Company recorded amortization expense of \$1,450 and \$846, respectively. The remaining intangible asset balance will be fully amortized in the year ended February 28, 2022.

The intangible asset was valued using the estimated replacement cost method. This method requires several judgments and assumptions to determine the fair value of the intangible asset, including expected profits and opportunity costs. Goodwill related to the acquisition is attributable to the workforce of MDI as well as the expected future growth into new and existing markets and is not deductible for income tax purposes.

(4) Property and Equipment

Property and equipment consisted of the following:

	February 28(29),	
	2021	2020
Capitalized software development costs	\$ 32,292	\$ 35,867
Computer software	5,688	8,829
Computer equipment	8,386	9,383
Office equipment, furniture, and leasehold improvements	6,829	8,903
Office equipment and furniture under capital leases	312	1,251
	53,507	64,233
Less accumulated depreciation	(44,280)	(50,608)
Total	\$ 9,227	\$ 13,625

Depreciation and amortization expense related to property and equipment was \$6,762, \$7,670, and \$9,391 and for the fiscal years ended February 28(29), 2021, 2020, and 2019, respectively. During the fiscal year ended February 28, 2021, the Company wrote off \$3,950 of fully-depreciated capitalized software, \$3,236 of fully-depreciated computer software, \$2,206 of fully-depreciated computer equipment, \$2,760 of fully-depreciated office equipment, furniture, and leasehold improvements, and \$939 of fully-depreciated office equipment and furniture under capital leases.

During the fiscal year ended February 29, 2020, the Company accelerated depreciation in the amount of \$1,634 related to the retirement of software. Also during 2020, the Company wrote off \$680 of leasehold improvements and furniture/fixtures related to the termination of the Seattle lease (see note 13), resulting in a loss on disposal of \$299.

(5) Accrued Expenses and Accrued Compensation

Accrued expenses consisted of the following:

	February 28(29),	
	2021	2020
Accrued professional and consulting fees	\$ 2,202	\$ 3,375
Accrued software, hardware, and communication costs	400	228
Accrued litigation matter	—	1,100
Accrued taxes	1,074	512
Accrued other	1,169	1,365
Total	\$ 4,845	\$ 6,580

See note 13 for discussion regarding accrued litigation matter.

Accrued compensation at February 28(29), 2021 and 2020 includes \$37 and \$4,905, respectively, of payroll withholding taxes payable related to the exercise of nonqualified stock options during the preceding fiscal year. The Company has corresponding receivables for the same amounts, which are classified in prepaid and other current assets in the Company's consolidated balance sheets.

Included in accrued compensation at February 29, 2020 is \$5,884 of accrued bonus expense related to bonuses earned during the fiscal year ended February 29, 2020. This bonus amount was settled in June 2020 through the issuance of fully vested stock options exercisable into shares of the Company's common stock. The Company determined the amount of stock options to be issued by taking the cash bonus earned divided by the fair value of the Company's common stock at May 31, 2020, which was \$17.50. The Company then used the Black Scholes methodology to determine the fair value of the stock options granted, which resulted in a grant-date fair value of \$10.88 per stock option. The fair value of the stock options issued was determined using an estimated fair value of common stock based upon a third party valuation, expected volatility of 78.4%, expected term of 5.0 years, and risk-free interest rate of 0.3%.

(6) Fair Value Measurements

The following table sets forth the fair value of the Company's financial assets and within the fair value hierarchy:

	February 28, 2021			
	Level 1	Level 2	Level 3	Fair Value
Assets				
Cash equivalents:				
Money market funds	\$ 283,245	\$ —	\$ —	\$ 283,245

	February 29, 2020			
	Level 1	Level 2	Level 3	Fair Value
Assets				
Cash equivalents:				
Money market funds	\$ 21,332	\$ —	\$ —	\$ 21,332
Certificates of deposit	\$ 5,000	\$ —	\$ —	\$ 5,000

The carrying value of the Company's debt approximates fair value based on interest rates available for debt with similar terms at February 29, 2020. The Company had no outstanding debt at February 28, 2021.

(7) Debt Facility

(a) Term Loan and Revolving Credit Facility

Term Loan

On January 30, 2017, the Company entered into a \$20,000 term loan facility (the Term Loan). Under the terms of the Term Loan, the Company was permitted to borrow up to an aggregate principal amount of \$20,000, with the total amount of available borrowings subject to certain monthly recurring revenue calculations.

Interest on the outstanding balance was payable monthly at a rate of 11.75%. Principal payments were scheduled to be made monthly beginning January 31, 2019, in equal installments calculated as 1/24th of the outstanding balance on December 31, 2018. However, the Company had the ability to extend the interest only period for an additional twelve months, subject to an additional fee and other conditions, which would extend the maturity date from December 31, 2020 to December 31, 2021. The Company committed to extend this interest only period, and the maturity date was extended to December 31, 2021. As a result, principal payments were scheduled to start January 2020. During July 2019, an amendment (Amendment 1) was entered into which eliminated monthly payments, with principal to be paid in full in December 2022.

Amendment 1 resulted in an additional \$2,000 of availability, increasing total availability to \$22,000. Pursuant to Amendment 1, interest on the outstanding balance was payable monthly at a rate of 10.00% per annum and interest payable-in-kind accrued at a rate of 2.00% per annum, compounded monthly, and was due at maturity. Additionally, the Company was required to pay an exit fee equal to 1% of the aggregate principal borrowings at the time of maturity (end of term charge).

During May 2020, the Company entered into an additional amendment (Amendment 2) to the Term Loan agreement, which resulted in an additional \$2,500 of availability, increasing total availability to \$24,500. Pursuant to Amendment 2, interest on the outstanding balance was payable monthly at a rate of 8.00% per annum and interest payable-in-kind accrued at a rate of 4.50% per annum, compounded monthly, and was due at maturity. Additionally, the Company was required to pay a prepayment fee equal to 2% of the aggregate principal borrowings if prepayment occurred on or prior to December 31, 2020, and 0.50% if prepayment occurred after December 31, 2020 but on or prior to maturity (prepayment fee), plus the end of term charge. Amendment 2 was accounted for as a debt modification, and

all new lender fees were recorded as additional debt discount and third-party costs incurred in connection with the amendment were expensed as incurred.

During July 2020, the Company terminated the Term Loan. The Company repaid the outstanding balance of \$24,500 in its entirety, along with accrued interest in kind of \$600, the end of term charge of \$251, and the prepayment fee of \$502.

During the fiscal years ended February 28(29), 2021, 2020, and 2019, the Company recorded interest expense of \$2,837, \$2,858, and \$2,844, respectively, related to the Term Loan of which \$1,045, \$280, and \$291, respectively, related to the amortization of the debt discount. For the year ended February 28, 2021, amortization of the debt discount included \$502 related to the prepayment fee and \$251 related to the end of term charge. The debt discount related to the Term Loan has been fully amortized at February 28, 2021.

Long-term debt consisted of the following at February 29, 2020:

	<u>February 29,</u> <u>2020</u>
Principal outstanding	\$ 22,000
Interest payable-in-kind	273
Unamortized issuance costs	<u>(1,129)</u>
Total	<u>\$ 21,144</u>

Revolving Credit Facility

The 2017 Revolver was a 24-month senior secured \$20,000 revolving line of credit, with borrowing availability subject to certain monthly recurring revenue calculations. On April 20, 2018, the Company amended the 2017 Revolver, which modified the revenue covenants, required the Company to exercise the extension of the interest only payment period of the Term Loan through December 2019 and in the event the Company raised proceeds in the aggregate of at least \$45,000 as part of a financing event, extended the term of the 2017 Revolver to January 30, 2020. This financing event occurred, and, accordingly, the term of the 2017 Revolver was extended.

Interest on the outstanding balance of the 2017 Revolver was due monthly at a rate of the lending institution's prime referenced rate plus 1.00%, with the prime reference rate defined as the greater of (i) the lending institution's prime rate and (ii) the 30-day LIBOR plus 2.50%. Principal and interest were due at maturity.

The Company incurred issuance and other third-party costs of \$61 related to the 2017 Revolver, which were deferred and were being amortized ratably over the term of the 2017 Revolver.

During July 2019, the Company terminated the 2017 Revolver and entered into a new revolving credit facility (the 2019 Revolver) with a syndicate of two banks, of which one was the lender under the 2017 Revolver. Under the 2019 Revolver, the Company had the capacity to borrow up to \$50,000 on a revolving facility, and to the extent certain customer bookings thresholds were achieved, the capacity on the 2019 Revolver could increase by an additional amount of up to \$30,000 (resulting in a total potential availability of \$80,000). Availability of borrowings on the 2019 Revolver is calculated as a multiple of the Company's eligible monthly recurring revenues (as defined in the 2019 Revolver). During November 2020, the Company entered into an amendment to the 2019 Revolver, increasing the borrowing capacity to the maximum of \$80,000. The 2019 Revolver contains a liquidity covenant calculated based on cash on hand plus available borrowings under the 2019 Revolver, a revenue covenant and certain reporting covenants.

As of February 28(29), 2021 and 2020, the Company had outstanding letters of credit to serve as office landlord security deposits in the amount of \$1,084 and \$1,334, respectively. These letters of credit are secured through the revolving credit facility, thus reducing the capacity of the revolving credit facility at February 28, 2021 to \$78,916. No amounts are outstanding as of February 28, 2021.

The 2019 Revolver has a term of 24 months, and there is an automatic extension of an additional 12-month period should the Company achieve certain revenues, as defined. The Company has achieved those revenue thresholds, and the 12-month extension until July 2022 shall occur upon the delivery of these audited financial statements to the 2019 Revolver agent, provided that no default or event of default, as defined, shall have occurred and be continuing. The interest rate on the outstanding borrowings are at LIBOR plus 350 basis points or Base Rate (as defined) plus 250 basis points, with the LIBOR rate and Base Rate subject to minimum levels. Interest payments are to be made in installments of one, two, or three months as chosen by the Company.

The 2019 Revolver was accounted for as a debt modification to which all new lender and third-party fees were deferred. Issuance costs of \$543, including the fair value of warrants issued, were capitalized and are being amortized to interest expense over the remainder of the 2019 Revolver term. During the fiscal years ended February 28(29), 2021, 2020, and 2019, the Company recorded interest expense of \$1,106, \$273, and \$72, respectively, related to the revolving credit facility of which \$279, \$195, and \$31, respectively, related to the amortization of deferred financing fees. As of February 28(29), 2021 and 2020, the balance of deferred financing fees was \$93 and \$372, respectively, and is recorded in other assets in the accompanying consolidated balance sheets.

On August 21, 2020, the Company entered into an amendment to the 2019 Revolver which revised the terms of the revenue covenant and imposed minimum LIBOR and Base Rate levels. On September 11, 2020, the Company entered into another amendment of the 2019 Revolver which modified the amount of cash required to be held at each of the two lenders participating in the 2019 Revolver. On November 6, 2020, the Company entered into a third amendment to the 2019 Revolver, increasing the borrowing capacity to the maximum of \$80,000. On March 2, 2021 and March 23, 2021, the Company entered into a fourth and fifth amendment, respectively, to the 2019 Revolver. See Note 16 for additional information.

The 2019 Revolver is collateralized by substantially all of the assets of the Company.

(8) Stockholders' Equity (Deficit)

(a) Convertible Preferred Stock

On July 7, 2020, upon the closing of our IPO, all shares of our outstanding convertible preferred stock converted into 29,479,521 shares of common stock and, as of February 28, 2021, there were no shares of convertible preferred stock outstanding.

As of February 29, 2020, the authorized, issued and outstanding convertible preferred stock and their principal terms were as follows:

Series	Par value	Shares authorized	Issued and outstanding	Carrying amount	Liquidation value
A-1	\$ 0.0001	3,560,000	3,559,995	\$ 10,000	\$ 10,000
A-2	0.0001	2,579,999	2,579,994	10,000	10,000
B	0.0001	4,058,736	4,058,731	16,944	16,944
C	0.0001	601,160	601,151	7,000	7,000
D	0.0001	1,751,874	1,751,871	30,000	30,000
E	0.0001	6,089,189	6,089,159	140,720	145,300
F	0.0001	873,038	873,038	18,358	20,000
		<u>19,513,996</u>	<u>19,513,939</u>	<u>\$ 233,022</u>	<u>\$ 239,244</u>

During March 2018, the Company amended its Certificate of Incorporation to allow for additional Series E shares and issued 2,095,365 shares at \$23.86195 per share during the period March through July 2018. The sales resulted in aggregate net cash proceeds of \$49,933, after deducting \$67 of issuance costs. In connection with this issuance, the Company issued warrants to purchase 541,159 shares of the Company's common stock. The warrants had an exercise price of \$0.0005 per share and a term of ten years. The Company calculated the issuance date fair value of the warrants using the Black-Scholes valuation methodology, which resulted in a fair value of \$2,387. Accordingly, the Company

allocated the proceeds from the Series E preferred stock, on a relative fair value basis, resulting in \$2,279 allocated to the warrants during the fiscal year ended February 28, 2019.

During October 2019, the Company amended its Certificate of Incorporation to allow for the issuance of Series F preferred stock and issued 873,038 shares at \$22.9085 per share, resulting in net cash proceeds of \$19,943, after deducting \$57 of issuance costs. In connection with this issuance, the Company issued a warrant to purchase 85,000 shares of the Company's common stock. The warrant had an exercise price of \$0.0005 per share and a term of ten years. The Company calculated the issuance date fair value of the warrant using the Black-Scholes valuation methodology, which resulted in an approximate fair value of \$1,590. Accordingly, the Company allocated the proceeds and associated issuance costs from the Series F preferred stock, on a relative fair value basis, resulting in \$1,585 and \$18,358 allocated to the warrant and to the Series F preferred stock, respectively, during year ended February 29, 2020. Also, concurrently with the Series F preferred stock issuance, the Company entered into a partnership with the Series F holder under which the Company's products will be marketed and sold by the Series F holder as part of the Series F holder's broader product offerings.

The preferred stock was convertible, at the option of the holder, at any time, into fully paid and nonassessable shares of common stock. The number of shares of common stock into which each share of preferred stock may be converted was determined by dividing the original issue price by the conversion price in effect on the date that the holder elects to convert the shares of preferred stock. The initial conversion price was equal to the original issue price. For the Series A through Series E preferred stock, in connection with an initial public offering of securities, immediately prior to the public offering, the preferred stockholders received for each share of preferred stock held a number of shares of common stock as was determined by dividing the preference amount (discussed below) by the price per common share in the public offering. These shares are in addition to shares of common stock otherwise issuable upon conversion of the preferred stock.

Each share was to be automatically converted into shares of common stock upon the earlier of (i) the consummation of a firm commitment underwritten public offering of common stock (or common stock of successor corporation) at a public offering price of not less than \$47.7239 (adjusted for any recapitalization) resulting in net proceeds to the Company (or successor corporation) of not less than \$75,000, and listed on a national securities exchange or traded on the NASDAQ or (ii) the date specified by the written consent of the requisite preferred stockholders. The preferred stockholders elected to convert their shares to common stock in connection with the IPO.

No dividend was to be declared or paid on any shares of any other series or class of shares of the Company unless and until such distribution was also ratably declared and paid on all of the outstanding preferred stock (based on as-if converted amounts) at the same time as such distribution was paid on such other equity interests. No dividends were declared or paid.

In the event of any liquidation, dissolution, or winding up of the Company, either voluntarily or involuntarily and in the event of a sale of the Company, as defined, the holders of the preferred stock would have been entitled to receive, prior and in preference to any distribution of any of the assets or funds of the Company to holders of the shares of common stock or any other shares by reason of their ownership of such shares, for each share of preferred stock the sum of (i) the original purchase price paid per each share of preferred stock (as adjusted for any stock dividends, combinations, splits, recapitalizations, and similar events) plus (ii) the amount of all accrued but unpaid dividends as discussed above (the sum is referred to as the preference amount). In the event the assets of the Company were not sufficient to distribute such amounts, each holder would receive their pro rata share of amounts available to be distributed. After full payment of the preference amount has been made to the holders of the Series A-1, A-2, B, C, D, and E preferred stock as described above, the holders of the common stock and the Series A-1, A-2, B, C, D, and E preferred stock would be entitled to share ratably in all remaining assets and funds, if any, based upon the number of shares of common stock then held with each share of Series A-1, A-2, B, C, D, and E preferred stock treated as holding the number of shares of common stock into which such shares of Series A-1, A-2, B, C, D, and E preferred stock were then convertible.

The preferred stockholders had the right to one vote for each share of common stock into which their preferred stock could then be converted.

The preferred stock was subject to redemption under certain deemed liquidation events, as defined in the Company's charter, and as such, the preferred stock was considered contingently redeemable for accounting purposes.

(b) Common Stock

Upon completion of the IPO, the Company issued and sold 11,526,134 shares of common stock at an issuance price of \$22.00 per share resulting in net proceeds of \$231,228, after deducting underwriting discounts, commissions, and offering costs. In addition, the Company issued 1,401,836 shares of common stock as a result of the automatic net exercise of warrants.

The Company closed its follow-on public offering on October 26, 2020, during which the Company issued and sold 5,750,000 shares of common stock at an issuance price of \$38.50 per share resulting in net proceeds of \$208,046 after deducting underwriting discounts, commissions, and offering costs.

(9) Equity-based Compensation and Warrants

The following table summarizes the amount of stock-based compensation included in the consolidated statements of operations:

	Year Ended February 28(29),		
	2021	2020	2019
Cost of revenue	\$ 948	\$ 318	\$ 255
Product and technology	3,387	1,674	1,108
Sales and marketing	2,376	1,482	1,199
General and administrative	2,865	2,528	3,159
Total stock-based compensation	<u>\$ 9,576</u>	<u>\$ 6,002</u>	<u>\$ 5,721</u>

(a) Stock Options

In July 2020, the Company adopted the 2020 Equity Incentive Plan (the Incentive Plan), which authorized the Company to grant up to 4,300,000 shares of common stock to eligible employees, directors, and consultants to the Company in the form of stock options, restricted stock units, and other various equity awards, including any shares subject to stock options or other awards granted under the Company's prior stock option plan that expire or terminate for any reason (other than being exercised in full) or are cancelled in accordance with the terms of the prior stock option plan. The Incentive Plan also includes an annual evergreen increase, and the amount, terms of grants, and exercisability provisions are determined by the board of directors. The term of an award may be up to 10 years and options generally vest over four years, with one quarter of an award vesting one year after grant and the remainder vesting on a monthly basis over three years. As of February 28, 2021, there were 3,881,735 shares of common stock available for future grants under the Incentive Plan.

The Company recognizes stock-based compensation based on the grant date fair value of the awards and recognizes that cost using the straight-line method over the requisite service period of the award. The fair value of options, which vest in accordance with service schedules, is estimated on the date of grant using the Black-Scholes option pricing model. The absence of an active market for the Company's common stock required it to estimate the fair value of the Company's common stock for purposes of granting stock options and for determining stock-based compensation expense for the periods presented. The Company obtained contemporaneous third-party valuations to assist in determining the estimated fair value of its common stock. These contemporaneous third-party valuations used the methodologies, approaches, and assumptions consistent with the American Institute of Certified Public Accountants Practice Guide, *Valuation of Privately-Held-Company Equity Securities Issued as Compensation*. Expected volatilities are based on historical volatilities of comparable companies. The expected term of the options is based on the simplified method outlined in the SEC Staff accounting guidance, under which the Company estimates the term as the average of the option's contractual term and the option's weighted average vesting period. The risk-free rate represents the yield on U.S. Treasury bonds with maturity equal to the expected term of the granted option. The Company accounts for

forfeitures as they occur. All stock options outstanding at February 28, 2021 are expected to vest according to their specific schedules.

During the years ended February 28(29), 2021, 2020 and 2019, the Company recognized \$7,743, \$6,002, and \$5,721, respectively, of compensation expense related to stock options.

The Company did not capitalize any stock-based compensation expense to deferred costs for the years ended February 28(29), 2021 and 2020.

The weighted average grant date fair value for stock options granted during the years ended February 28(29), 2021, 2020 and 2019, was \$11.42, \$5.40, and \$2.95, respectively. The fair value of the Company's option grants is estimated at the grant date using the Black-Scholes option-pricing model based on the following weighted average assumptions:

	Year Ended February 28(29),		
	2021	2020	2019
Estimated fair value of common stock	\$9.62-\$31.27	\$2.40-\$3.35	\$4.80-\$9.55
Exercise price	\$15.40-\$50.88	\$4.70-\$6.75	\$9.60-\$18.70
Expected volatility	68%-78%	46%-50%	50%
Expected term (in years)	5.00-6.25	6.25	6.25
Risk-free interest rate	0.30%-0.64%	2.65%-2.94%	1.67%-2.62%
Dividend yield	—	—	—

The following is a summary of stock option activity under the Option Plan and Incentive Plan:

	Stock Options	Weighted-Average Exercise Price	Weighted Remaining Contractual Life In Years	Aggregate Intrinsic Value
Balance, February 28, 2018	6,970,591			
Granted	1,635,115			
Exercised	(249,027)			
Forfeited	(209,135)			
Balance, February 28, 2019	8,147,544			
Granted	2,084,046	\$ 10.80		
Exercised	(1,843,001)	\$ 3.70		
Forfeited	(392,533)	\$ 5.70		
Balance, February 29, 2020	7,996,056			
Granted	2,167,775	\$ 17.47		
Exercised	(1,182,099)	\$ 5.98		
Forfeited	(257,963)	\$		
Balance, February 28, 2021	8,723,769	\$ 8.97	7.0 years	\$ 308,521,503
Vested and expected to vest as of February 28, 2021	8,520,372	\$ 8.95	7.0 years	\$ 301,383,636
Exercisable as of February 28, 2021	5,441,241	\$ 6.43	5.8 years	\$ 206,263,052

The aggregate intrinsic value of stock options exercised was \$32,972, \$22,033, and \$305 for the years ended February 28(29), 2021, 2020, and 2019, respectively. As of February 28, 2021, approximately \$22,736 of unrecognized compensation expense related to stock options is expected to be recognized over a weighted average period of 2.0 years.

During June 2020, the Company issued 525,907 fully-vested stock options in lieu of cash payments related to the Company's fiscal 2020 bonus with a value of \$5,735. These options are included in the table above.

(b) Restricted Stock Units

The Company issued 191,415 time-based restricted stock units during the year ended February 28, 2021. No restricted stock units were issued prior to fiscal year 2021. These time-based restricted stock units are subject to a four-year vesting period, with one quarter of an award vesting one year after grant and the remainder vesting ratably on a monthly basis over the subsequent three years. The following is a summary of activity for the year ended February 28, 2021:

	Restricted Stock Units
Balance, February 29, 2020	—
Granted	191,415
Vested	(702)
Forfeited	—
Balance, February 28, 2021	<u>190,713</u>

For the year ended February 28, 2021, the Company recognized \$842 in restricted stock unit compensation expense, with \$8,075 remaining of total unrecognized compensation costs related to these awards as of February 28, 2021. The total unrecognized costs are expected to be recognized over a weighted-average term of 2.3 years. The weighted-average grant date fair value of restricted stock units granted during the year ended February 28, 2021 was \$46.52.

(c) Common Stock Warrants

On June 29, 2015, the Company issued a warrant to its initial customer to purchase up to 200,000 common shares. Based on the vesting provisions and the remaining period over which the warrant was exercisable, the maximum number of shares that could vest pursuant to the warrant was 160,000 shares of common stock, all of which were exercised in March 2020.

In connection with the Term Loan amendment, the Company issued a warrant to purchase up to 86,600 shares of the Company's common stock (the 2019 Term Loan Warrant) at an exercise price of \$9.60 per share. The 2019 Term Loan Warrant vested 100% upon issuance and has a ten-year term, ending July 19, 2029. The Company calculated the fair value of the 2019 Term Loan Warrant using the Black-Scholes option pricing model, and the fair value of the 2019 Term Loan Warrant was determined to be \$528. This amount was recorded as a debt discount and was amortized ratably over the Term Loan period.

In connection with the 2019 Revolver, the Company issued the lender warrants to purchase up to 36,363 and 12,631 shares of the Company's common stock (the 2019 Revolver Warrants) at an exercise price of \$13.75 and \$23.75 per share, respectively. The 2019 Revolver Warrants vested 100% upon issuance and have a ten-year term, ending July 19, 2029. The Company calculated the fair value of the 2019 Revolver Warrants using the Black-Scholes option pricing model, and the fair value of the 2019 Revolver Warrants was determined to be \$251.

The following table summarizes the activity for the Company's warrants for the periods presented:

	Common Stock Warrants
Balance, February 28, 2018	928,945
Issued	541,159
Exercised	(4,061)
Balance, February 28, 2019	1,466,043
Issued	220,594
Exercised	(33,369)
Balance, February 29, 2020	1,653,268
Issued	—
Exercised	(160,000)
Automatic exercise of warrants in connection with IPO	(1,493,268)
Balance, February 28, 2021	—

On July 7, 2020, upon the closing of our IPO, 1,401,836 shares of common stock were issued upon the automatic net exercise of all warrants that were outstanding as of the IPO date. There were no warrants outstanding as of February 28, 2021.

(d) Employee Stock Purchase Plan

In July 2020, the Board of Directors adopted the Company's ESPP, which became effective immediately prior to the effectiveness of the registration statement for the Company's IPO. The total shares of common stock initially reserved under the ESPP is limited to 1,100,000 shares.

Under the ESPP, eligible employees can purchase the Company's common stock through accumulated payroll deductions at such times as are established by the compensation committee. Eligible employees may purchase the Company's common stock at 85% of the lower of the fair market value of the Company's common stock on the first day of the offering period or on the last day of the offering period. Eligible employees may contribute up to 15% of their eligible compensation. Under the ESPP, a participant may not accrue rights to purchase more than \$25,000 worth of the Company's common stock for each calendar year in which such right is outstanding.

Employees who elect to participate in the ESPP commence payroll withholdings that accumulate through the end of the respective period. In accordance with the guidance in ASC 718-50, *Compensation – Stock Compensation*, the ability to purchase shares of the Company's common stock for 85% of the price on the first day of the offering period or the last day of the offering period (i.e. the purchase date) represents an option and, therefore, the ESPP is a compensatory plan under this guidance. Accordingly, share-based compensation expense is determined based on the option's grant-date fair value as estimated by applying the Black Scholes option-pricing model and is recognized over the withholding period. The Company recognized share-based compensation expense of \$991 during the year ended February 28, 2021 related to the ESPP.

During the year ended February 28, 2021, employees who elected to participate in the ESPP purchased a total of 67,498 shares of common stock, resulting in cash proceeds to the Company of \$1,259. An additional \$1,120 has been withheld via employee payroll deductions who have opted to participate in the next stock purchase plan period ending May 2021.

(10) Defined Contribution Retirement Plan

The Company sponsors a defined contribution retirement plan named the Accolade, Inc. 401(k) Plan (401(k) Plan). Under the 401(k) Plan, eligible employees may contribute up to the maximum allowed by law. Eligible employees are eligible for Company matching contributions on the first quarter following their one-year anniversary date, which are dollar for dollar up to 3% of an employee's eligible compensation, up to \$100 in annual compensation. Employer contributions are vested over a period of four years of service. The 401(k) Plan includes an employer

discretionary profit-sharing contribution feature to allow the Company to make a contribution to eligible employees' 401(k) Plan accounts. Profit sharing contributions are vested over a period of four years of service. The Company incurred expenses related to matching contributions totaling \$1,599, \$1,356, and \$1,260 in 2021, 2020, and 2019, respectively, which were funded subsequent to each respective year-end.

(11) Income Taxes

Loss before income taxes consists of the following components:

	Year Ended February 28(29),		
	2021	2020	2019
Domestic	\$ (50,934)	\$ (51,794)	\$ (56,585)
Foreign	286	558	144
Total	<u>\$ (50,648)</u>	<u>\$ (51,236)</u>	<u>\$ (56,441)</u>

Significant components of income taxes are as follows:

	Year Ended February 28(29),		
	2021	2020	2019
Current:			
Federal	\$ —	\$ —	\$ —
State and Local	37	—	—
Foreign	141	129	55
Total Current	<u>178</u>	<u>129</u>	<u>55</u>
Deferred:			
Federal	—	—	—
State and Local	—	—	—
Foreign	(174)	—	—
Total deferred	<u>(174)</u>	<u>—</u>	<u>—</u>
Provision (benefit) for income taxes	<u>\$ 4</u>	<u>\$ 129</u>	<u>\$ 55</u>

A reconciliation of income tax expense at the U.S. Federal statutory income tax rate to actual income tax provision is as follows:

	Year Ended February 28(29),		
	2021	2020	2019
Federal income tax expense at statutory tax rate	21.0 %	21.0 %	21.0 %
State income taxes, net of federal tax benefit	4.6	7.5	6.0
Stock-based compensation	(0.2)	3.9	(2.1)
Transaction costs	0.0	(0.2)	0.0
Changes in valuation allowances	(25.4)	(31.4)	(24.8)
Other	0.0	(1.0)	(0.2)
Effective Income Tax Rate	<u>0.0 %</u>	<u>(0.2)%</u>	<u>(0.1)%</u>

Income tax expense for the fiscal years ended February 28(29), 2021, 2020, and 2019 differ from the U.S. statutory income tax rate primarily due to changes in valuation allowances, state income taxes and stock-based compensation.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to: (i) reducing the U.S. federal corporate tax rate to 21 percent; (ii) eliminating the corporate alternative minimum tax (AMT) and changing how existing AMT credits can be realized; (iii) creating a new limitation on deductible interest expense; (iv) changing rules related to uses and limitations of net operating carryforwards created

in tax years beginning after December 31, 2017; and (v) changing the U.S. federal taxation of earnings of foreign subsidiaries.

U.S. GAAP accounting for income taxes required that the Company record the impact of any tax law change on deferred income taxes in the quarter that the tax law change was enacted. Due to the complexities involved in accounting for the enactment of the Tax Act, SEC Staff Accounting Bulletin (SAB) 118 allowed the Company to provide a provisional estimate of the impacts of the Tax Act in its earnings for the fourth quarter and year ending February 28, 2018. In connection with our adoption of the Tax Act and in consideration of SAB 118, there were no changes made to the provisional amounts recognized in connection with the enactment of the Tax Act. The accounting for the income tax effects of the Tax Act was complete as of February 28, 2019.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. The Company makes significant judgments regarding the realizability of its deferred tax assets (principally net operating losses). The carrying value of deferred tax assets is based on the Company's assessment that it is more likely than not that the Company will realize these assets after consideration of all available positive and negative evidence. Significant components of the Company's deferred tax assets and liabilities at February 28(29), 2021 and 2020 are as follows:

	February 28(29),	
	2021	2020
Deferred tax assets:		
Net operating loss and tax credit carryforwards	\$ 84,879	\$ 76,508
Other accruals and reserves	6,107	3,413
Stock-based compensation	871	561
Deferred rent	1,181	1,280
Interest expense deduction limitation carryforward	2,312	1,549
Property, plant & equipment	523	526
Other	820	355
Valuation allowance	(96,516)	(83,640)
Deferred tax assets	177	552
Deferred tax liabilities:		
Intangibles	(3)	(552)
Deferred tax liabilities	(3)	(552)
Net deferred taxes	\$ 174	\$ —

Net operating loss carryforwards amounted to \$307,398 for U.S. federal and \$283,377 for U.S. states at February 28, 2021 and \$272,804 and \$258,875, respectively, at February 29, 2020. These operating loss carryforwards related to the 2010 through current 2020 tax periods. At February 28, 2021, none of the operating loss carryforwards were subject to expiration until 2030. The operating loss carryforwards expiring in years 2030 through 2037 make up \$53,184 of the recorded deferred tax asset. The remaining deferred tax asset relating to operating loss carryforwards of \$31,695 have an indefinite expiration. In addition to operating loss carryforwards, research and development tax credit carryforwards amounted to \$401 for U.S. federal and U.S. states at February 28, 2021. These tax credit carryforwards will expire in 2036. Under Section 382 of the Internal Revenue Code, the yearly utilization of a corporation's net operating loss carryforwards may be limited following a change in ownership of greater than 50% (by value) over a three-year period. The yearly limitation is based on the value of the corporation immediately before the ownership change multiplied by the federal long-term tax-exempt rate. If a loss is not utilized in a year after an ownership change that yearly limit is carried forward to future years for the balance of the net operating loss carryforward period. As of February 28, 2021, the Company did not incorporate a yearly limitation under Section 382.

Management assesses the available positive and negative evidence to estimate if a valuation allowance is required to be recorded against existing deferred tax assets. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the Company's brief operating history and the net losses

incurred since inception, management does not believe that it is more likely than not that the Company will realize the benefits of these deductible differences. As a result, a full valuation allowance has been provided at February 28, 2021 and February 29, 2020 for U.S. Federal and state tax purposes. The Company had previously maintained a full valuation allowance associated with its Czech Republic entity. During the current year, due to the earnings history of its Czech Republic entity, the Company released the valuation allowance of its deferred tax assets. The changes in the valuation allowance were as follows:

	<u>Year Ending February 28(29),</u>	
	<u>2021</u>	<u>2020</u>
Balance at the beginning of the period	\$ 83,640	\$ 61,902
Increase due to NOLs and temporary differences	12,876	16,100
Increase due to acquisitions	—	5,638
Balance at the end of the period	<u>\$ 96,516</u>	<u>\$ 83,640</u>

The Company has recorded a deferred tax asset of \$2,312 for interest expense limited under the Tax Act at February 28, 2021. The interest expense limited has an unlimited carryforward period.

U.S. income and foreign withholding taxes have not been recognized on the excess of the amount for financial reporting over tax basis of the investments in foreign subsidiaries that is indefinitely reinvested outside the U.S. The foreign subsidiary is identified as a branch for U.S. tax purposes, and therefore, a gross temporary difference for investment basis differences is not applicable.

The Company had no material accrual for uncertain tax positions or interest or penalties related to income taxes on the Company's consolidated balance sheets at February 28, 2021 and February 29, 2020 and has not recognized any material uncertain tax positions or interest and/or penalties related to income taxes in the consolidated statement of operations for the years ended February 28, 2021 and February 29, 2020.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted in response to the COVID-19 pandemic. The CARES Act, among other things, allows net operating losses incurred in 2018, 2019, and 2020 to be carried back to each of the five preceding taxable years to generate a refund of previously paid income taxes. The CARES Act also allows for retroactive accelerated income tax depreciation on certain leasehold improvement assets and changes to the limitations on business interest deductions for tax years beginning in 2019 and 2020 which increases the allowable business interest deduction from 30% to 50% of adjusted taxable income. The Company does not expect a material tax expense or tax benefit as a result of the CARES Act in subsequent periods.

(12) Net Loss Per Share Attributable to Common Stockholders

The following table sets forth the computation of basic and diluted net loss per common share:

	Year Ended February 28(29),		
	2021	2020	2019
Net loss	\$ (50,652)	\$ (51,365)	\$ (56,496)
Net loss per common share, basic and diluted	\$ (1.72)	\$ (9.13)	\$ (12.17)
Weighted-average shares used to compute net loss per common share, basic and diluted	29,370,594	5,626,713	4,641,256

As the Company has reported net losses for each of the periods presented, all potentially dilutive securities are antidilutive. The following potential outstanding shares of common stock were excluded from the computation of diluted net loss per common share for the periods presented because including them would have been antidilutive:

	Year Ended February 28(29),		
	2021	2020	2019
Stock options	8,723,769	7,996,056	8,147,544
Unvested restricted stock units	190,713	—	—
Common stock warrants	—	317,861	182,288
Total	8,914,482	8,313,917	8,329,832

(13) Commitments

(a) Leases

The Company leases its office premises in Pennsylvania, Washington, Arizona, California and the Czech Republic, pursuant to lease agreements that expire on various dates through 2030. The Company recognizes rent expense under such arrangements on a straight line basis. Rent expense was \$6,304, \$5,143, and \$4,294 for the fiscal years ended February 28(29), 2021, 2020, and 2019, respectively. As of February 28(29), 2021 and 2020, the Company had security deposits of \$468 and \$477, respectively. The security deposits are included in other assets on the accompanying consolidated balance sheets.

On May 28, 2019, the Company entered into a new lease for its Seattle office space that expires in 2030. The new lease is subject to both certain early termination rights and an option to extend, as defined in the lease. The lease commencement date was October 1, 2019, and total future payments were \$25,836. On December 30, 2019, the Company entered into a termination agreement for its prior Seattle office space, with a termination date of December 31, 2019. The Company paid \$142 and, as a result of the termination, has no future obligations under the terms of the agreement.

The future aggregate minimum lease payments as of under all non-cancelable operating leases (including the Seattle lease discussed above) for the years noted are as follows:

Year Ending February 28(29),	
2022	\$ 6,587
2023	6,577
2024	6,625
2025	5,664
2026	5,790
Thereafter	15,726
	<u>\$ 46,969</u>

(b) Legal Proceedings

The Company is involved in various claims, inquiries and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters is not expected to have a material adverse effect on the Company's financial position or liquidity.

On August 1, 2017, certain former and current employees filed a suit against the Company seeking back wages for unpaid overtime as a result of alleged misclassification by the Company under the Pennsylvania Minimum Wage Act and the Federal Fair Labor Standards Act. As of February 28, 2018, based upon the facts and circumstances of this suit as well as the resolution of other such similar suits, the Company had determined that it was probable that it had a liability. Accordingly, the Company recorded a litigation expense and related accrued litigation expense in the amount of \$650. During March 2019, a settlement agreement (the Settlement Agreement) was executed by both parties in the amount of \$1,100, (the Settlement). Accordingly, during the fiscal year ended February 28, 2019, the Company recorded additional litigation expense and related accrual in the amount of \$450 related to the settlement of this matter. The Settlement was ultimately approved by the Court and the Company paid \$1,100 during April 2020.

(c) Employment Agreements

Certain officers of the Company have employment agreements providing for severance, continuation of benefits, and other specified rights in the event of termination without cause, including in the event of a change of control of the Company, as defined in the agreements.

(14) Change Healthcare Joint Development Agreement

In February 2020, the Company entered into a joint development agreement, or JDA, and a data licensing agreement with Change Healthcare Holdings, or Change Healthcare, whereby Change Healthcare will be a strategic partner in providing various services to support the Company's Total Care and Provider Services product offerings. Pursuant to the terms of JDA, Change Healthcare is providing intellectual property (IP), technical know-how, and advisory services to the Company as it develops price transparency products under the JDA that will be utilized by the Company in several of its product offerings. Either party is permitted to sell the price transparency product within each party's respective service offerings. Each party is entitled to a royalty from the other party in connection with any net sales associated with the price transparency product that was developed under the JDA, not to exceed \$2,500 in cumulative royalty payments.

The future data license fee payments the Company owes under this agreement for the years noted are as follows:

Year Ending February 28(29),		
2022	\$	215
2023		230
2024		245
2025		260
	\$	<u>950</u>

Concurrent with entering into the JDA, the Company entered into a five-year data licensing agreement with Change Healthcare who is one of the largest commercially available data set providers of de-identified claims in the United States. The licensing agreement includes annual increases in fees and the option to renew and extend beyond the initial five-year period. The annual licensing fees are subject to increases and decreases and contingent upon the achievement of performance objectives as defined in the data licensing agreement. Upfront payments for data licenses are deferred and are amortized into cost of revenue, as they pertain to the delivery of the Company's product offerings.

Upon entering into the JDA and data licensing agreement, the Company issued 251,211 restricted shares of its common stock to Change Healthcare at an estimated fair value of \$15.40 per share, or \$3,869 in aggregate value.

Pursuant to the terms of the restricted share agreement, 150,727 of the shares vest immediately and the remaining 100,484 restricted shares vest upon the achievement of certain product development milestones, as defined. During the year ended February 28, 2021, the remaining 100,484 restricted shares vested upon the achievement of those milestones. The aggregate equity value was allocated to the JDA and data licensing agreement based on the relative fair value of the IP and technical know-how contributed by Change Healthcare within the JDA and the discounted pricing received from Change Healthcare within the data licensing agreement. The equity value allocated to the JDA and data licensing agreement in the amount of \$3,005 was capitalized and deferred as internally developed software and other assets within the Company's consolidated balance sheet, respectively, with an offsetting increase to additional paid-in capital. Costs that are capitalized and classified as internally developed software are amortized within depreciation and amortization in the Company's consolidated statement of operations.

(15) Related Party Transactions

Entities affiliated with one of the Company's significant customers owned more than 5% of the Company's outstanding stock during the years ended February 28(29), 2021, 2020, and 2019. As of February 28, 2021, these entities no longer own more than 5% of the Company's outstanding stock. Revenues related to this customer were \$27,300, \$31,556, and \$33,433 during the fiscal years ended February 28(29), 2021, 2020, and 2019, respectively. There were \$2,325 and \$0 in accounts receivable outstanding with this customer as of February 28(29), 2021 and 2020, respectively.

(16) Subsequent Events

Acquisition of 2nd.MD

On March 3, 2021, the Company acquired 2nd.MD, a Texas limited liability company. 2nd.MD is a leading expert medical opinion and medical decision support company based in Houston, TX. Under the terms of the Agreement and Plan of Merger, the Company provided cash consideration of \$230,000 and issued 2,822,242 shares in Accolade common stock. The Company will issue up to an additional 2,170,972 shares of common stock upon achievement of defined revenue milestones following the closing. The Company is in the process of accounting for this transaction and expects to disclose the preliminary allocation of the purchase consideration to the assets acquired and liabilities assumed in the Company's subsequent Form 10-Q. For the year ended February 28, 2021, the Company incurred \$2,050 in acquisition related costs that were expensed immediately and recorded in the Company's consolidated statement of operations.

Offering of Convertible Senior Notes

On March 29, 2021, the Company issued an aggregate of \$287,500 in convertible senior notes (the Notes), including the exercise in full by the initial purchasers of their option to purchase up to an additional \$37,500 aggregate principal amount of the Notes pursuant to an Indenture dated as of March 29, 2021. The Notes are general unsecured obligations of Accolade and accrue interest payable semiannually in arrears on April 1 and October 1 of each year, beginning on October 1, 2021, at a rate of 0.50% per year. The Notes will mature on April 1, 2026, unless earlier converted, redeemed, or repurchased. The initial conversion rate is 19.8088 shares of Accolade common stock per \$1 principal amount of the Notes. The Notes will be convertible into cash, shares of Accolade's common stock, or a combination of cash and shares of Accolade's common stock, at the Company's election.

The Company may redeem for cash all or any portion of the Notes (subject to a partial redemption limitation), at its option, on or after April 6, 2024 if the latest reported sale price of Accolade's common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive), including the trading day immediately preceding the date on which Accolade provides notice of redemption, during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which Accolade provides notice of redemption, at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date.

In connection with the pricing of the Notes, Accolade entered into capped call transactions with certain of the initial purchasers and/or their respective affiliates and another financial institution. The capped call transactions will

cover, subject to customary adjustments, the number of shares of Accolade's common stock that initially underlie the Notes. The capped call transactions are expected to offset the potential dilution to Accolade's common stock as a result of the conversion of the Notes, with such offset subject to a cap initially equal to \$76.20.

The net proceeds from the offering of the Notes was \$279,300, after deducting the initial purchasers' discount and estimated expenses payable by Accolade. The Company used \$34,400 of the net proceeds from the Note offering to pay the costs of the capped call transactions in connection with the Note offering.

Amendments to Revolving Credit Facility

On March 2, 2021, the Company entered into an amendment to the 2019 Revolver in association with the acquisition of 2nd.MD to be completed and amended certain revenue covenants. On March 23, 2021, the Company entered into an amendment to the 2019 Revolver in association with the issuance of the Convertible Senior Notes.

Pending Acquisition of PlushCare

On April 23, 2021, the Company announced it has signed a definitive agreement to acquire PlushCare, Inc., a Delaware corporation (PlushCare). PlushCare is a leading provider of virtual primary care and mental health treatment based in San Francisco, CA. Under the terms of the agreement, the purchase price of up to \$450,000 will consist of \$40,000 in cash, \$340,000 in Accolade common stock, and up to an additional \$70,000 of Accolade common stock payable upon the achievement of defined revenue milestones following the closing.