

ACCOLADE, INC. AND SUBSIDIARIES
Index to Consolidated Financial Statements

<u>Report of Independent Registered Public Accounting Firm</u> (KPMG LLP; Philadelphia, PA; PCAOB ID: 185)	F-2
<u>Consolidated Balance Sheets at February 28, 2022 and 2021</u>	F-3
<u>Consolidated Statements of Operations for the years ended February 28(29), 2022, 2021, and 2020</u>	F-5
<u>Consolidated Statements of Convertible Preferred Stock and Stockholders' Equity (Deficit) for the years ended February 28(29), 2022, 2021, and 2020</u>	F-6
<u>Consolidated Statements of Cash Flows for the years ended February 28(29), 2022, 2021, and 2020</u>	F-7
<u>Notes to Consolidated Financial Statements</u>	F-8

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, 2022 and 2021, 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, 2022, 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, 2022 and 2021, and the results of its operations and its cash flows for each of the years in the three-year period ended February 28, 2022, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of February 28, 2022 based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated May 2, 2022 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 2(t) to the consolidated financial statements, the Company has changed its method of accounting for leases as of March 1, 2021 due to the adoption of Accounting Standards Update 2016-02, *Leases*.

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 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.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Fair value of customer relationships intangible asset

As discussed in Note 4 to the consolidated financial statements, the Company completed the acquisition of Innovation Specialists LLC d/b/a 2nd.MD (2nd.MD) during the year ended February 28, 2022. The fair value of the consideration transferred for the acquired business was \$420,090 thousand, of which \$120,000 thousand was allocated to a customer relationships intangible asset. The fair value of the identified customer relationships intangible asset was estimated using an income approach valuation model, which required the Company to make assumptions regarding estimated future cash flows and the discount rate.

We identified the assessment of the fair value of the customer relationships intangible asset acquired in the 2nd.MD business combination as a critical audit matter. A high degree of subjective auditor judgment was required to evaluate the revenue projections in the Company's cash flow forecast and the discount rate assumptions used to determine the fair value of the customer relationships intangible asset, as changes to those assumptions could have had a significant effect on the Company's estimate of fair value.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the Company's acquisition-date valuation process, including a control related to the revenue projections and the discount rate assumptions used to determine the fair value of the customer relationships intangible asset. We evaluated the Company's revenue projections by comparing them to (1) historical results of 2nd.MD and the Company, (2) forecasted growth rates in an industry report, and (3) historical growth rates of comparable companies. We involved valuation professionals with specialized skill and knowledge, who assisted in evaluating the Company's discount rate by performing a parallel analysis and comparing the results used to the Company's calculation.

Revenue recognition – variable consideration related to healthcare cost savings

As discussed in Note 2 to the consolidated financial statements, the Company provides advocacy services to its customers and earns revenue from the realization of healthcare cost savings resulting from the members' utilization of the Company's services. The Company prices its services using recurring per-member-per month (PMPM) fees and those fees related to healthcare cost savings are considered to be variable consideration. The Company includes the variable consideration related to the realization of healthcare cost savings in its estimate of the transaction price when it is probable that a significant reversal of cumulative revenue will not occur.

We identified the evaluation of the variable consideration recognized by the Company related to the achievement of healthcare cost savings as a critical audit matter. A high degree of challenging auditor judgment was required to evaluate the achievement of healthcare cost savings.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the Company's revenue process, including a control related to the variable consideration recognized based on the achievement of healthcare cost savings with its customers. We read a selection of contracts to assess the completeness and existence of any variable consideration associated with the achievement of healthcare cost savings. For a selection of contracts, we confirmed with the Company's customers or inspected other supporting documentation that the relevant healthcare cost savings were achieved as of the fiscal year end.

/s/ KPMG LLP

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

Philadelphia, Pennsylvania
May 2, 2022

ACCOLADE, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(In thousands, except share and per share data)

	February 28,	
	2022	2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 365,853	\$ 433,884
Accounts receivable, net	21,116	9,112
Unbilled revenue	9,685	2,725
Current portion of deferred contract acquisition costs	3,015	2,210
Current portion of deferred financing fees	—	93
Prepaid and other current assets	9,468	5,957
Total current assets	409,137	453,981
Property and equipment, net	11,797	9,227
Operating lease right-of-use assets	33,126	—
Goodwill	577,896	4,013
Intangible assets, net	244,690	604
Deferred contract acquisition costs	7,205	6,067
Other assets	1,678	1,618
Total assets	<u>\$ 1,285,529</u>	<u>\$ 475,510</u>
Liabilities and stockholders' equity (deficit)		
Current liabilities:		
Accounts payable	\$ 7,837	\$ 7,390
Accrued expenses and other current liabilities	11,000	5,412
Accrued compensation	39,189	35,379
Due to customers	16,263	5,015
Current portion of deferred revenue	30,875	25,879
Current portion of operating lease liabilities	6,589	—
Total current liabilities	111,753	79,075
Loans payable, net of unamortized issuance costs	280,666	—
Operating lease liabilities	32,486	—
Deferred rent and other noncurrent liabilities	4,562	5,192
Deferred revenue	268	395
Total liabilities	429,735	84,662
Commitments and Contingencies (note 16)		
Stockholders' equity (deficit)		
Common stock par value \$0.0001; 500,000,000 shares authorized; 67,098,477 and 55,699,052 shares issued and outstanding at February 28, 2022 and 2021, respectively	7	6
Additional paid-in capital	1,350,431	762,362
Accumulated deficit	(494,644)	(371,520)
Total stockholders' equity (deficit)	855,794	390,848
Total liabilities and stockholders' equity (deficit)	<u>\$ 1,285,529</u>	<u>\$ 475,510</u>

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),		
	2022	2021	2020
Revenue	\$ 310,021	\$ 170,358	\$ 132,507
Cost of revenue, excluding depreciation and amortization	169,019	93,673	73,685
Operating expenses:			
Product and technology	83,664	49,955	42,306
Sales and marketing	86,765	33,711	30,050
General and administrative	99,106	31,584	26,154
Depreciation and amortization	42,608	8,212	8,516
Change in fair value of contingent consideration	(45,416)	—	—
Total operating expenses	266,727	123,462	107,026
Loss from operations	(125,725)	(46,777)	(48,204)
Interest expense, net	(2,905)	(3,724)	(2,925)
Other expense	(133)	(147)	(107)
Loss before income taxes	(128,763)	(50,648)	(51,236)
Income tax benefit (expense)	5,639	(4)	(129)
Net loss	\$ (123,124)	\$ (50,652)	\$ (51,365)
Net loss per share, basic and diluted	\$ (1.93)	\$ (1.72)	\$ (9.13)
Weighted-average common shares outstanding, basic and diluted	63,823,270	29,370,594	5,626,713

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	Amount	Additional paid-in capital	Accumulated deficit	Total
Balance, March 1, 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
Issuance of common stock in connection with acquisitions	—	—	10,219,443	1	456,592	—	456,593
Issuance of replacement awards in connection with acquisitions	—	—	—	—	6,729	—	6,729
Contingent share earnout in connection with acquisitions	—	—	—	—	73,481	—	73,481
Exercise of stock options and vesting of restricted stock units	—	—	1,039,144	—	8,522	—	8,522
Purchase of capped calls	—	—	—	—	(34,503)	—	(34,503)
Issuance of common stock in connection with the employee stock purchase plan	—	—	140,838	—	4,309	—	4,309
Stock-based compensation expense	—	—	—	—	72,939	—	72,939
Net loss	—	—	—	—	—	(123,124)	(123,124)
Balance, February 28, 2022	—	\$ —	67,098,477	\$ 7	\$ 1,350,431	\$ (494,644)	\$ 855,794

See accompanying notes to consolidated financial statements.

ACCOLADE, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(In thousands)

	Fiscal Year Ended February 28(29),		
	2022	2021	2020
Cash flows from operating activities:			
Net loss	\$ (123,124)	\$ (50,652)	\$ (51,365)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization expense	42,608	8,212	8,516
Amortization of deferred contract acquisition costs	2,945	1,657	985
Change in fair value of contingent consideration	(45,416)	—	—
Deferred income taxes	(6,132)	—	—
Noncash interest expense	1,673	2,252	834
Noncash bonus	—	—	5,884
Loss on disposal of equipment	—	—	299
Stock-based compensation expense	72,939	9,576	6,002
Changes in operating assets and liabilities:			
Accounts receivable and unbilled revenue	(11,829)	(10,648)	(683)
Accounts payable and accrued expenses	(1,899)	2,991	5,838
Deferred contract acquisition costs	(4,148)	(4,690)	(2,399)
Deferred revenue and due to customers	13,986	(2,700)	2,286
Accrued compensation	(2,519)	16,356	(1,671)
Deferred rent and other liabilities	(106)	(505)	220
Other assets	(1,328)	2,919	(8,993)
Net cash used in operating activities	<u>(62,350)</u>	<u>(25,232)</u>	<u>(34,247)</u>
Cash flows from investing activities:			
Purchase of marketable securities	(99,998)	—	—
Sale of marketable securities	99,998	—	—
Capitalized software development costs	(1,096)	(374)	—
Purchases of property and equipment	(2,521)	(1,991)	(3,315)
Cash paid for acquisitions, net of cash acquired	(259,996)	—	(206)
Earnout payments to MD Insider	—	(58)	—
Net cash used in investing activities	<u>(263,613)</u>	<u>(2,423)</u>	<u>(3,521)</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
Proceeds from stock purchases under employee stock purchase plan	4,703	2,379	—
Proceeds from stock option and warrant exercises	8,600	9,348	6,619
Payments of equity issuance costs	(60)	—	—
Payment of debt issuance costs	(8,368)	—	—
Payment for purchase of capped calls	(34,443)	—	—
Proceeds from borrowings on debt	287,500	51,166	1,660
Repayments of debt principal	—	(73,166)	—
Payments related to debt retirement	—	(753)	—
Net cash provided by financing activities	<u>257,932</u>	<u>428,384</u>	<u>28,222</u>
Net increase (decrease) in cash and cash equivalents	<u>(68,031)</u>	<u>400,729</u>	<u>(9,546)</u>
Cash and cash equivalents, beginning of period	433,884	33,155	42,701
Cash and cash equivalents, end of period	<u>\$ 365,853</u>	<u>\$ 433,884</u>	<u>\$ 33,155</u>
Supplemental cash flow information:			
Interest paid	\$ 930	\$ 2,296	\$ 2,391
Issuance of stock options in lieu of cash bonus	\$ —	\$ 5,735	\$ —
Fixed assets included in accounts payable	\$ 161	\$ 232	\$ 45
Other receivable related to stock option exercises	\$ 4	\$ 97	\$ 173
Income taxes paid	\$ 122	\$ 149	\$ 55
Common stock issued in connection with acquisitions	\$ 455,586	\$ 156	\$ 6,164
Replacement awards issued in connection with acquisitions	\$ 6,729	\$ —	\$ —
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. (Accolade or together with its subsidiaries, 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 Company also offers expert medical opinion services to employer customers through the acquisition of Innovation Specialists LLC d/b/a 2nd.MD (2nd.MD). With the acquisition of PlushCare, Inc. (PlushCare), the Company offers virtual primary care and mental health support, both directly to consumers and to employer customers. These services are 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. Accolade is co-headquartered in Seattle, Washington and Plymouth Meeting, Pennsylvania.

(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.

(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 its 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 intercompany balances and transactions have been eliminated in consolidation.

Through the acquisition of PlushCare, the Company has various administrative service agreements (ASA) with professional medical corporations established in California, Illinois, Wyoming, and New Jersey (PC). The PCs employ or contract with medical providers who provide services via the Company's technology platform. The ASAs are evergreen and are terminable by the parties for breach or bankruptcy. Through the ASAs, the Company provides non-clinical administrative services to the PCs and manages the economic activities that most significantly affect PCs. The PCs retain control over the provision of medical services and the PC's clinical personnel.

The PCs are variable interest entities (VIE) to the Company. Under Accounting Standards Codification Subtopic 810 – *Consolidation*, the Company is considered the PC's primary beneficiary because the Company has the power to direct the activities that most significantly impact the VIE's economic performance and absorbs the residual benefits and losses from the VIE's operations. Consequently, the Company consolidates the operations of the PCs. PC assets were \$17,838 as of February 28, 2022. These assets consisted primarily of cash of \$16,137 and accounts receivable of \$1,654, which may only be used to settle the obligations of the PCs. PC liabilities were \$10,490 as of February 28, 2022.

The PCs and the Company are independent entities, and as such creditors of the PCs do not have recourse against the Company in the event of default by the PC. Additionally, the PC's non-cash assets are available to the Company to satisfy obligations or for other corporate purposes.

(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 assessment of the recoverability of goodwill, 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), 2022, 2021, and 2020, 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 U.S. treasury bills 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) Marketable Securities

The Company classifies its marketable securities as available-for-sale, which include U.S. treasury bills with original maturities of greater than three months. These securities are carried at fair market value. The total unrecognized gain related to the marketable securities was inconsequential during the year ended February 28, 2022.

(g) 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.

(h) Property and Equipment

Property and equipment are recorded at cost. 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

(i) 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), 2022, 2021, and 2020, the Company capitalized \$1,096, \$374, and \$3,005, respectively, for internal-use software. Amortization expense related to capitalized internal-use software during the fiscal years ended February 28(29), 2022, 2021, and 2020 was \$2,387, \$4,560, and \$4,533, respectively.

(j) Impairment of Long-Lived Assets

The Company reviews long-lived assets, such as property and equipment and finite-lived intangibles, 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), 2022, 2021, and 2020.

(k) Intangible Assets

The Company has acquired intangible assets through various acquisitions. Intangible assets are recorded at fair value on the date of acquisition and are subject to amortization over the estimated useful lives of each asset. Estimates of fair value and useful lives are based on historical factors, current circumstances, and the experience and judgment of management. Estimates and assumptions used to value intangible assets are evaluated by management on an ongoing basis.

The caption "Acquired technology, net" included on the balance sheet in previous filings was changed to "Intangible assets, net" during the year ended February 28, 2022.

(l) 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.

The Company's annual goodwill impairment test resulted in no impairment charges in the fiscal years ended February 28(29), 2022, 2021, and 2020.

(m) Revenue and Deferred Revenue

Revenue Recognition

The Company generates revenue by providing customers access to its advocacy, expert medical opinion, and virtual primary care and mental health support services, as well as through utilization of its expert medical opinion and

virtual primary care and mental health support services that were acquired through the acquisitions of 2nd.MD and PlushCare. Contracts with customers that include expert medical opinion or virtual primary care and mental health support services may contain either an access fee, a utilization-based fee, or both.

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 contracts; 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 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 for its advocacy contracts 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 per-member-per-month (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, consultations or visits 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 to the extent that it is probable that a significant reversal of cumulative revenue recognized will not occur (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, consultations, or visits.

Access Fees

The Company generates revenue primarily from contracts with customers to access the Company's advocacy, expert medical opinion, and virtual primary care and mental health support services. The Company prices access fees primarily using a recurring PMPM fee, typically with a portion of the fee calculated as the product of a fixed rate times the number of members (fixed PMPM fee), plus a variable PMPM fee calculated as the product of a variable rate times the number of 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 use 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. The PMPM fees for expert medical opinion and virtual primary care and mental health support services may be tiered based upon the customer's utilization.

Access to the Company's services represent a single stand-ready performance obligation. 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 advocacy 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.

For the majority of expert medical opinion services, the Company satisfies these performance obligations over time and recognizes revenue in the amount of consideration for which it has the right to invoice using the as-invoiced practical expedient. Access fees also include access to the Company's virtual primary care and mental health support services sold directly to consumers on a monthly or yearly fixed fee subscription basis. For these services, the Company satisfies these stand-ready performance obligations over time and recognizes revenue ratably over the subscription period.

Utilization-based fees

The Company also generates revenue when members utilize the expert medical opinion and virtual primary care and mental health support services that are billed based on utilization. Many, but not all, contracts with customers contain utilization-based fees. For any utilization-based fees, the Company satisfies these performance obligations over time and recognizes revenue in the amount of consideration for which it has the right to invoice using the as-invoiced practical expedient for any consultations or visits sold to enterprise customers as well as any non-insured consultations or visits related to virtual primary care and mental health support services sold directly to consumers. For any consultations or visits that are paid through insurance claims, the Company recognizes revenue as the consultations and visits occur in an amount that reflects the consideration that is expected based upon then-current prices and historical experience from insurance payors.

Deferred Revenue

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 the stand-ready 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.

(n) Concentration of Credit Risk

Financial instruments that potentially subject the Company to credit risk consist principally of cash, cash equivalents, and marketable securities. 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 and U.S. treasury bills with original maturities of three months or less.

Marketable securities are comprised of U.S. treasury bills with original maturities greater than three months. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash, cash equivalents, and marketable securities and performs 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),		
	2022	2021	2020
Customer 1	* %	16.0 %	23.8 %
Customer 2	* %	11.8 %	12.6 %
Customer 3	* %	10.2 %	11.7 %
Customer 4	* %	9.8 %	10.4 %
Total	* %	47.8 %	58.5 %

*For the year ended February 28, 2022, no customers represented 10% or more of the Company's revenue.

Customers representing 10% or more of the Company's revenue in the year ended February 28, 2021 had a total of \$5,592 in accounts receivable outstanding at February 28, 2021.

(o) 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.

(p) 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.

(q) 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.

(r) 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. In the current year we released a portion of the valuation allowance against the deferred tax assets attributable to our deferred tax assets as the acquired intangibles from the PlushCare acquisition served as a source of income for which we, more likely than not, will be able to realize the benefits of the deferred tax assets. 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.

(s) 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 segment.

As of February 28(29), 2022, 2021, and 2020, substantially all of Accolade's long-lived assets were located in the United States, and all revenue was earned in the United States.

(t) Leases

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842). The new guidance requires lessees to recognize lease liabilities and corresponding right-of-use assets for all leases with terms of more than 12 months.

The Company adopted Topic 842 on February 28, 2022, with an effective date of adoption of March 1, 2021, using the modified retrospective approach. Topic 842 requires the Company to recognize a lease liability, which represents the discounted obligation to make future minimum lease payments, and a corresponding right-of-use (ROU) asset on its consolidated balance sheet for most leases and disclose key information about leasing arrangements. The Company elected to utilize the package of practical expedients available under Topic 842, which allowed it to not reassess: (i) whether any expired or existing contracts contain leases, (ii) the lease classification for any expired or existing leases, and (iii) the initial direct costs for existing leases. As a result of the adoption, the Company recorded operating lease right-of-use assets and operating lease liabilities of \$34,739 and \$38,740, respectively, on the consolidated balance sheet as of March 1, 2021.

Whenever the Company enters into a new arrangement, it determines, at the inception date, whether the arrangement is or contains a lease. This determination generally depends on whether the arrangement conveys to the Company the right to control the use of an explicitly or implicitly identified asset for a period of time in exchange for consideration. Control of an underlying asset is conveyed to the Company if the Company obtains the right to direct the use of, and obtain substantially all the economic benefits from, the use of the underlying asset.

If a lease exists, the Company then determines the separate lease and non-lease components of the arrangement. Each right to use an underlying asset conveyed by a lease arrangement should generally be considered a separate lease component if it both: (i) can benefit the Company without depending on other resources not readily available to the

Company and (ii) does not significantly affect, and is not significantly affected by, other rights of use conveyed by the lease. Aspects of a lease arrangement that transfer other goods or services to the Company but do not meet the definition of lease components are considered non-lease components. The consideration owed by the Company pursuant to a lease arrangement is generally allocated to each lease and non-lease component for accounting purposes. However, the Company has elected, for all of its leases, to not separate lease and non-lease components.

For each lease, the Company then determines the lease term, the present value of lease payments, and the classification of the lease as either an operating or finance lease. The lease term is the period of the lease not cancellable by the Company, together with periods covered by: (i) renewal options the Company is reasonably certain to exercise, (ii) termination options the Company is reasonably certain not to exercise, and (iii) renewal or termination options that are controlled by the lessor.

The present value of lease payments is calculated based on:

- (1) Lease payments – Lease payments included in the measurement of the lease asset or liability comprise the following: fixed payments (including in-substance fixed payments), and the exercise price of a lessee option to purchase the underlying asset if the lessee is reasonably certain to exercise.
- (2) Discount rate – the discount rate is determined based on information available to the Company upon the commencement of the lease. Lessees are required to use the rate implicit in the lease whenever such rate is readily available; however, as the implicit rate in the Company's leases is generally not readily determinable, the Company generally uses the incremental borrowing rate it would have to pay to borrow an amount equal to the lease payments, on a collateralized basis, over a timeframe similar to the lease term.

In making the determination of whether a lease is an operating lease or a finance lease, the Company considers the lease term in relation to the economic life of the leased asset, the present value of lease payments in relation to the fair value of the leased asset and certain other factors, including the lessee's and lessor's rights, obligations, and economic incentives over the term of the lease.

The Company does not recognize leases with an initial term of 12 months or less on its consolidated balance sheets and will recognize these payments in the consolidated statements of operations on a straight-line basis over the lease term. Certain leases contain variable payments which are based on usage or operating costs, such as utilities and maintenance. These payments are not included in the measurement of the lease liability or corresponding right-of-use asset due to the uncertainty of the payment amount and are recorded as lease expense in the period incurred.

See Note 7, *Leases*, for additional information.

Prior to the adoption of Topic 842, the Company accounted for leases under FASB ASC Topic 840, *Leases* (Topic 840).

(u) Recently Adopted Accounting Pronouncements

Debt

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 applied this ASU to the convertible debt transaction entered into in March 2021 (see Note 10).

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. The Company adopted ASU 2016-13 on February 28, 2022 with an effective date of adoption of March 1, 2021. The adoption did not have a material effect on the Company's consolidated financial statements.

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. The Company adopted ASU 2018-15 on February 28, 2022 with an effective date of adoption of March 1, 2021. The adoption did not have a material effect on the Company's consolidated financial statements.

(3) Revenue

The following table presents the Company's revenues disaggregated by revenue source:

	Year Ended February 28, 2022
Access fees	\$ 264,612
Utilization-based fees	45,409
Total	<u>\$ 310,021</u>

As of February 28, 2022, \$260,210 of revenue is expected to be recognized from remaining performance obligations and is expected to be recognized as follows:

Year Ending February 28(29),	
2023	\$ 154,895
2024	65,849
2025	36,853
2026	2,613
Total	<u>\$ 260,210</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, 2022 and 2021 were the result of revenue recognized and net cash received. During the fiscal years ended February 28, 2022 and 2021, significant changes in the deferred revenue balances were the result of recognized revenue of \$25,817 and \$28,919, respectively, that were included in deferred revenue. In addition, significant changes to the contract asset balances during the fiscal years ended February 28, 2022 and 2021 were the result of revenue recognized and 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, 2022 and 2021 was \$4,673 and \$5,473, 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 \$3,478 and \$3,501 for the years ended February 28, 2022 and 2021, respectively. During the year ended February 28, 2022, the Company wrote off previously deferred commissions of \$484 related to a revision of the Company's commission plan, which offset the amounts capitalized during the year ended February 28, 2022. 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 upon signature of the contract. 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 \$2,080, \$1,106, and \$665 for the fiscal years ended February 28(29), 2022, 2021, and 2020, 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 \$1,154 and \$1,189 for the fiscal years ended February 28, 2022 and 2021, 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 \$865, \$551, and \$320 for the fiscal years ended February 28(29), 2022, 2021, and 2020, respectively.

(4) Acquisitions

Acquisition of 2nd.MD

On March 2, 2021, the Company acquired all the outstanding equity interests of 2nd.MD. Based in Houston, Texas, 2nd.MD is a leading expert medical opinion and medical decision support company. The results of operations and financial position of 2nd.MD are included in the Company's consolidated financial statements from the date of acquisition.

The consideration paid was comprised of cash, common stock, and contingent consideration as follows:

Consideration	
Cash consideration, net of cash acquired	\$ 226,135
Fair value of common stock issued	116,187
Fair value of replacement awards	1,520
Fair value of contingent consideration	76,248
Total consideration	<u>\$ 420,090</u>

The aggregate purchase consideration of \$420,090 was provided through cash of \$226,135 (net of \$205 cash acquired) and the issuance of up to 4,384,882 shares of the Company's common stock, of which 2,822,242 were issued upon closing of the acquisition, of which 2,495,441 were fully vested at the time of issuance with the remaining 326,801 vesting over future service periods. The cash consideration in the above table includes the repayment of 2nd.MD debt of \$13,026. The contingent consideration represented potential obligations for the Company to issue up to 2,170,972 shares of its common stock to the selling shareholders of 2nd.MD and was comprised of two earnout scenarios associated with (1) a contract renewal and (2) the achievement of certain future revenue milestones. As a result of the contract renewal and achievement of certain revenue milestones, the Company will issue a total of 1,977,343 shares of its common stock

subsequent to February 28, 2022. The estimated fair value of the replacement awards issued in the above table is comprised of 120,760 restricted stock units issued to 2nd.MD employees with an estimated fair value of \$5,434 of which \$1,520 was attributable to pre-acquisition services. The remaining estimated value of \$3,914 associated with the replacement awards is attributable to post-acquisition services and will be expensed over the future requisite service periods of the awards.

Several key 2nd.MD employees entered into agreements with the Company whereby their pro rata portion of shares to be issued at closing and upon achievement of the contingent consideration milestones are also subject to continuous employment with the Company and vest annually over a period of two years following the acquisition date. Upon voluntary termination of employment, any unvested shares will be forfeited. Due to the risk of forfeiture upon termination of employment, the aggregate 326,801 shares issued at closing and the aggregate shares eligible to be issued upon achievement of the contingent consideration milestones of 281,531 shares have been excluded from the purchase price and contingent consideration. These shares are accounted for as stock-based compensation expense in the post business combination periods.

The estimated fair value of the contingent consideration associated with future revenue milestones was determined using a Monte Carlo simulation. The Monte Carlo simulation performs numerous simulations utilizing certain assumptions such as (i) projected eligible revenues, (ii) expected term, (iii) risk-free rate, (iv) risk-adjusted discount rate, (v) share volatility and (vi) operational leverage ratio between revenues and earnings before interest, taxes, depreciation and amortization (EBITDA). The fair value measurements for contingent consideration are based on significant inputs not observable in the market and thus represents a Level 3 measurement within the fair value hierarchy. Changes in the assumptions used could materially change the estimated fair value of the contingent consideration. The estimated fair value of the contingent consideration was \$37,767 as of January 31, 2022, at which time the contingency was resolved. The estimated fair value of contingent consideration decreased since the acquisition date primarily due to a decrease in the Company's stock price. The Company recorded the change in fair value of its contingent consideration liability in the consolidated statements of operations until January 31, 2022. Upon resolution of the contingency and determination of the number of common stock shares to be issued, the Company reclassified the value of the contingent consideration from a liability into stockholders' equity in the consolidated balance sheet. See Note 9 for further details.

The Company accounted for the acquisition of 2nd.MD under the U.S. GAAP business combinations guidance. This accounting requires that assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. The allocation of the purchase price to the assets acquired and liabilities assumed was subject to further adjustment within the measurement period (up to one year from the acquisition date). Measurement period adjustments since initial preliminary estimates reported in the first quarter of fiscal 2022 were primarily related to an updated working capital calculation. The cumulative effect of all measurement period adjustments resulted in a decrease to recognized goodwill of \$1,878. As of February 28, 2022, the purchase price allocation is considered complete.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition.

Assets acquired:	
Accounts receivable	\$ 5,550
Unbilled revenue	226
Current portion of deferred contract acquisition costs	176
Prepaid and other current assets	1,052
Property and equipment	4,344
Deferred contract acquisition costs	564
Goodwill	208,286
Intangible assets ⁽¹⁾	
Customer relationships	120,000
Technology	58,000
Supplier-based network	25,000
Trade name	3,400
Non-compete agreement	3,100
Total assets acquired	<u>\$ 429,698</u>
Liabilities assumed:	
Accounts payable	\$ 1,195
Accrued expenses	585
Accrued compensation	3,817
Deferred rent and other current liabilities	904
Due to customers	294
Current portion of deferred revenue	625
Deferred rent and other noncurrent liabilities	2,188
Total liabilities assumed	<u>\$ 9,608</u>
Net assets acquired	<u>\$ 420,090</u>

(1) The weighted-average useful life of intangible assets acquired is approximately 14 years.

The purchase price was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. The identifiable intangible assets included technology, customer relationships, trade name, supplier based network, and non-compete agreements and are being amortized on a straight-line basis ranging from 3 years to 20 years. Customer relationships and trade names were valued using a multiple period excess earnings method (MPEEM) and the relief from royalty method (RFR), respectively. The supplier-based network and non-compete agreement intangible assets were valued using the "With and Without Method." These valuation methods are specific forms of the Income Approach which is a valuation technique that derives value by estimating the fair value of after-tax cash flows attributable to the acquired intangibles. The valuation methods require several judgments and assumptions to determine the fair value of intangible assets, including growth rates, discount rates, customer attrition rates, expected levels of cash flows, and tax rate. Key assumptions used included revenue projections for fiscal years 2022 through 2032, an attrition rate of 8.0%, a tax rate of 24%, a discount rate of 13%, a royalty rate of 1.5% and probability of competition of 33%.

The technology intangible asset was valued using the estimated replacement cost method. This method requires several judgments and assumptions to determine the fair value, including expected profits and opportunity cost. Goodwill is attributable to the workforce of 2nd.MD as well as expected future growth into new and existing markets and is deductible for income tax purposes.

For the fiscal year ended February 28, 2022, 2nd.MD contributed approximately \$48,753 of revenue and approximately \$(32,353) of net loss, which includes \$27,211 of equity-based compensation expense related to 2nd.MD employees, to the Company's operating results.

Acquisition of PlushCare

On June 9, 2021, the Company acquired all the outstanding equity interests of PlushCare. Based in San Francisco, California, PlushCare is a provider of virtual primary care and mental health support. The results of operations and financial position of PlushCare are included in the Company's consolidated financial statements from the date of acquisition.

The preliminary consideration paid was comprised of cash, common stock, and contingent consideration as follows:

Consideration	
Fair value of common stock issued	\$ 330,338
Fair value of contingent consideration	44,618
Cash consideration, net of cash acquired	33,860
Fair value of replacement awards	5,209
Total consideration	<u>\$ 414,025</u>

The aggregate purchase consideration of \$414,025 was provided through cash of \$33,860 (net of \$17,837 cash acquired and \$1,463 of debt repaid) and the issuance of 7,144,393 shares of the Company's common stock, of which 854,717 are subject to future vesting and excluded from consideration paid. The contingent consideration represented a potential obligation for the Company to issue up to an additional 1,429,556 shares of its common stock and up to approximately \$2,000 in cash upon the achievement of defined revenue milestones following the closing. Up to 102,111 shares of this contingent consideration will be withheld from being issued to the selling shareholders of PlushCare until the resolution of a pending litigation matter. The contingency was resolved at December 31, 2021, and as a result the Company will issue 1,327,445 shares of its common stock subsequent to February 28, 2022, excluding the 102,111 shares that are withheld pending the resolution of the litigation matter. See Note 16 for further details.

The estimated fair value of the replacement awards issued in the above table is comprised of 325,992 options to purchase Accolade common stock issued to PlushCare employees as of the acquisition date with an estimated fair value of \$16,663, of which \$5,209 was attributable to pre-acquisition services. The remaining estimated value of \$11,454 associated with the replacement awards is attributable to post-acquisition services and will be expensed over the future requisite service periods of the awards.

Certain key PlushCare employees entered into agreements with the Company whereby a portion of their shares issued at closing are subject to continuous employment with the Company and vest annually over a three-year period following the acquisition date. Upon voluntary termination of employment, any unvested shares will be forfeited. Due to the risk of forfeiture upon termination of employment, the 806,161 shares subject to forfeiture have been excluded from the purchase price and are accounted for as stock-based compensation expense in the post-business combination periods. Also, one PlushCare employee received 48,556 shares of unvested common stock. These shares vest on a pro rata basis monthly through May 2023.

The estimated fair value of the contingent consideration associated with future revenue milestones was determined using a Monte Carlo simulation. The Monte Carlo simulation performs numerous simulations utilizing certain assumptions such as (i) projected eligible revenues, (ii) expected term, (iii) risk-free rate, (iv) risk-adjusted discount rate, (v) share volatility, and (vi) operational leverage ratio between revenues and earnings before interest, taxes, depreciation, and amortization (EBITDA). The fair value measurements for contingent consideration are based on significant inputs not observable in the market and thus represent a Level 3 measurement within the fair value hierarchy. The estimated fair value of the contingent consideration was \$37,683 as of December 31, 2021 and was subject to remeasurement until the contingency was resolved. The estimated fair value of contingent consideration decreased since the acquisition date primarily due to a decrease in the Company's stock price. The Company recorded the change in fair value of its contingent consideration liability in the consolidated statements of operations through December 31, 2021. Upon resolution of the contingency and determination of the number of common stock shares to be issued, the Company reclassified the value of the contingent consideration from a liability into stockholders' equity in the consolidated balance sheet. See Note 9 for further details.

The Company accounted for the acquisition of PlushCare under the U.S. GAAP business combinations guidance. This accounting requires that assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. The allocation of the purchase price to the assets acquired and liabilities assumed is based upon preliminary information and is subject to further adjustment within the measurement period (up to one year from the acquisition date). Measurement period adjustments since initial preliminary estimates reported in the second quarter of fiscal 2022 were primarily related to updated assessments of acquired deferred tax liability and accounts receivable. The cumulative effect of all measurement period adjustments resulted in a decrease to recognized goodwill of \$1,685.

The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

Assets acquired:	
Accounts receivable	\$ 1,359
Prepaid and other current assets	573
Property and equipment	298
Other noncurrent assets	932
Goodwill	365,597
Intangible assets⁽¹⁾	
Customer relationships	4,050
Technology	40,650
Trade name	10,300
Non-compete agreements	6,200
Total assets acquired	<u>\$ 429,959</u>
Liabilities assumed:	
Accounts payable	\$ 1,532
Accrued expenses	193
Accrued compensation	2,117
Current portion of deferred revenue	1,212
Deferred tax liability	9,992
Other liabilities	888
Total liabilities assumed	<u>\$ 15,934</u>
Net assets acquired	<u><u>\$ 414,025</u></u>

(1) The weighted-average useful life of intangible assets acquired is approximately 5 years.

The purchase price was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their preliminary estimated fair values at the acquisition date. The identifiable intangible assets included customer relationships, technology, trade name, and non-compete agreements and are being amortized on a straight-line basis ranging from 2 years to 10 years. The valuation methods require several judgments and assumptions to determine the fair value of intangible assets, including growth rates, discount rates, customer attrition rates, expected levels of cash flows, and tax rate. Key assumptions used included revenue projections for fiscal years 2022 through 2035, an attrition rate of 25% and 50%, a tax rate of 25%, a discount rate of 12.5%, a royalty rate of 3% and probabilities of competition between 70% and 90%.

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

For the year ended February 28, 2022, PlushCare contributed approximately \$44,393 of revenue and approximately \$(15,396) of net loss, which includes \$17,980 of equity-based compensation expense related to PlushCare employees, to the Company's operating results.

Unaudited Pro Forma Financial Information

The following table reflects the pro forma operating results for the Company which gives effect to the acquisitions of 2nd.MD and PlushCare as if they had occurred on March 1, 2020. The pro forma results are based on assumptions that the Company believes are reasonable under the circumstances. The pro forma results are not necessarily indicative of future results. The pro forma financial information includes the historical results of the Company, 2nd.MD, and PlushCare adjusted for certain items, which are described below, and does not include the effects of any synergies or cost reduction initiatives related to the acquisitions of 2nd.MD or PlushCare.

	Unaudited Pro Forma	
	Year ended February 28,	
	2022	2021
Revenue	\$ 324,367	\$ 249,028
Net income (loss)	\$ (137,644)	\$ (142,392)

Pro forma net income (loss) for the years ended February 28, 2022 and 2021 reflect adjustments primarily related to interest expense, the amortization of intangible assets and stock-based compensation expense. The unaudited pro forma financial information is not necessarily indicative of what the Company's consolidated results actually would have been if the acquisition had been completed at the beginning of the respective periods.

Acquisition of HealthReveal

On September 30, 2021, the Company acquired substantially all the assets of HealthReveal, Inc. (HealthReveal). HealthReveal is a clinical artificial intelligence company focused on ensuring patients receive optimal, personalized chronic care to preempt adverse outcomes. Under the terms of the agreement, the Company issued 252,808 shares of common stock as consideration at closing. The Company will issue up to 28,089 additional shares of common stock that are subject to an indemnity holdback, and these shares will be released 18 months following the closing.

The Company accounted for this transaction as an asset acquisition based on an evaluation of the U.S. GAAP guidance for business combinations. The Company concluded that the developed technology acquired from HealthReveal comprised substantially all of the fair value of the gross assets acquired and that the assets acquired did not meet the definition of a business under the guidance for business combinations. The developed technology intangible asset was recorded at \$9,976 on the acquisition date and is being amortized on a straight-line basis over 3 years.

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, 2022, with the remaining shares issuable subject to certain working capital and indemnity adjustments (if applicable). MDI's former 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). 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 MDI Earnout was accounted for as an equity classified instrument and was not subject to remeasurement in subsequent periods.

The following table summarizes the 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	\$ 7,151
Liabilities assumed:	
Accounts payable	\$ 321
Accrued expenses and other current liabilities	342
Total liabilities assumed	\$ 663
Net assets acquired	\$ 6,488

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.

Acquisition and Integration-Related Costs

Acquisition and integration-related costs include banking, legal, accounting, and consulting fees. For the years ended February 28(29), 2022, 2021, and 2020, the Company incurred a total of \$13,219, \$2,050, and \$567 respectively, in acquisition and integration-related costs that were expensed immediately and recorded in general and administrative expenses in the Company's consolidated statements of operations.

(5) Goodwill and Intangible Assets

The following table presents changes in the carrying amount of goodwill for the year ended February 28, 2022:

Balance, February 28, 2021	\$ 4,013
Acquisitions	573,883
Balance, February 28, 2022	\$ 577,896

Annually, and upon the identification of a triggering event, management is required to perform an evaluation of the recoverability of goodwill. Triggering events potentially warranting an interim goodwill impairment test include, among other factors, declines in historical or projected revenue, operating income or cash flows, and sustained declines in the Company's stock price or market capitalization, considered both in absolute terms and relative to peers. While management cannot predict if or when future goodwill impairments may occur, a goodwill impairment could have a material adverse effect on the Company's operating income, net assets, and/or the Company's cost of, or access to, capital. The Company did not record any goodwill impairment charges during the years ended February 28(29), 2022, 2021, and 2020. Subsequent to February 28, 2022, the Company experienced a decline in its market capitalization as a result of a decline in the Company's stock price. If this decline continues for a sustained period of time, the Company may be required to perform a goodwill impairment assessment at an interim period and could be required to recognize a non-cash goodwill impairment charge at that time, which could be material.

Intangible assets consisted of the following:

	As of February 28, 2022				As of February 28, 2021		
	Weighted Avg. Remaining Useful Life (years)	Gross Value	Accumulated Amortization	Net Carrying Value	Gross Value	Accumulated Amortization	Net Carrying Value
Customer relationships	18.6	\$ 124,050	\$ (7,444)	\$ 116,606	\$ —	\$ —	\$ —
Technology	4.0	111,526	(21,971)	89,555	2,900	(2,296)	604
Supplier-based network	4.0	25,000	(5,000)	20,000	—	—	—
Trade name	9.2	13,700	(1,112)	12,588	—	—	—
Non-compete agreement	1.5	9,300	(3,359)	5,941	—	—	—
		\$ 283,576	\$ (38,886)	\$ 244,690	\$ 2,900	\$ (2,296)	\$ 604

Amortization expense for intangible assets was \$36,590, \$1,450, and \$846 during the years ended February 28(29), 2022, 2021, and 2020, respectively.

Amortization expense over the remaining life of the intangible assets will be recognized as follows:

Year Ending February 28(29),	
2023	\$ 41,488
2024	37,795
2025	34,143
2026	32,125
2027	9,403
Thereafter	89,736
	244,690

(6) Property and Equipment

Property and equipment consisted of the following:

	February 28,	
	2022	2021
Capitalized software development costs	\$ 33,388	\$ 32,292
Computer software	6,023	5,688
Computer equipment	10,518	8,386
Office equipment, furniture, and leasehold improvements	11,838	7,141
	61,767	53,507
Less accumulated depreciation	(49,970)	(44,280)
Total	\$ 11,797	\$ 9,227

Depreciation and amortization expense related to property and equipment was \$6,018, \$6,762, and \$7,670 for the fiscal years ended February 28(29), 2022, 2021, and 2020, respectively.

During the year ended February 28, 2022, the Company wrote off \$328 of fully-depreciated computer equipment. During the 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, and \$3,699 of fully-depreciated office equipment, furniture, and leasehold improvements. During the 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 an office lease, resulting in a loss on disposal of \$299.

(7) Leases

The Company adopted Topic 842 on February 28, 2022, with an effective date of adoption of March 1, 2021, using the modified retrospective approach. The Company has operating leases for offices and certain equipment under non-cancelable leases in the United States and Czech Republic. These leases have remaining terms of up to 8 years. The Company had no finance leases during the year ended February 28, 2022.

The components of operating lease cost recorded in the consolidated statements of operations were as follows:

	Year ended February 28, 2022
Operating lease cost	\$ 7,169
Variable lease cost	1,691
Total lease cost	<u>\$ 8,860</u>

The following table sets forth the cash flows, weighted-average remaining term, and weighted-average discount rate for the Company's leases as of February 28, 2022:

Cash Flow Information	Year ended February 28, 2022
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 8,310
Right-of-use assets obtained in exchange for lease obligations	
Operating leases	\$ 3,564
Supplemental Information	
Weighted-average remaining lease term (years)	6.1
Weighted-average discount rate	4.8 %

As of February 28, 2022, the future minimum lease payments under non-cancelable operating leases were as follows:

Year Ending February 28(29),	
2023	\$ 8,457
2024	8,238
2025	6,640
2026	6,588
2027	6,093
Thereafter	9,402
Total lease payments	45,418
Less: Imputed interest	(6,350)
Total lease liabilities	<u>\$ 39,068</u>

The Company's future minimum lease payments as of February 28, 2021 under the previous accounting standard (ASC 840) were 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>

Prior to the adoption of Topic 842, the Company recorded rent expense of \$6,304 and \$5,143 for the fiscal years ended February 28(29), 2021 and 2020, respectively.

(8) Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following:

	February 28,	
	2022	2021
Current portion of loans payable, net of unamortized issuance cost	\$ 596	\$ —
Professional and consulting fees	2,661	2,185
Taxes	769	1,074
Marketing	1,492	226
Accrued litigation ⁽¹⁾	888	—
Software, hardware, and communication costs	600	400
Payable related to acquisition earnout	1,969	—
Other	2,025	1,527
Total	\$ 11,000	\$ 5,412

⁽¹⁾ See note 16 for discussion regarding accrued litigation matters.

(9) Fair Value Measurements

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

	February 28, 2022			
	Level 1	Level 2	Level 3	Fair Value
Assets				
Cash equivalents:				
Money market funds	\$ 131,527	\$ —	\$ —	\$ 131,527
United States treasury bills	\$ 99,999	\$ —	\$ —	\$ 99,999
	February 28, 2021			
	Level 1	Level 2	Level 3	Fair Value
Assets				
Cash equivalents:				
Money market funds	\$ 283,245	\$ —	\$ —	\$ 283,245

In connection with the acquisitions of 2nd.MD and PlushCare, the Company recorded contingent consideration liabilities for the estimated fair value of Accolade common stock issuable to 2nd.MD and PlushCare shareholders upon the achievement of certain defined milestones. The contingent consideration liabilities were measured at fair value and were based on significant inputs not observable in the market, which represent a Level 3 measurement. The valuation of contingent consideration used assumptions the Company believes would be made by a market participant.

The Company recorded the change in fair value of its contingent consideration liabilities in the consolidated statements of operations. The following presents changes in the Company's Level 3 contingent consideration liabilities for the year ended February 28, 2022:

Balance, February 28, 2021	\$ —
Incurred through acquisition	120,866
Change in fair value	(45,416)
Reclassification to equity and accrued expenses and other current liabilities	(75,450)
Balance, February 28, 2022	<u>\$ —</u>

As of February 28, 2022, \$1,969 of liabilities related to the acquisition earnouts are included in accrued expenses and other current liabilities on the consolidated balance sheet.

The estimated fair value of the convertible senior notes (Note 10) was \$226,751 as of February 28, 2022, based on quoted market prices of the Company's instrument in markets that are not active and are classified as Level 2 within the fair value hierarchy. Considerable judgment is necessary to interpret the market data and develop an estimate of the fair value. Accordingly, the estimate is not necessarily indicative of the amount at which this instrument could be purchased, sold, or settled.

(10) Debt

(a) Convertible Senior Notes and Capped Call Options

Convertible Senior Notes

In March 2021, the Company completed a private convertible note offering, pursuant to an Indenture dated as of March 29, 2021 between the Company and U.S. Bank National Association, as trustee (the Indenture), and issued \$287,500 of 0.50% Convertible Senior Notes due 2026 (the Notes) that mature in April 2026, unless earlier converted, redeemed or repurchased. The Notes bear interest at a rate of 0.50% per annum, payable semiannually in arrears on April 1 and October 1 of each year, beginning on October 1, 2021 and are convertible into cash, shares of the Company's common stock or a combination of cash and shares of common stock, at the Company's election. The Company incurred costs of \$8,428 in connection with the Notes and the capped calls, of which \$8,368 was allocated to the Notes and recorded as a debt discount and \$60 was allocated to the capped call and recorded directly to additional paid-in capital. Net proceeds from the issuance of Notes were \$279,132, and the Company used \$34,443 of the net proceeds to pay the costs of the capped call transactions described below. For the year ended February 28, 2022, the Company recorded interest expense of \$2,857, of which \$1,534 was associated with the amortization of the debt discount.

Pursuant to the terms of the Notes, a holder may convert all or any portion of its Notes at its option at any time prior to October 1, 2025 and only under the following circumstances: (1) during any fiscal quarter commencing after the fiscal quarter ending on August 31, 2021, if the last reported sale price of the Company's common stock for at least 20 trading days during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any ten consecutive trading day period (the "measurement period") in which the trading price (as defined in the Indenture) per \$1 principal amount of Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such trading day; (3) if the Company calls such Notes for redemption, at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date, but only with respect to the Notes called (or deemed called) for redemption; or (4) upon the occurrence of specified corporate events. On or after October 1, 2025 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert all or any portion of their Notes at any time, regardless of the foregoing circumstances.

The initial conversion rate is 19.8088 shares of the Company's common stock per \$1 principal amount of Notes (equivalent to an initial conversion price of approximately \$50.48 per share of the Company's common stock). The conversion rate is subject to adjustment in some events but will not be adjusted for any accrued and unpaid interest. In addition, following certain corporate events that occur prior to the maturity date, or if the Company delivers a notice of redemption, the Company will, in certain circumstances, increase the conversion rate for a holder who elects to convert its Notes in connection with such a corporate event or convert its Notes called (or deemed called) for redemption in connection with such notice of redemption, as the case may be.

The Company may not redeem the Notes prior to April 6, 2024. On or after April 6, 2024, the Company may redeem for cash all or any portion of the Notes (subject to the partial redemption limitation set forth in the Indenture), at its option, if the last reported sale price of the Company's common stock has been at least 130% of the conversion price then in effect for at least 20 trading days, including the trading day immediately preceding the date on which the Company provides notice of redemption, during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which the Company 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. No sinking fund is provided for the Notes.

Upon a fundamental change (as defined in the Indenture), holders may, subject to certain exceptions, require the Company to purchase their Notes in whole or in part for cash at a price equal to the principal amount of the Notes to be purchased, plus accrued and unpaid interest, if any, to, but excluding, the fundamental change repurchase date (as defined in the Indenture). In addition, upon a Make-Whole Fundamental Change (as defined in the Indenture), the Company will, under certain circumstances, increase the applicable conversion rate for a holder that elects to convert its Notes in connection with such Make-Whole Fundamental Change.

Under the Indenture, the Notes may be accelerated upon the occurrence of certain customary events of default. If certain bankruptcy and insolvency-related events of default with respect to the Company occur, the principal of, and accrued and unpaid interest on, all of the then outstanding Notes shall automatically become due and payable. The Indenture provides that the sole remedy for an event of default relating to certain failures by the Company to comply with reporting covenants, including timely filings, consists exclusively of the right to receive additional interest on the Notes.

As of February 28, 2022, none of the conditions of the Notes to early convert had been met. The Notes are the Company's senior, unsecured obligations that rank senior in right of payment to the Company's future indebtedness that is expressly subordinated to the Notes, rank equally in right of payment with the Company's future senior unsecured indebtedness that is not so subordinated, effectively subordinated to the Company's existing and future secured indebtedness, to the extent of the value of the collateral securing such indebtedness, and structurally subordinated to all existing and future indebtedness and other liabilities (including trade payables and preferred equity (to the extent the Company is not a holder thereof)) of the Company's subsidiaries. The Notes contain both affirmative and negative covenants. As of February 28, 2022, the Company was in compliance with all covenants in the Notes.

As discussed in Note 2, the Company early adopted ASU 2020-06 as of March 1, 2021 and concluded the Notes will be accounted for as debt, with no bifurcation of the embedded conversion feature. Transaction costs were recorded as a direct deduction from the related debt liability in the consolidated balance sheet and are amortized to interest expense using the effective interest method over the term of the Notes. The effective interest rate for the Notes is 1.1%.

As of February 28, 2022, the Notes consisted of the following:

	February 28, 2022
Principal	\$ 287,500
Unamortized issuance costs	(6,834)
Net carrying amount	<u>\$ 280,666</u>

Capped Call

Concurrent with the pricing of the Notes, the Company entered into privately negotiated capped call transactions with two of the initial purchasers and/or their respective affiliates and another financial institution (the Option Counterparties). The capped call transactions are expected to offset the potential dilution to Accolade's common stock as a result of any conversion of Notes, with such offset subject to a cap initially equal to \$76.20 (which represented a premium of 100% over the last reported sale price of the Company's common stock on March 24, 2021). The capped call transactions are separate transactions, entered into by the Company with the Option Counterparties, and are not part of the terms of the Notes.

As the capped call options are both legally detachable and separately exercisable from the Notes, the Company accounts for the capped call options separately from the Notes. The capped call options are indexed to the Company's own common stock and classified in stockholders' equity. As such, the premiums paid for the capped call options have been included as a net reduction to additional paid-in capital in the consolidated balance sheet.

(b) Revolving Credit Facility

During July 2019, the Company entered into a revolving credit facility (the 2019 Revolver) with a syndicate of two banks. Under the 2019 Revolver, the Company has the capacity to borrow up to \$80,000 on a revolving facility. 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). As of February 28, 2022, the Company had an outstanding letter of credit to serve as office landlord security deposit in the amount of \$1,084. This letter of credit is secured through the revolving credit facility, thus reducing the maximum capacity of the revolving credit facility to \$78,916 as of February 28, 2022. No amounts were outstanding as of February 28, 2022.

The 2019 Revolver term ends on July 19, 2022. The interest rate on the outstanding borrowings is LIBOR plus 350 basis points (prior to December 31, 2021) 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 Company incurred lender and third-party fees when entering into the 2019 Revolver, all of which were deferred at the onset of the facility. 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 years ended February 28(29), 2022, 2021, and 2020, the Company recorded interest expense of \$296, \$1,106, and \$273, respectively, related to the revolving credit facility of which \$93, \$279, and \$195, respectively, related to the amortization of deferred financing fees. As of February 28, 2022 deferred financing fees have been fully amortized.

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 a second amendment to the 2019 Revolver which modified the allocation requirements of the Company's cash 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 which increased the capacity from a maximum of \$50,000 to a maximum of \$80,000, based on the achievement of certain growth metrics as defined in the amendment. On March 2, 2021, the Company entered into a fourth 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 a fifth amendment to the 2019 Revolver in association with the issuance of the Convertible Senior Notes. On May 26, 2021, the Company entered into a sixth amendment to the 2019 Revolver in association with the acquisition of PlushCare which modified certain reporting covenants.

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

(c) 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. During July 2019, an amendment was entered into (Amendment 1) which resulted in an additional \$2,000 of availability and set interest on the outstanding balance 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 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), 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 and 2020, the Company recorded interest expense of \$2,837 and \$2,858, respectively, related to the Term Loan of which \$1,045 and \$280, 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 was fully amortized at February 28, 2021.

(11) Stockholders' Equity (Deficit)

(a) 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.

(b) Convertible Preferred Stock

On July 7, 2020, upon the closing of the Company's IPO, all shares of the Company's outstanding convertible preferred stock converted into 29,479,521 shares of common stock and, as of February 28, 2022 and 2021, there were no shares of convertible preferred stock outstanding.

(c) Change Healthcare

In February 2020, the Company entered into a joint development agreement (JDA) and a data licensing agreement with Change Healthcare Holdings (Change Healthcare) whereby Change Healthcare provides various services to support the Company's product offerings. Concurrent with entering into the JDA, the Company entered into a five-year data licensing agreement with Change Healthcare. 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 vested immediately and the remaining 100,484 restricted shares vested 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 during the year ended February 29, 2020. Costs that are capitalized and classified as internally developed software are being amortizing within depreciation and amortization in the Company's consolidated statement of operations.

(12) Equity-based Compensation

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

	Year Ended February 28(29),		
	2022	2021	2020
Cost of revenue	\$ 3,197	\$ 948	\$ 318
Product and technology	18,744	3,387	1,674
Sales and marketing	12,822	2,376	1,482
General and administrative	38,176	2,865	2,528
Total stock-based compensation	<u>\$ 72,939</u>	<u>\$ 9,576</u>	<u>\$ 6,002</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, 2022, there was a total of 6,527,962 shares of common stock authorized for issuance under the Incentive Plan, of which 3,682,077 were available for future grants.

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. Prior to the Company's IPO in July 2020, 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, 2022 are expected to vest according to their specific schedules.

During the years ended February 28(29), 2022, 2021 and 2020, the Company recognized \$10,374, \$7,743, and \$6,002, 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), 2022 and 2021. The weighted average grant date fair value for stock options granted during the years ended February 28(29), 2022, 2021 and 2020, was \$28.59, \$11.42, and \$5.40, 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),		
	2022	2021	2020
Estimated fair value of common stock	\$13.59-\$31.95	\$9.62-\$31.27	\$2.40-\$3.35
Exercise price	\$23.50-\$53.38	\$15.40-\$50.88	\$4.70-\$6.75
Expected volatility	63%-68%	68%-78%	46%-50%
Expected term (in years)	6.08	5.00-6.25	6.25
Risk-free interest rate	1.29%-1.39%	0.30%-0.64%	2.65%-2.94%
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, 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			
Granted	528,038	\$ 47.74		
Exercised	(901,064)	\$ 9.37		
Forfeited	(304,951)	\$ 14.87		
Balance, February 28, 2022	8,045,792	\$ 11.24	5.9 years	\$ 69,948,109
Vested and expected to vest as of February 28, 2022	7,918,090	\$ 11.17	6.0 years	\$ 53,913,465
Exercisable as of February 28, 2022	5,957,906	\$ 7.42	5.2 years	\$ 63,158,165

The aggregate intrinsic value of stock options exercised was \$29,964, \$32,972, and \$22,033 for the years ended February 28(29), 2022, 2021, and 2020 respectively. As of February 28, 2022, approximately \$24,581 of unrecognized compensation expense related to stock options is expected to be recognized over a weighted average period of 2.2 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) **PlushCare Stock Options**

In connection with the acquisition of PlushCare, the Company assumed all stock options that were awarded under the PlushCare Plan and that were outstanding as of the closing of the acquisition. These options were converted into options to purchase the Company's common stock at a ratio determined in the purchase agreement. The Company has no intent to grant any further options under the PlushCare Plan beyond the options granted and outstanding as of the Company's acquisition of PlushCare. The following is a summary of stock option activity under the PlushCare Plan:

	Stock Options	Weighted average exercise price	Weighted remaining contractual life in years	Aggregate intrinsic value
Assumed, June 9, 2021	325,992			
Exercised	(50,506)	\$ 1.20		
Forfeited	(7,765)	\$ 2.88		
Balance, February 28, 2022	267,721	\$ 1.65	7.7 years	\$ 4,371,967
Vested and expected to vest as of February 28, 2022	250,160	\$ 1.69	7.7 years	\$ 4,075,039
Exercisable as of February 28, 2022	121,117	\$ 1.37	7.4 years	\$ 2,011,387

There were 48,556 stock options outstanding as of the acquisition date that were exercised prior to being vested. These options are excluded from the table above and vest on a pro rata basis monthly through May 2023. A total of 16,824 options vested during the year ended February 28, 2022. For the year ended February 28, 2022, the Company recognized \$4,161 in compensation expense related to PlushCare stock options. As of February 28, 2022, approximately \$7,325 of unrecognized compensation expense related to PlushCare stock options is expected to be recognized over a weighted average period of 1.9 years. The aggregate intrinsic value of stock options exercised was \$1,596 for the year ended February 28, 2022.

(c) **Restricted Stock Units**

The Company issued 2,257,433 and 191,415 time-based restricted stock units during the years ended February 28, 2022 and 2021, respectively. 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 years ended February 28, 2022 and 2021:

	Restricted Stock Units
Balance, February 29, 2020	—
Granted	191,415
Vested	(702)
Forfeited	—
Balance, February 28, 2021	190,713
Granted	2,257,433
Vested	(87,574)
Forfeited	(134,515)
Balance, February 28, 2022	2,226,057

For the years ended February 28, 2022 and 2021, the Company recognized \$20,646 and \$842, respectively, in restricted stock unit compensation expense, with \$78,973 remaining of total unrecognized compensation costs related to these awards as of February 28, 2022. The total unrecognized costs are expected to be recognized over a weighted-average term of 3.2 years. The weighted-average grant date fair value of restricted stock units granted during the years ended February 28, 2022 and 2021 was \$44.40 and \$46.52, respectively.

In connection with the PlushCare acquisition, the agreement provides for the issuance of time-based restricted stock units for 64,694 shares of common stock to existing PlushCare shareholders, upon achievement of the contingent consideration revenue milestones. These restricted stock units have not yet been issued and are not included in the table

above. For the year ended February 28, 2022, the Company recognized \$2,663 in restricted stock unit compensation expense related to these restricted stock units.

(d) 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, 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 the Company's 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, 2022 or 2021.

(e) Employee Stock Purchase Plan

In July 2020, the Board of Directors adopted the Company's Employee Stock Purchase Plan (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 was limited to 1,100,000 shares. On March 1, 2021, there was an automatic annual increase, which increased the total available common shares to 1,656,991.

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 lower 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 \$1,749 and \$991 during the years ended February 28, 2022 and 2021, respectively, related to the ESPP.

During the year ended February 28, 2022 and 2021, employees who elected to participate in the ESPP purchased a total of 140,838 and 67,498 shares of common stock, respectively, resulting in cash proceeds to the Company of \$4,309 and \$1,259, respectively. An additional \$1,511 has been withheld via employee payroll deductions who have opted to participate in the next stock purchase plan period ending May 2022.

(f) Other

In connection with the acquisition of 2nd.MD (Note 4), several 2nd.MD individuals entered into agreements with the Company whereby these individuals are eligible to receive an aggregate of 608,332 shares that required continued employment with the Company. These shares are excluded from the above restricted stock units table. Included in the 608,332 shares are 281,531 shares that were also contingent upon the achievement of the contingent consideration milestones. These shares are considered compensatory in the post business combination periods due to the additional service requirement for these individuals. These shares will vest 50% on the first anniversary of the acquisition date and 50% on the second anniversary of acquisition date. As a result of the achievement of certain revenue milestones (the contingent consideration milestones), a total of 256,418 of the eligible 281,531 shares will be issued to such shareholders, subject to the service requirements. As of February 28, 2022, there were 583,219 unvested shares outstanding with a grant date fair value of \$46.56 per share, comprised of the 326,801 shares issued as part of the initial consideration and the 256,418 shares to be issued related to the contingency. The Company recognized stock-based compensation expense of \$23,138 during the year ended February 28, 2022, including \$8,981 of accelerated expense related to certain separation and transition agreements entered into during fiscal 2022. The unamortized compensation expense of \$4,015 will be recognized over a weighted average remaining period of 0.3 years.

In connection with the acquisition of PlushCare (Note 4), certain PlushCare individuals entered into agreements with the Company whereby these individuals are eligible to receive an aggregate of 806,161 shares that require continued employment with the Company. These shares are excluded from the above restricted stock units table. These shares are considered compensatory in the post business combination periods due to the additional service requirement for these individuals. One third of these shares will vest on the first anniversary of the acquisition date, one third on the second anniversary of acquisition date, and one third on the third anniversary of the acquisition date. As of February 28, 2022, there were 806,161 unvested shares outstanding with a grant date fair value of \$52.52 per share. The Company recognized stock-based compensation expense of \$10,208 during the year ended February 28, 2022. The unamortized compensation expense of \$32,132 will be recognized over a weighted average remaining period of 1.3 years.

(13) 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 3.0% (increased to 3.5% as of March 1, 2022) 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 \$2,278, \$1,599, and \$1,356 for the years ended February 28(29), 2022, 2021, and 2020, respectively, which were funded subsequent to each respective year-end.

(14) Income Taxes

Loss before income taxes consists of the following components:

	Year Ended February 28(29),		
	2022	2021	2020
Domestic	\$ (129,569)	\$ (50,934)	\$ (51,794)
Foreign	806	286	558
Total	<u>\$ (128,763)</u>	<u>\$ (50,648)</u>	<u>\$ (51,236)</u>

Significant components of income taxes are as follows:

	Year Ended February 28(29),		
	2022	2021	2019
Current:			
Federal	\$ 124	\$ —	\$ —
State and Local	76	37	—
Foreign	202	141	129
Total Current	<u>402</u>	<u>178</u>	<u>129</u>
Deferred:			
Federal	(7,935)	—	—
State and Local	1,941	—	—
Foreign	(47)	(174)	—
Total deferred	<u>(6,041)</u>	<u>(174)</u>	<u>—</u>
Provision (benefit) for income taxes	<u>\$ (5,639)</u>	<u>\$ 4</u>	<u>\$ 129</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),		
	2022	2021	2020
Federal income tax expense at statutory tax rate	21.0 %	21.0 %	21.0 %
State income taxes, net of federal tax benefit	4.5	4.6	7.5
Stock-based compensation	0.8	(0.2)	3.9
Transaction costs	(1.1)	—	(0.2)
Contingent consideration	1.1	—	—
Changes in valuation allowances	(21.9)	(25.4)	(31.4)
Other	—	—	(1.0)
Effective Income Tax Rate	<u>4.4 %</u>	<u>0.0 %</u>	<u>(0.2)%</u>

Income tax (expense) benefit for the fiscal years ended February 28(29), 2022, 2021, and 2020 differ from the U.S. statutory income tax rate primarily due to changes in valuation allowances, state income taxes and stock-based compensation.

The tax benefit for the year ended February 28, 2022 relates to the partial release of the U.S. valuation allowance due to the acquired intangibles of PlushCare. The decrease in the valuation allowance of \$(9,991) is due to the acquisition of PlushCare's stock, whereby the acquired intangible assets have no tax basis. This required the Company to record a deferred tax liability which serves as a source of taxable income to realize the existing deferred tax assets of the Company.

The tax benefit associated with the partial valuation allowance release was offset by a tax expense of \$3,999 that was recorded in the year ended February 28, 2022 related to tax amortization of 2nd.MD goodwill and the change in fair value of contingent consideration associated with the 2nd.MD acquisition. The tax amortization and decrease in the

contingent consideration created a basis difference in book and tax goodwill. Accordingly, a deferred tax liability was recorded with the related income tax expense reflected in earnings.

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, 2022 and 2021 are as follows:

	February 28,	
	2022	2021
Deferred tax assets:		
Net operating loss and tax credit carryforwards	\$ 114,272	\$ 84,879
Other accruals and reserves	5,210	6,107
Stock-based compensation	16,353	871
Deferred rent	—	1,181
Interest expense deduction limitation carryforward	3,082	2,312
Property, plant & equipment	578	523
Other	94	820
Lease liability	10,027	—
Valuation allowance	(125,810)	(96,516)
Deferred tax assets	23,806	177
Deferred tax liabilities:		
Operating lease right-of-use assets	(8,494)	—
Intangibles	(19,091)	(3)
Deferred tax liabilities	(27,585)	(3)
Net deferred taxes	\$ (3,779)	\$ 174

Deferred tax liabilities are included in deferred rent and other noncurrent liabilities on the consolidated balance sheet. Net operating loss carryforwards amounted to \$422,481 and \$307,398 for U.S. federal and \$372,975 and \$283,377 for U.S. states at February 28, 2022 and 2021, respectively. These operating loss carryforwards related to the 2010 through current 2021 tax periods. At February 28, 2022, 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 \$61,088 have an indefinite expiration. In addition to operating loss carryforwards, research and development tax credit carryforwards amounted to \$432 for U.S. federal and U.S. states at February 28, 2022. 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, 2022, the Company did not incorporate a yearly limitation under Section 382 as a recent study has not been completed.

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 in the U.S. As a result, a full valuation allowance has been provided at February 28, 2022 and 2021 for U.S. Federal and state tax purposes. The Company had previously maintained a full valuation allowance associated with its Czech Republic entity that was released in the prior year.

	Year Ending February 28,	
	2022	2021
Balance at the beginning of the period	\$ 96,516	\$ 83,640
Increase due to NOLs and temporary differences	35,287	12,876
Increase due to acquisitions	(5,993)	—
Balance at the end of the period	<u>\$ 125,810</u>	<u>\$ 96,516</u>

The Company has recorded a deferred tax asset of \$3,082 for interest expense limited under the Tax Act at February 28, 2022. 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, 2022 and 2021 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(29), 2022, 2021, and 2020.

(15) 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),		
	2022	2021	2020
Net loss	\$ (123,124)	\$ (50,652)	\$ (51,365)
Net loss per common share, basic and diluted	<u>\$ (1.93)</u>	<u>\$ (1.72)</u>	<u>\$ (9.13)</u>
Weighted-average shares used to compute net loss per common share, basic and diluted	<u>63,823,270</u>	<u>29,370,594</u>	<u>5,626,713</u>

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),		
	2022	2021	2020
Stock options	8,313,513	8,723,769	7,996,056
Unvested restricted stock units	2,226,057	190,713	—
Shares issued to 2nd.MD employees and subject to vesting	326,801	—	—
Shares issued to PlushCare employees and subject to vesting	806,161	—	—
Contingent shares in connection with PlushCare acquisition	102,111	—	—
Indemnity shares held in escrow in connection with PlushCare acquisition	27,342	—	—
Shares to be issued to HealthReveal shareholders upon expiration of indemnification period	28,089	—	—
Common stock warrants	—	—	317,861
Total	<u>11,830,074</u>	<u>8,914,482</u>	<u>8,313,917</u>

(16) Commitments and Contingencies

(a) 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. As of February 28, 2022, the Company had accruals of \$888 related to legal matters.

On May 8, 2021, a purported class action complaint (*Robbins v. PlushCare, Inc. et al.*) was filed in the United States District Court for the Northern District of California against the Company's wholly owned subsidiary, PlushCare, Inc. The complaint alleges that certain of PlushCare's subscription payment practices violate the California Automatic Renewal Law and the Federal Electronic Funds Transfer Act, among other claims, arising from allegations that PlushCare failed to provide adequate disclosures to members. The lawsuit seeks restitution of subscription fees, statutory damages for each violation, subject to trebling, reasonable attorneys' fees, and injunctive relief. Under the terms of the agreement to purchase PlushCare, the selling shareholders will indemnify Accolade for losses related to this matter, subject to a cap. As a loss is probable and can be reasonably estimated, the Company has recorded a contingent liability and corresponding indemnification asset at February 28, 2022.

(b) 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.

(c) Purchase Obligations

The Company has minimum required purchase commitments of \$40,323 pursuant to an agreement primarily related to cloud computing services. Portions of the total purchase commitment are required to be met prior to September 30 in each of the fiscal years 2023 through 2027. As of February 28, 2022, the Company has remaining future purchase commitments under this agreement of \$38,065.

The Company also owes \$735 in future data license fee payments through fiscal 2025 under an agreement with Change Healthcare Holdings which provides various data services to support the Company's product offerings.

(17) 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 and 2020. As of February 28, 2022 and 2021, these entities no longer owned more than 5% of the Company's outstanding stock. Revenues related to this customer were \$27,300 and \$31,556 during the fiscal years ended February 28(29), 2021 and 2020, respectively. There were \$2,325 in accounts receivable outstanding from this customer as of February 28, 2021.