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Emerging Growth Company Practice

Financial statements for startups

March 27, 2020

To our clients and extended network in the startup community,

We are pleased to present *Financial Statements for Startups*, which provides illustrative financial statement examples for CFOs, controllers, and others on the accounting and finance team who are entrusted with the preparation of financial statements. These examples are designed for private companies that are preparing for the first audit of their financial statements prepared in accordance with generally accepted accounting principles in the United States of America (US GAAP). Companies whose US GAAP financial statements are required to meet Securities and Exchange Commission (SEC) report requirements should not use these illustrative examples.

We hope you find these examples beneficial as you prepare your financial statements, and we invite you to learn more about Deloitte's Emerging Growth Company practice and our services for high-growth companies considering an IPO.

To stay current on accounting and financial reporting developments that could affect your business, make sure to subscribe to our Roadmap Series as well as our Heads Up newsletters.

Sincerely,
Heather Gates
Audit & Assurance Managing Director
Emerging Growth Company Practice Leader
Deloitte & Touche LLP

March 27, 2020

This publication presents sample annual financial reports of a fictional, private, emerging growth company, Company, Inc. It illustrates the financial reporting requirements that may apply to such a company under Generally Accepted Accounting Principles in the US (US GAAP) as of August 2019.

The illustrative financial statements contain general information and are not intended to be a substitute for reading the legislation or accounting standards themselves, or for professional judgement as to the adequacy of disclosures and fairness of presentation. The illustrative financial statements do not encompass all possible disclosures required by US GAAP. Depending on the circumstances, further information may be required in order for the fair presentation of the financial statements and compliance with laws and accounting standards.

It is management's responsibility to ensure the financial statements and related footnotes are complete and accurate.

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COMPANY, INC.

[logo]

COMPANY, INC.

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INDEPENDENT AUDITORS' REPORT

To the [Board of Directors / Audit Committee] of
Company, Inc.
Address

___________, 202X

COMPANY, INC.

[CONSOLIDATED] BALANCE SHEETS

	As of December 31,	
	2019	2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$	$
Accounts receivable, net		
Prepaid expenses and other current assets		
Deferred contract costs—current		
Total current assets		
NONCURRENT ASSETS:		
Property and equipment, net		
Capitalized software and intangible assets, net		
Restricted cash		
Deferred contract costs—noncurrent		
Other noncurrent assets		
Total noncurrent assets		
TOTAL ASSETS	$	$
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$	$
Other current liabilities		
Deferred revenue—current		
Total current liabilities		
NONCURRENT LIABILITIES:		
Deferred Rent		
Notes Payable		
Line of Credit		
Other noncurrent liabilities		
Total noncurrent liabilities		
Total liabilities		
COMMITMENTS AND CONTINGENCIES (Note 9)		
STOCKHOLDERS' EQUITY:		
Series A convertible preferred stock, $_____ par value—_____ shares authorized; _____ shares issued and outstanding, (aggregate liquidation value of $_____)		
Series B convertible preferred stock, $_____ par value—_____ shares authorized, issued, and outstanding, (aggregate liquidation value of $_____)		
Series C convertible preferred stock, $_____ par value—_____ shares authorized, issued, and outstanding, (aggregate liquidation value of $_____)		
Common stock $_____ par value—_____ and _____ shares authorized; _____ and _____ shares issued, and _____ and _____ shares outstanding as of XXXX, respectively		
Additional paid-in capital		
Accumulated Other Comprehensive Income (Loss)		
Accumulated deficit		
Total stockholders' equity		
TOTAL		

The accompanying notes are an integral part of these [consolidated] financial statements.

COMPANY, INC.

[CONSOLIDATED] [INCOME STATEMENT] / [STATEMENTS OF OPERATIONS]

	Years ended December 31,	
	2019	2018
Revenue	$	$
Cost of revenue		
Gross profit		
Operating expenses:		
Research and development		
Sales and marketing		
General and administrative		
Total operating expenses		
INCOME (LOSS) FROM OPERATIONS		
OTHER INCOME (EXPENSE):		
Interest income		
Interest expense		
Other expense—net		
Total other expense		
Income (loss) before benefit (provision for) income taxes		
Benefit (provision for) income taxes		
NET INCOME (LOSS)	$	$

The accompanying notes are an integral part of these [consolidated] financial statements.

COMPANY, INC.

[CONSOLIDATED] STATEMENTS OF COMPREHENSIVE INCOME / (LOSS)

	Years ended December 31,	
	2019	2018
Net income (loss)		
Other comprehensive income (loss):		
Foreign currency translation adjustments		
Other comprehensive income (loss):		
Comprehensive income (loss)	$	$

The accompanying notes are an integral part of these [consolidated] financial statements.

COMPANY, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	Convertible Preferred Stock Series A		Convertible Preferred Stock Series B		Convertible Preferred Stock Series C		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Par Value	Shares	Par Value	Shares	Par Value	Shares	Par Value				
BALANCE — December 31, 2017		$		$		$		$	$	$	$	$
Net loss												
Issuance of Series C convertible preferred stock, net of issuance costs of $___												
Issuance of common stock for options exercised												
Stock-based compensation expense												
Other comprehensive income												
BALANCE — December 31, 2018												
Net loss												
Issuance of common stock for options exercised												
Stock-based compensation expense												
Other comprehensive income												
BALANCE — December 31, 2019		$		$		$		$			$	$

The accompanying notes are an integral part of these [consolidated] financial statements.

COMPANY, INC.

[CONSOLIDATED] STATEMENTS OF CASH FLOWS

	Years ended December 31, 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$	$
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization		
Unrealized gain/(loss) on foreign exchange		
Provision for doubtful accounts receivable		
Stock-based compensation		
Change in fair value of warrants		
Amortization of debt discount and debt issuance costs		
Loss on disposal of property and equipment		
Deferred taxes		
Changes in operating assets and liabilities:		
Accounts receivable		
Prepaid expenses and other assets		
Deferred contract costs		
Accounts payable		
Other liabilities		
Deferred rent		
Deferred revenue		
Net cash used in operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment		
Capitalized software development costs		
Net cash used in investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from the issuance of Series C preferred stock		
Preferred stock issuance costs		
Proceeds from issuance of common stock		
Repayment of debt		
Proceeds from issuance of debt (Credit Facility)		
Debt issuance costs (Credit Facility)		
Net cash provided by financing activities		
Effect of exchange rate changes on cash		
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH		
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—Beginning of year		
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—End of year	$	$
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$	$
Cash paid for income taxes	$	$
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Vesting of early exercised options	$	$
Property and equipment financed by accounts payable and accrued expenses	$	$

The accompanying notes are an integral part of these [consolidated] financial statements.

1. DESCRIPTION OF BUSINESS

COMPANY, Inc. (the "Company" or "COMPANY"), was incorporated in [State] in 200X. [The Company is a software-as-a-service ("SaaS") provider of application performance management tools. The Company provides an all-in-one Web application performance tool that lets clients monitor performance from the end-user experience down to the line of application code. The Company's product allows users to manage Web applications deployed in a cloud or in a data center. COMPANY's Web application performance tool enables developers and operations teams to monitor, troubleshoot, and optimize their Web applications. In [Month] 201X, the Company launched a new product allowing clients to monitor mobile applications in addition to Web applications.]

The Company is located and headquartered in [City, State]. Other offices operated by the Company are in [City2, State2 and City3, Province/Country3]. All foreign subsidiaries are wholly owned by the Company. The Company's revenues are derived primarily from operations in the United States.

[**Guidance note:** Refer to (Accounting Standards Codification (ASC) 275 for further guidance on the required disclosures for the Company's Description of Business.]

Risks and Uncertainties—The Company is subject to a number of risks similar to those of other companies of similar size in its industry, including, but not limited to, the need for successful development of products, the need for additional capital (or financing) to fund operating losses (see below), competition from substitute products and services from larger companies, protection of proprietary technology, patent litigation, dependence on key individuals, and risks associated with changes in information technology.

The Company has incurred net losses, and utilized cash in operations since inception, has an accumulated deficit as of December 31, 2019, of $___ , as well as expects to incur future additional losses. The Company has cash available on hand and believes that this cash will be sufficient to fund operations and meet its obligations as they come due within one year from the date these financial statements are issued. In the event that the Company does not achieve revenue anticipated in its current operating plan, management has the ability and commitment to reduce operating expenses as necessary. The Company's long-term success is dependent upon its ability to successfully raise additional capital, market its existing services, increase revenues, and, ultimately, to achieve profitable operations.

The Company's [consolidated] financial statements have been prepared on a going-concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The [consolidated] financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (US GAAP).

[**Guidance note:** Refer to (Accounting Standards Codification (ASC) 205-40, *Presentation of Financial Statements*, if the Company believes there may be substantial doubt about its ability to continue as a going concern, for additional required disclosures which require the Company to state Management concluded that there is substantial doubt about its ability to continue as a going concern.]

[Principals of Consolidation—The consolidated financial statements include the accounts of COMPANY, Inc. and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.]

Use of Estimates—The preparation of financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expense during the reporting period. [e.g. *The most significant estimates relate to the selection of useful lives of property and equipment, capitalization of internally developed software and associated useful lives, acquired intangible assets and associated useful lives, determination of fair value of the Company's common stock and convertible preferred stock, determination of the fair value of stock option grants, and the fair value of the convertible preferred stock warrant]*. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, and makes adjustments when facts and circumstances dictate. These estimates are based on information available as of the date of the financial statements; therefore, actual results could differ from those estimates.

[Foreign Currency—The Company's reporting currency is the US dollar. The functional currency of the Company's foreign subsidiary is the local currency (UK pounds sterling), as it is the monetary unit of account of the principal economic environment in which the Company's foreign subsidiary operates. All assets and liabilities of the foreign subsidiary are translated at the current exchange rate as of the end of the period, and revenue and expenses are translated at average exchange rates in effect during the period. The gain or loss resulting from the process of translating foreign currency financial statements into US dollars is reflected as a foreign currency cumulative translation adjustment and reported as a component of accumulated other comprehensive income (loss). Foreign currency transaction gains and losses resulting from or expected to result from transactions denominated in a currency other than the functional currency are recognized in other income (expense), net in the [consolidated] [income statements] / [statements of operations.]

Comprehensive Income (Loss)—Comprehensive income (loss) consists of two components, net income (loss) and other comprehensive income (loss), net of tax. Other comprehensive income (loss), net of tax, refers to revenue, expenses, gains, and losses that under generally accepted accounting principles are recorded as an element of members' equity but are excluded from net income (loss). The Company's other comprehensive income (loss), net of tax, consists of foreign currency translation adjustments that result from consolidation of its foreign entities.

Cash and Cash Equivalents—The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents. Cash and cash equivalents are recorded at cost, which approximates fair value. As of December 31, 2019 and 2018, cash consists primarily of checking and savings deposits. The Company's cash balances exceed those that are federally insured. To date, the Company has not recognized any losses caused by uninsured balances.

Restricted Cash—The Company classifies all cash whose use is limited by contractual provisions as restricted cash. Restricted cash arises from the requirement for the Company to maintain cash of $___ as collateral for [two] letters of credit in favor of the Company's landlord[s]. The Company may not access these funds until it vacates this office space. The termination date for these leases are [date].

RECONCILIATION OF CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	**2019**	**2018**
Cash and cash equivalents	$ -	$ -
Restricted cash		
Total cash, cash equivalents, and restricted cash	$ -	$ -

[Guidance Note: In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The new guidance requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash

equivalents. Entities will also be required to reconcile such total to amounts on the balance sheet and disclose the nature of the restrictions. ASU 2016-18 is effective for fiscal years beginning after December 15, 2018, and early adoption is permitted.]

Accounts Receivable and Allowance for Doubtful Accounts—Accounts receivable are stated at net realizable value. The majority of customers are not extended credit and therefore time to maturity for receivables is short. On a periodic basis, management evaluates its accounts receivable and determines whether to provide an allowance or if any accounts should be written off based on a past history of write-offs, collections, and current credit conditions. A receivable is considered past due if the Company has not received payments based on agreed-upon terms. The Company generally does not require any security or collateral to support its receivables. The allowance for doubtful accounts was $______ and $______ as of December 31, 2019 and 2018, respectively.

Property and Equipment—Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets. The Company uses an estimated useful life of [two] years for employee-related computers, [three] years for other office equipment and site-related computer hardware and software, and [five] years for furniture. Leasehold improvements are amortized over the shorter of the lease-term or the estimated useful life of the related asset.

Intangible assets—The Company's intangible assets consist primarily of its internally developed software. Intangible assets with finite lives are recorded at their estimated fair value at the date of acquisition and are amortized over their estimated useful lives using the straight-line method. The internally developed software is amortized over a [X]-year useful life.

Debt Issuance Costs—Costs incurred in connection with the issuance of the Company's long-term debt have been recorded as a direct reduction against the debt and amortized over the life of the associated debt as a component of interest expense using the effective interest method.

[**Guidance Note**: After Adoption of ASU 2015-03 (previously ASC 835-30-45-1A), the FASB considered but ultimately decided against providing guidance on the balance sheet presentation of (1) debt issuance costs incurred before the debt liability is recognized (e.g., before the debt proceeds are received) and (2) costs associated with line-of-credit or revolving-debt arrangements. Accordingly, an entity should elect an accounting policy for the presentation of such costs (i.e. as a direct deduction of the liability (a contra- liability) or present remaining unamortized debt issuance costs associated with a line-of-credit or revolving-debt arrangement as an asset even if the entity currently has a recognized debt liability for amounts outstanding under the arrangement.)]

Convertible Preferred Stock Warrant Liability—Freestanding warrants to purchase convertible preferred stock are accounted for as liability awards and recorded at fair value on their initial issuance date and adjusted to fair value at each balance sheet date, with the change in fair value being recorded as a component of other income and expense, which is included within other noncurrent liabilities on the accompanying balance sheets.

Revenue Recognition—In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606),* which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The Company adopted ASU No. 2014-09 and its related amendments (collectively, known as ASC 606, *Revenue from Contracts with Customers)* effective January 1, 2019, using the modified retrospective approach to all contracts not completed at the date of initial application. Adoption of ASC 606 did not impact the timing of revenue recognition in the Company's [consolidated] financial statements for the prior annual periods. Incremental costs to obtaining customer contracts, primarily sales commissions, were capitalized in accordance with the adoption of ASC 606 and resulted in a decrease to accumulated deficit of $___ as of January 1, 2019 and an increase to deferred contract costs and amortization expense of $___ and $___ as of and for the year ended December 31, 2019.

[**Guidance Note:** If the Company applies the standard retrospectively with the cumulative effect recognized at the date of initial application (i.e., using a modified retrospective approach) is required to disclose the following in the fiscal period in which the standard is adopted: (606-10-65-1(h)):

a. Whether the entity has applied the standard to all contracts or only to contracts that are not completed at the date of initial application.
b. The transition practical expedients that have been used: (606-10-65-1(g)(1))
    i. For contracts that were modified before the beginning of the earliest reporting period presented in accordance with the standard disclose that the entity has not retrospectively restated the contract for those modifications in accordance with the contract modification guidance in paragraphs 606-10-25-12 and 25-13. Disclose that the entity instead reflected the aggregate effect of all modifications when identifying the satisfied and unsatisfied performance obligations, determining the transaction price and allocating the transaction price if this practical expedient is used. (606-10-65-1(h), 606-10-65-1(f)(4))
c. To the extent reasonably possible, a qualitative assessment of the estimated effect of applying the expedients listed above should be disclosed. (606-10-65-1(h), 606-10-65-1(g)(2))
d. The amount by which each financial statement line item is affected in the current reporting period by the standard as compared with the guidance that was in effect before the change. (606-10-65-1(i)(1))
e. An explanation of the reasons for significant changes identified in item 22.d. (606-10-65-1(i)(2))

If the Company elects to adopt using the full retrospective approach, all prior periods presented should be recast in accordance with ASC 250 to reflect the adoption of the standard as of the earliest period presented.]

The Company generates its revenues from subscription-based arrangements that allow customers to access its on-demand application service. Subscription fees vary depending on the optional features selected by customers. SaaS arrangements are generally month-to-month or annual, with fixed-fees.

Revenues are recognized when control of the promised goods or services are transferred to a customer in an amount that reflects the consideration that the Company expects to receive in exchange for those services.

The Company applies the following five steps in order to determine the appropriate amount of revenue to be recognized as it fulfills its obligations under each of its arrangements:

- identify the contract with a customer,
- identify the performance obligations in the contract,
- determine the transaction price,
- allocate the transaction price to performance obligations in the contract, and
- recognize revenue as the performance obligation is satisfied.

Under ASC Topic 606, the Company estimates the transaction price, including variable consideration, at the commencement of the contract and recognizes revenue over the contract term, rather than when fees become fixed or determinable.

The services provided by the Company for the subscription-based arrangements are considered stand- ready performance obligations where customers benefit from the services evenly throughout the service period. Revenue is primarily recognized on a ratable basis over the contractual subscription period of the arrangement beginning when or as control of the promised services is transferred to the customer as this reflects the pattern of transfer for these services, which is generally from one to 12 months.

Payment Terms

Our payment terms generally include advance payment requirements through the use of a credit card. The time between a customer’s payment and the receipt of funds is not significant. Our contracts with customers do not result in significant obligations associated with returns, refunds or warranties. Our payment terms are generally fixed and do not include variable revenues.

Deferred Contract Costs – The Company capitalizes commission expenses paid to internal sales personnel that are incremental to obtaining customer contracts. Costs related to the initial signing of contracts are amortized over the average customer life, which has been estimated to be [two] years. The Company determined the period of benefit by taking into consideration the length of terms in its customer contracts, including renewals and extensions. Amounts expected to be recognized within one year of the balance sheet date are recorded as deferred contract costs, current; the remaining portion is recorded as deferred contract costs, non-current in the [consolidated] balance sheet. Amortization expense is included in Sales and Marketing expenses in the [consolidated] statement of operations.

The following table represents a rollforward of the Company's deferred contract costs:

Balance as of January 1, 2019	$
Additions to deferred contract costs	
Amortization of deferred contract costs	
Balance as of December 31, 2019	$

Contract Assets and Contract Liabilities (Deferred Revenue)— A contract asset results when goods or services have been transferred to the customer, but payment is contingent upon a future event, other than the passage of time (i.e. type of unbilled receivable). The Company does not have any material unbilled receivables, therefore, does not have any contract assets. The Company only has accounts receivable as disclosed on the face of our [consolidated] balance sheet.

The Company records contract liabilities to deferred revenue when the Company receives customer payments in advance of the performance obligations being satisfied on the Company's contracts. The Company generally invoices its customers monthly, quarterly, or annually in advance of services being provided. The Contract liability balance as of January 1, 2019 was $____. The Company recognized $_____ of revenue during the fiscal years ended December 31, 2019, from the beginning contract liability balance as of January 1, 2019. Increase in contract liabilities from January 1, 2019 to December 31, 2019 primarily resulted from growth of contracts with new and existing customers. Deferred revenue that will be recognized during the succeeding 12-month period is recorded as short-term deferred revenue and the remaining portion is recorded as long-term deferred revenue, which is included within other noncurrent liabilities on the accompanying balance sheets. Long-term deferred revenue was $_________ and $_________ as of December 31, 2019 and 2018, respectively.

[**Guidance Note:** Transition requirements under ASC 606-10-65-1 for both private and public companies specify that in the year of initial application of ASC 606, entities electing to use the modified retrospective method are <u>required to disclose</u> the impact of changes to financial statement line items as a result of applying ASC 606 (rather than previous U.S. GAAP) and to include an explanation of the reasons for significant changes. In effect, entities will be required to maintain books and records under both the old and the new revenue guidance so that they can provide the required disclosures to the [consolidated] financial statements.]

Cost of Revenue—Cost of revenue consists primarily of hosting costs, merchant and credit card processing fees, depreciation and amortization, consulting costs, and compensation, employee benefits and stock-based compensation of operations and support personnel associated with the delivery of our SaaS products to our customers.

Sales and Marketing—Sales and marketing expenses consist of compensation, employee benefits and stock-based compensation of sales and marketing employees, as well as commissions, travel, trade show sponsorships and events, conferences, and Internet advertising costs. Fees paid to third parties and merchants for new customer referrals are included in sales and marketing. Costs associated with the Company's advertising and are expensed as incurred and are included in sales and marketing expenses. Advertising expense was $______ and $______ for the years ended December 31, 2019 and 2018, respectively.

General and Administrative—General and administrative expenses include compensation, employee benefits, and stock-based compensation for executive management, finance administration and human resources, facility costs (including rent), bad debt costs, professional service fees, and other general overhead costs including depreciation to support our operations.

Research and Development—Research and development costs that do not meet the criteria for capitalization are expensed as incurred. Research and development expenses include compensation, employee benefits, and stock-based compensation for technology developers and product management employees as well as fees paid to outside consultants and the amortization of capitalized software costs for the Company's proprietary technology.

Software Development Costs—The Company capitalizes certain development costs incurred in connection with its internal use software and website. These capitalized costs are primarily related to its performance tool that is hosted by the Company and accessed by its customers via a web application on a subscription basis. Costs incurred in the preliminary stages of development are expensed as incurred. Once an application has reached the development stage, internal and external costs, if direct and incremental, are capitalized until the software is substantially complete and ready for its intended use. Capitalization ceases upon completion of all substantial testing. The Company also capitalizes costs related to specific upgrades and enhancements when it is probable the expenditures will result in additional features and functionality. Maintenance costs are expensed as incurred. Internal use software is amortized on a straight-line basis over its estimated useful life, generally three years. The Company capitalized $_____ and $_____ in internal use software during the years ended December 31, 2019 and 2018, respectively. Included in the 2019 capitalized development costs are $__________ in stock-based compensation costs. Included in the 2018 capitalized development costs are $__________ in stock-based compensation costs. Amortization expense totaled $_____ and $_____ during the years ended December 31, 2019 and 2018, respectively. The net book value of capitalized internal use software at December 31, 2019 and 2018, which is recorded in intangible assets on the accompanying balance sheets, was $_____ and $_____, respectively.

[Alternate disclosure if the Company has not capitalized related costs: The Company has not capitalized any development costs as the Company has not historically maintained sufficiently detailed records of its internal development activity to capitalize such costs.]

Impairment of Long-Lived Assets—The Company assesses long-lived assets for impairment in accordance with the provisions of Financial Accounting Standards Board ASC 360, *Property, Plant and Equipment*. Long-lived assets (asset group), such as property and equipment and capitalized software development costs subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted future cash flows expected to result from the use and eventual disposition of the asset. The amount of impairment loss, if any, is measured as the difference between the carrying value of the asset and its estimated fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary. As of December 31, 2019 and 2018, no impairment charge has been recorded.

Income Taxes—Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded for deferred tax assets if it is more likely than not that some portion or all of the deferred tax assets will not be realized. As of December 31, 2019 and 2018, the Company has recorded a full valuation allowance against its deferred tax assets (see Note 12).

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

The Company records interest related to unrecognized tax benefits in interest expense and penalties in [general and administrative expenses *or* income tax expense].

Stock-Based Compensation—The Company measures and records the expense related to stock-based payment awards based on the fair value of those awards as determined on the date of grant. The Company recognizes stock-based compensation expense over the requisite service period of the individual grant, generally equal to the vesting period and uses the straight-line method to recognize stock-based compensation. For stock options with performance conditions, the Company records compensation expense when it is deemed probable that the performance condition will be met. The Company uses the Black-Scholes-Merton (“Black-Scholes”) option-pricing model to determine the fair value of stock awards. The Company selected the Black-Scholes option-pricing model as the method for determining the estimated fair value for stock options. The Black-Scholes option-pricing model requires the use of highly subjective and complex assumptions, which determine the fair value of share-based awards, including the option’s expected term and the price volatility of the underlying stock. The Company calculates the fair value of options granted by using the Black-Scholes option-pricing model with the following assumptions:

Expected Volatility—The Company estimated volatility for option grants by evaluating the average historical volatility of a peer group of companies for the period immediately preceding the option grant for a term that is approximately equal to the options’ expected term.

Expected Term—The expected term of the Company’s options represents the period that the stock-based awards are expected to be outstanding. The Company has elected to use the midpoint of the stock options vesting term and contractual expiration period to compute the expected term, as the Company does not have sufficient historical information to develop reasonable expectations about future exercise patterns and post-vesting employment termination behavior.

Risk-Free Interest Rate—The risk-free interest rate is based on the implied yield currently available on US Treasury zero-coupon issues with a term that is equal to the options’ expected term at the grant date.

Dividend Yield—The Company has not declared or paid dividends to date and does not anticipate declaring dividends. As such, the dividend yield has been estimated to be zero.

The Company adopted Accounting Standards Update 2016-09, Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”) on [January 1, 2018]. The standard is intended to simplify several areas of accounting for share-based compensation arrangements, including the income tax impact and classification on the statement of cash flows. Upon adoption, the Company elected to record forfeitures as they occur. The Company adopted the guidance in the prior year and the result was immaterial to the consolidated financial statements.

The Company records compensation expense related to stock options issued to nonemployees, including consultants based on the fair value of the stock options calculated using the Black-Scholes option-pricing model over the service performance period as the equity instruments vest. At each reporting date, the Company revalues the fair value and expense related to the unvested portion of such nonemployee awards. As a result, the fair value of options granted to nonemployees is remeasured each reporting period over the options’ respective vesting term and recognized as an expense related to unvested equity instruments over the period the services are rendered.

[**Guidance Note:** In June 2018, the FASB issued ASU No. 2018-07, *Compensation—Stock Compensation (Topic 718): Improvements to Non-employee Share-Based Payment Accounting*. This update expands the scope of ASC 718 to include share-based payments issued to nonemployees for goods or services, aligning the accounting for share-based payments to nonemployees and employees. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, but no earlier than an entity's adoption date of Topic 606. An entity should only remeasure liability-classified awards that have not been settled by the date of adoption and equity-classified awards for which a measurement date has not been established through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. Upon transition, the entity is required to measure these nonemployee awards at fair value as of the adoption date.]

Fair Value Measurements—Fair value accounting is applied for all assets and liabilities and nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Fair value is defined as the exchange price that would be received for an asset or an exit price that would be paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company follows the established framework for measuring fair value and expands disclosures about fair value measurements (see Note 3).

Concentrations of Credit Risk—Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and trade accounts receivable. The Company invests its excess cash in low-risk, highly liquid money market funds and certificates of deposit with a major financial institution.

Significant customers are those which represent more than 10% of the Company's total revenue or gross accounts receivable balance at each balance sheet date. During the years ended December 31, 2019 and 2018, the Company did not have any customers that accounted for 10% or more of total revenue. As of December 31, 2019 and 2018, the Company had one customer that accounted for 10% or more of gross accounts receivable related to a third-party payment processor.

Employee Benefit Plan—The Company sponsors a qualified 401(k) defined contribution plan covering eligible employees. Participants may contribute a portion of their annual compensation limited to a maximum annual amount set by the Internal Revenue Service. There were no employer contributions under this plan for fiscal 2019 and 2018.

Recent Accounting Pronouncements— [Guidance Note: Companies are only required to disclosure those recent accounting pronouncements which could reasonably be expected to be material to the company.]

3. FAIR VALUE MEASUREMENTS

The Company reports all financial assets and liabilities and nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The authoritative guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1—Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2—Inputs are observable, unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities.

Level 3—Inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement in its entirety.

The financial statements as of and for the years ended December 31, 2019 and 2018, do not include any nonrecurring fair value measurements relating to assets or liabilities.

The fair value measurements of assets and liabilities that are measured at fair value on a recurring basis at December 31, 2019, are as follows (in thousands):

	Fair Value Hierarchy		
Year Ended December 31, 2019	Level 1	Level 2	Level 3
Liabilities			
Convertible preferred stock warrants	$	$	$
Total Liabilities	$	$	$

The fair value measurements of assets and liabilities that are measured at fair value on a recurring basis at December 31, 2018, are as follows (in thousands):

	Fair Value Hierarchy		
Year Ended December 31, 2018	Level 1	Level 2	Level 3
Liabilities			
Convertible preferred stock warrants	$	$	$
Total Liabilities			

The Company measures the convertible preferred stock warrants using Level 3 unobservable inputs within either the Black-Scholes option-pricing model. The Company used various key assumptions, such as the fair value of convertible preferred stock, volatility, the risk-free interest rate, and expected term (remaining contractual term of the warrants). The Company monitors the fair value of the convertible preferred stock warrants annually, with subsequent gains and losses from remeasurement of Level 3 financial liabilities recorded through the other expense, net in the [consolidated] [income statement] / [statement of operations]. Generally, increases (decreases) in the fair value of the underlying stock and estimated term would result in a directionally similar impact to the fair value measurement.

A summary of the changes in the fair value of our Level 3 financial instruments at December 31, 2019 and 2018, is as follows (in thousands):

	2019	2018
Balance - beginning of period	$	$
Fair value at issuance		
Change in fair value		
Balance - end of period	$	$

4. PROPERTY AND EQUIPMENT

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

	2019	2018
Computer equipment and software	$	$
Furniture and office equipment		
Leasehold improvements		
Total property and equipment		
Less accumulated depreciation		
Property and equipment—net	$	$

Total depreciation expense for the years ended December 31, 2019 and 2018, was $______ and $_______, respectively.

The Company has not acquired any property and equipment under capital leases.

5. CAPITALIZED SOFTWARE AND INTANGIBLES, NET

Capitalized software and intangibles as of December 31, 2019 and 2018, consisted of the following:

	2019	2018
Capitalized software	$	$
[Other intangible]		
Subtotal		
Less accumulated amortization		
Capitalized software and intangibles—net	$	$

Total amortization expense for capitalized software development costs for the years ended December 31, 2019 and 2018, was $________ and $________, respectively. As of December 31, 2019, expected amortization expense over the remaining intangible asset lives is as follows:

2020	$
2021	
2022	
2023	
2024	
	$

6. OTHER LIABILITIES

Other current liabilities as of December 31, 2019 and 2018, are composed of the following (in thousands):

	2019	2018
Sales tax payable	$	$
Deferred tax liability		
Accrued liabilities		
Deferred rent		
Other payables		
Total other current liabilities	$	$

Other noncurrent liabilities as of December 31, 2019 and 2018, are composed of the following (in thousands):

	2019	2018
Convertible preferred stock warrant liability (Note 9)	$	$
Other		
Total other noncurrent liabilities	$	$

7. COMMITMENTS AND CONTINGENCIES

Leases—The Company leases office spaces under noncancelable operating lease agreements, which expire from 2020 through 2025. The Company is required to pay property taxes, insurance, and normal maintenance costs for certain of these facilities and will be required to pay any increases over the base year of these expenses on the remainder of the Company's facilities.

Deferred Rent—Certain of the Company's operating leases contain predetermined fixed escalations of minimum rentals during the lease term. For these leases, the Company recognizes the related rental expense on a straight-line basis over the life of the lease from the date the Company takes possession of the office and records the difference between amounts charged to operations and amounts paid as deferred rent. As part of its lease agreements, the Company may receive lease incentives, primarily tenant improvement allowances and free rent. These allowances and free rent are also deferred and are amortized as a reduction of rent expense on a straight-line basis over the lease term. As of December 31, 2019 and 2018, $_____ and $_____ , respectively, had been accrued.

Rental expense for operating leases for the years ended December 31, 2019 and 2018, was $_____ and $_____ , respectively.

Future minimum lease payments under noncancelable operating leases as of December 31, 2019, are as follows (in thousands):

Years Ending December 31	Operating Leases
2020	$
2021	
2022	
2023	
2024	
Thereafter	
Total minimum future lease payments	$

[Sales Tax—The Company determined that it was required to pay sales and use tax in various jurisdictions. Accordingly, the Company has recorded a liability of $____ as of December 31, 2019 for the amount it estimates that it did not collect from customers which includes estimated penalties and interest. The Company is in the process of filing voluntary disclosure agreements with certain jurisdictions and remitting the estimated sales tax. If these jurisdictions determine that additional amounts are necessary, the Company will be required to pay accordingly.]

Litigation—From time to time, the Company may become involved in various legal proceedings in the ordinary course of its business and may be subject to third-party infringement claims.

In the normal course of business, the Company may agree to indemnify third parties with whom it enters into contractual relationships, including customers, lessors, and parties to other transactions with the Company, with respect to certain matters. The Company has agreed, under certain conditions, to hold these third parties harmless against specified losses, such as those arising from a breach of representations or covenants, other third-party claims that the Company's products when used for their intended purposes infringe the intellectual property rights of such other third parties, or other claims made against certain parties. It is not possible to determine the maximum potential amount of liability under these indemnification obligations due to the Company's limited history of prior indemnification claims and the unique facts and circumstances that are likely to be involved in each particular claim.

From time to time, the Company is subject to various claims that arise in the ordinary course of business. Management believes that any liability of the Company that may arise out of or with respect to these matters will not materially adversely affect the financial position, results of operations, or cash flows of the Company.

[**Guidance note:** This is not an exhaustive list of potential disclosures. Other items, such as long-term salary agreements, may apply depending upon the materiality of such items.]

8. NOTES PAYABLE

Notes payable as of December 31, 2019 and 2018, consisted of the following:

	2019	2018
Term Loan	$	$
Credit Facility		
Total notes payable	$	$

General—In [March 2016], the Company entered into a loan and security agreement with a bank (the "Lender") which provides a term loan, that may be drawn in the aggregate amount of $______, (the "Term Loan"). The

ability to borrow under the agreement ends on [June 30, 2020]. The loan is to be repaid over a period of [36] months from the date of draw, including interest at [London InterBank Offered Rate ("LIBOR") + 0.75%] per annum.

In [June 2019], the Company entered into a Financing Agreement (the "Credit Facility") to draw up to a facility amount of $______ on or prior to [June 30, 2020]. In accordance with the agreement, $______ was drawn on the date of signing the agreement. The loan was to be repaid over a period of [36] months from the date of draw, including interest at [X]% per annum. The Company incurred $______ of debt issuance costs, which have been recorded as a direct reduction against the debt and amortized over the life of the associated debt as a component of interest expense using the effective interest method. Borrowings under the Term Loan are collateralized by substantially all the assets of the Company.

Covenants—Under the terms of the Credit Facility, the Company is required to comply with certain financial and nonfinancial covenants. Any failure by the Company to comply with these covenants and any other obligations under the agreement could result in an event of default, which allows the Lender to accelerate the repayments of the amounts owed. As of December 31, 2019, the Company is compliant with its financial covenants.

Warrants—Per the Credit Facility Agreement, the Company also issued the Lender a warrant ("Credit Facility Warrant") to purchase [50,000] shares of preferred stock in connection, which is exercisable for a [10-year] period. The initial strike price is $X per share. The Credit Facility Warrant may be exercised in whole or in part prior to i) the later of A) September 30, 2021, or B) three years after the closing of the Company's initial public offering of its common stock effected pursuant to a Registration Statement on Form S-1 filed under the Securities Act of 1933 or ii) immediately prior to the closing of an acquisition in which the issuer has a market cap of at least $______. The Company valued these warrants using a Black-Scholes option-pricing model to estimate the fair value of the warrants at December 31, 2019, which is based on significant inputs not observable in the market representing a Level 3 measurement within the fair value hierarchy based on a 10-year life, volatility of [X]%, and the fair value of the preferred stock at the date of issuance, resulting in a fair value of $_____, which was recorded within equity and as a deferred financing cost offsetting the loan. The deferred financing costs will be amortized into interest expense over the term of the loan.

The Company will be required to repay the following principal amounts in connection with its debt obligations (in thousands):

Years Ending December 31	
2020	$
2021	
2022	
2023	
2024	
Thereafter	
Total	$

9. LINE OF CREDIT

The Company has a revolving line of credit agreement with a bank with an annual interest rate of [X]%. On March 1, 2016, the Company extended the amount of its revolving line of credit with the Bank from up to $______ under the original loan and security agreement dated [February 8, 2013] (the "Line of Credit Agreement"), to up to $______. In connection with the extension, the maturity date of the line of credit was extended from [February 1, 2017, to January 1, 2020], and the Company issued the Bank a warrant to purchase up to [X] shares of the Company's Series B Preferred Stock at an exercise price per share equal to $______ and a term of [10]

years which were fully vested on issuance (the "Line of Credit warrant"). The Line of Credit warrant is classified as a liability in the [consolidated] balance sheet and is remeasured at each reporting date (see Note 3).

Under the terms of the Line of Credit Agreement and subsequent amendments, the Company is required to comply with certain financial and nonfinancial covenants. The terms of the facility also restrict the Company's ability to pay dividends and engage in mergers and acquisitions in the aggregate in excess of $______ during any fiscal year, without prior approval from the Bank. Any failure by the Company to comply with these covenants and any other obligations under the Agreement could result in an event of default, which allows the bank to accelerate the repayments of the amounts owed. As of December 31, 2019, the Company is compliant with its financial covenants.

During 2019, the Company and the bank agreed to utilize a portion of the Company's available Line of Credit to provide security for the letter of credit agreement issued in connection with the new lease relocating its New York headquarters. This reduced the effective available credit facility by $______.

On April 1, 2019, the Company drew down $______ on the Line of Credit.

As of December 31, 2019 and 2018, borrowings of $______ and $_____, respectively, were outstanding. As of December 31, 2018, the Company recorded $______ in interest expense related to the line of credit and $____ in interest expense related to the fair value adjustments and deferred costs associated with the warrants.

10. CONVERTIBLE PREFERRED STOCK

Convertible preferred stock as of December 31, 2019, consisted of the following:

	Shares Authorized	Shares Issued and Outstanding	Issuance Price Per Share	Carrying Value
Series A				
Series B				
Series C				
	$	$		$

The Company's certificate of incorporation, as amended, designates and authorizes the Company to issue __________ shares of preferred stock, of which __________ shares are designated as Series A convertible preferred stock, __________ shares are designated as Series B convertible preferred stock, and __________ shares are designated as Series C convertible preferred stock.

The holders of Series A, Series B, and Series C convertible preferred stock have various rights and preferences as follows:

Voting—Each share of convertible preferred stock has voting rights equal to an equivalent number of shares of common stock into which it is convertible and votes together as one class with the common stock, except as below:

Holders of a majority of the Series A and B preferred stock are entitled to elect, voting as a separate class, one member to the Company's board of directors (the "Board of Directors"). Holders of a majority of Series C preferred stock are entitled to elect one member to the Board of Directors.

Holders of a majority of the common stock are entitled to elect, each voting separately as a class, one member to the Board of Directors.

Holders of common stock and preferred stock are entitled to elect, voting together as a separate class on an as-converted basis, all [six] remaining directors.

Dividends—The holders of Series A, Series B, and Series C preferred stock shall be entitled to receive, out of any funds legally available, noncumulative dividends prior and in preference to any dividends paid on the common stock, at the rate of _____% of the purchase price per share per annum, as adjusted for stock splits, stock dividends, combinations, recapitalizations, and similar transactions, when, as and if declared by the Board of Directors. After payment of such dividends on the Series A, Series B, and Series C preferred stock, any additional dividends or distributions shall be distributed among all holders of Common Stock in proportion to the number of shares of Common Stock that would be held by each such holder if all shares of preferred stock were converted to Common Stock at the then-effective conversion rate. Such dividends are not cumulative. No dividends have been declared or paid on the Company's preferred stock.

Liquidation Preference—In the event of any liquidation, dissolution, or winding-up of the Company, the holders of preferred stock shall be entitled to receive, ratably, prior and in preference to any distribution of the assets or funds of the Company to the holders of the common stock, an amount equal to the issuance price per share of $_____, $_____, and $_____ for Series A, Series B, and Series C, respectively, as adjusted for stock splits, stock dividends, combinations, recapitalizations, and similar transactions, plus any accrued and unpaid dividends and any other declared but unpaid dividends (the "Liquidation Preference"). If the Company has insufficient assets to permit payment of the Liquidation Preference in full to all holders of preferred stock, then the assets of the Company shall be distributed ratably to the holders of preferred stock in proportion to the Liquidation Preference such holders would otherwise be entitled to receive. [If the Company has insufficient assets to permit payment of the Liquidation Preference in full to all holders of preferred stock, then the assets of the Company shall be distributed ratably to the holders of Series C preferred stock. If any assets remain after distribution to holders of Series C preferred stock, then the assets would be distributed ratably to the holders of Series B preferred stock. If any assets remain after distribution to holders of Series C preferred stock and Series B preferred stock, then the assets would be distributed ratably to the holders of Series A preferred stock.]

After payment of the Liquidation Preference to the holders of preferred stock, the remaining assets of the Company shall be distributed ratably to the holders of common stock on a fully converted basis.

Redemption—Series A, Series B, and Series C of convertible preferred stock are not redeemable.

Conversion—Each share of preferred stock is convertible at the option of the holder, at any time after the date of issuance of such share, into shares of common stock as is determined by dividing the original purchase price of preferred stock by the conversion price in effect at the time of conversion for such series of preferred stock. The conversion price per share of Series A, Series B, and Series C convertible preferred stock shall be $_____, $_____, and $_____per share, respectively, as defined by the Company's certificate of incorporation, as amended. As of December 31, 2019 and 2018, the conversion ratio for preferred stock was one-to-one.

Each share of preferred stock will automatically be converted into shares of common stock at the then-effective conversion rate of such shares upon the earlier of (i) the closing of a firm commitment underwritten public offering pursuant to an effective registration statement under the Securities Act of 1933, as amended, covering the offer and sale of common stock of the Company to the public with offering proceeds to the Company in excess of $_____ (net of underwriters' discounts, concessions, commissions, and expenses) or (ii) the consent of holders of at least a majority of the then-outstanding shares of preferred stock, voting together as a single class on an as-converted basis.

11. COMMON STOCK

As of December 31, 2019 the Company had [X] shares of common stock authorized and available to issue for purposes of satisfying conversion of preferred stock, the exercise of warrants, the exercise and future grant of common stock options, and for purposes of any future business acquisitions and transactions as follows:

12. STOCK OPTION PLAN

Stock Option Plans—In February 200X, the Company adopted the COMPANY, Inc., 200X Equity Incentive Plan (the "Plan") pursuant to which the Board of Directors may grant nonstatutory stock options to purchase shares of the Company's common stock to outside directors and consultants and either nonstatutory or incentive stock options to purchase shares of the Company's common stock to employees. The Plan authorizes grants of options up to __________. In December 31, 2019, the Plan was restated to authorize an aggregate of __________ shares and __________ shares, respectively. Stock options must be granted with an exercise price equal to the stock's fair market value at the date of grant. Stock options generally have 10-year terms and vest over a four-year period starting from the date specified in each agreement. On February 1, 2017, the Board of Directors approved to increase the number of shares of the Company's common stock authorized for issuance by [X] shares, from _____shares to ______ shares. At December 31, 2019, there were __________ shares available for the Company to grant under the Plan.

A summary of the status of the employee and nonemployee stock options as of December 31, 2019, and changes during the year then ended is presented below (the number of options represents ordinary shares exercisable in respect thereof):

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value
	(In Thousands, Except per Share Amounts and Terms)			
Balance—December 31, 2018		$		$
Options grants				
Options exercised				
Options canceled/forfeited				
Balance—December 31, 2019				
Exercisable—December 31, 2019				
Vested and expected to vest—December 31, 2019				

The weighted-average grant-date fair value of options granted during the years 2019 and 2018 was $__________ and $__________, respectively. The total intrinsic value of options exercised during the years ended December 31, 2019 and 2018, was $__________ and $_____, respectively.

The Company records compensation expense on a straight-line basis over the vesting period. As of December 31, 2019, total compensation cost not yet recognized related to unvested stock options was $____ , which is expected to be recognized over a weighted-average period of [1.53] years.

Stock-Based Compensation Expense—Employees and Nonemployees—Stock-based compensation expense for both employees and nonemployees was $_____ and $_____ for the years ended December 31, 2019 and 2018, respectively.

The Company capitalized $____ and $____ of stock-based compensation expense as developed software during the fiscal years ended December 31, 2019 and 2018, respectively.

Cost of revenue, research and development, sales and marketing, and general and administrative expenses were as follows (in thousands):

	2019	2018
Stock-based compensation expense:		
Cost of revenue	$	$
Research and development		
Sales and marketing		
General and administrative		
Total stock-based compensation expense	$	$

Employee Stock Options Valuation—The Company estimates the fair value of stock options on the date of grant using the Black-Scholes option-pricing model. The Black-Scholes option-pricing model requires estimates of highly subjective assumptions, which affect the fair value of each stock option. The assumptions used to estimate the fair value of stock options granted during the years ended December 31, 2019 and 2018, are as follows:

	2019	2018
Valuation assumptions:		
Fair value of common stock	$	$
Expected volatility	%	%
Expected term (years)		
Risk-free interest rate	%	%
Expected dividend yield	%	%

Since the Company's stock is not publicly traded, the expected volatility is based on the historical and implied volatility of similar companies whose stock or option prices are publicly available, after considering the industry, stage of life cycle, size, market capitalization, and financial leverage of the other companies. The risk-free interest rate assumption is based on observed U.S. Treasury yield curve interest rates in effect at the time of grant appropriate for the expected term of the stock options granted. As permitted under authoritative guidance, due to the limited amount of option exercises, the Company used the simplified method to compute the expected term for options granted to nonexecutive employees in the years ended December 31, 2019 and 2018. The same methodology was applied to executives for the years ended December 31, 2019 and 2018.

2018 Stock Option Reprice—On [Date], the Board of Directors approved a reduction in the exercise price of eligible current employees' outstanding options to purchase shares of the Company's Common Stock (the "2018 Option Repricing"). The new exercise price per share for each repriced option was $______ and options to purchase [X] shares of the Company's common stock were included in the 2018 Option Repricing. All other terms set forth in original option agreements, including vesting schedules contained therein, remained unchanged. The Company recognized an incremental compensation cost of $____in the 2018 [consolidated] statements of operations as a result of the 2018 Option Repricing.

Stock Options Granted to Nonemployees—Stock-based awards issued to nonemployees are accounted for at fair value and determined using the Black-Scholes option-pricing model. Management believes that the fair value of

the stock options is more reliably measured than the fair value of the services received. The fair value of each nonemployee stock-based compensation award is remeasured each period until a commitment date is reached, which is generally the vesting date. During the years ended December 31, 2019 and 2018, the Company granted __________ shares and __________ shares, respectively, to nonemployee consultants and recorded stock-based compensation expense of $__________ and __________, respectively. Stock-based compensation related to nonemployees was recorded in general and administrative expenses in the Company's [consolidated] statements of operations

The fair value of the nonemployee options was estimated using the Black-Scholes option-pricing model with the following assumptions:

	2019	2018
Valuation assumptions:		
Fair value of common stock	$	$
Expected volatility		
Expected term (years)		
Risk-free interest rate		

Since the Company's stock is not publicly traded, the expected volatility is based on the historical volatility of similar companies whose stock or option prices are publicly available, after considering the industry, stage of life cycle, size, market capitalization, and financial leverage of the other companies. Expected term for nonemployee options represents the contractual term on the valuation date. The risk-free interest rate assumption is based on observed U.S. Treasury yield curve interest rates in effect at the time of grant appropriate for the expected term of the stock options.

13. OTHER EQUITY TRANSACTIONS

Two executives sold ____________ shares of common [preferred] stock at $[3.00] per share to an existing shareholder. The Company recognized $_________ of compensation expense based on the amounts paid in excess of the estimated fair value of the common [preferred] stock.

14. INCOME TAXES

Loss before income taxes for the year ended December 31, 2019 and 2018, are as follows:

	2019	2018
Domestic	$ -	$ -
Foreign		
Total	$ -	$ -

Provision for income taxes for the year ended December 31, 2019 and 2018, consisted of the following:

	2019	2018
Current tax provision:		
Federal	$ -	$ -
Foreign		
State and local		
Total current tax provision	-	-
Deferred tax provision:		
Federal	-	-
Foreign	-	-
State and local	-	-
Total deferred tax provision	-	-
Provision for income taxes	$ -	$ -

Significant components of the Company's deferred taxes as of December 31, 2019 and 2018, are as follows:

	2019	2018
Federal, state, and city net operating loss carryforwards		
Sales and use taxes		
Other temporary differences		
Total deferred tax asset before valuation allowance	-	-
Valuation allowance	-	-
Total deferred tax assets—net of valuation allowance	-	-
Deferred tax liability	-	-
Net deferred tax asset	$ -	$ -

The difference between the provision for income taxes and the income tax determined by applying the statutory federal income tax rate of _____% was due primarily to losses generated in the U.S. where no benefit was recorded due to the valuation allowance. The valuation allowance increased by $_____ and $______ for the years ended December 31, 2019 and 2018, respectively.

At December 31, 2019, the Company had federal net operating loss carryforward of approximately $____ which expires in 20XX, state and local net operating loss carryforward of approximately $______ which expires in 20XX, and foreign net operating loss carryforward of approximately $______ which expires in 20XX.

The utilization of the Company's net operating losses may be subject to a limitation due to the "change in ownership provisions" under Section 382 of the Internal Revenue Code and similar state and foreign provisions. Such limitation may result in the expiration of the net operating loss carryforwards before their utilization.

As of December 31, 2019 and 2018, the total amount of unrecognized tax benefits was $__________ and $__________, respectively, all of which would affect income tax expense, if recognized, before consideration of any valuation allowance. The Company does not expect the unrecognized tax benefits to change significantly over the next 12 months.

The Company recognizes interest and penalties related to unrecognized tax benefits within the [general and administrative *or* income tax expense] line in the statements of operations. Accrued interest and penalties are included within the related tax liability line in the [consolidated] balance sheets. No accrued interest and penalties have been recorded as of December 31, 2019 and 2018.

The Company is subject to income taxes in the U.S. federal jurisdiction, various state jurisdictions as well as the United Kingdom. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. The Company's tax years remain open for examination

by all tax authorities since inception as well as Carryover attributes beginning December 31, 200X, remain open to adjustment by the U.S. and state authorities.

15. RELATED-PARTY TRANSACTIONS

In [20XX], the Company entered in to an agreement with a customer who is an affiliate of a stockholder of the Company for the deployment of the Company's product as further discussed in Note [X]. The Company has recorded revenue of $______ during the year ended December 31, 2019, related to this related party. As of December 31, 2019, accounts receivable of $______ are due from this related party.

In 201X, in connection with the issuance of Series A preferred stock, the Company entered into a preferred stock warrant agreement with the number of shares exercisable based upon the amount of revenue earned from the investor as further discussed in Note [X]. There are no warrants exercisable as of December 31, 201X, and no revenue was earned from this investor during the year ended December 31, 201X.

On [Date], the Company entered into a loan agreement with a director of the Company for a principal amount of $______ related to amounts owed for common stock purchased by the Director. The loan bears interest at a rate of [X]% per annum and is repayable on [Date]. The principal amount of the note is recorded as a reduction of common stock and additional paid-in capital until repaid; the note remains outstanding.

On [Date], the Company sold $______ of convertible notes to a payment processor with whom the Company also conducts business.

16. SUBSEQUENT EVENTS

The Company evaluated subsequent events from December 31, 2019, the date of these [consolidated] financial statements, through __________, 202X, which represents the date the financial statements were [issued or available for issuance], for events requiring recording or disclosure in the financial statements for the year ended December 31, 2019. The Company concluded that no events have occurred that would require recognition or disclosure in the [consolidated] financial statements, [except as described below or in Note [X]].

[Insert subsequent events requiring disclosure here in accordance with ASC 855-10-50]

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