# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

# FORM 8-K/A
# (Amendment No. 1)

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported): January 27, 2020

# K12 Inc.

(Exact name of registrant as specified in its charter)

| Delaware | 001-33883 | 95-4774688 |
|---|---|---|
| (State or other jurisdiction of incorporation) | (Commission File Number) | (I.R.S. Employer Identification No.) |

| 2300 Corporate Park Drive, Herndon, Virginia | 20171 |
|---|---|
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code: (703) 483-7000

Not Applicable

Former name or former address, if changed since last report

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

| **Title of each class** | **Trading Symbol** | **Name of each exchange on which registered** |
|---|---|---|
| Common Stock, $0.0001 par value | LRN | New York Stock Exchange (NYSE) |

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

**Item 2.01. Completion of Acquisition or Disposition of Assets**

This Current Report on Form 8-K/A is filed as an amendment to the Current Report on Form 8-K dated January 27, 2020, filed by K12 Inc. (the "Company") with the Securities and Exchange Commission (the "SEC") disclosing the completion of the acquisition of Galvanize Inc., a Delaware corporation ("Galvanize"). This amendment on Form 8-K/A is being filed to provide financial statements and pro forma financial statements required by Item 9.01 of Form 8-K. No other changes have been made to the initial Form 8-K.

**Item 9.01. Financial Statements and Exhibits**

(a) Financial Statements of Businesses Acquired.

The audited balance sheets of Galvanize as of December 31, 2018 and 2017 and audited statements of operations, changes in preferred stock and stockholders' deficit, and cash flows of Galvanize for each of the two years in the period ended December 31, 2018 and the related footnotes and independent auditors' report of KPMG LLP are filed as Exhibit 99.1 to this Current Report on Form 8-K/A and are incorporated herein by reference. The consent of KPMG LLP, Galvanize's independent auditor, is attached hereto as Exhibit 23.1.

The unaudited balance sheet of Galvanize as of September 30, 2019 and the related unaudited statements of operations, changes in preferred stock and stockholders' deficit, and cash flows of Galvanize for the nine month periods ended September 30, 2019 and 2018, and the related footnotes, are filed as Exhibit 99.2 and are incorporated herein by reference.

(b) Pro Forma Financial Information.

The unaudited pro forma condensed consolidated financial statements of the Company as of and for the six months ended December 31, 2019 and for the fiscal year ended June 30, 2019 and the related footnotes, giving effect to the Galvanize acquisition, are filed as Exhibit 99.3 to this Current Report on Form 8-K/A and are incorporated herein by reference.

(d) Exhibits.

| Exhibit No. | Description |
|---|---|
| 23.1 | Consent of KPMG LLP, independent auditors of Galvanize. |
| 99.1 | Audited balance sheets of Galvanize as of December 31, 2018 and 2017 and audited statements of operations, changes in preferred stock, stockholders' deficit, and cash flows of Galvanize for each of the two years in the period ended December 31, 2018 and the related footnotes and independent auditors' report. |
| 99.2 | Unaudited balance sheet of Galvanize as of September 30, 2019 and the related unaudited statements of operations, changes in preferred stock, stockholders' deficit, and cash flows of Galvanize for the nine month periods ended September 30, 2019 and 2018, and the related footnotes. |
| 99.3 | Unaudited pro forma condensed consolidated financial statements of the Company as of and for the six months ended December 31, 2019 and for the fiscal year ended June 30, 2019 and the related footnotes. |
| 104 | Cover Page Interactive Data File (embedded within the Inline XBRL document). |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

K12 Inc.

Date: April 10, 2020

By: /s/ Vincent W. Mathis
Name: Vincent W. Mathis
Title: Executive Vice President, General Counsel and Secretary

KPMG LLP
Suite 800
1225 17th Street
Denver, CO 80202-5598

**Consent of Independent Auditors**

We consent to the inclusion in the Form 8-K/A of K12 Inc. of our report dated September 24, 2019, except as to Note 2(a), which is as of April 3, 2020, with respect to the consolidated balance sheets of Galvanize, Inc. as of December 31, 2018 and 2017, and the related consolidated statements of operations, changes in preferred stock and stockholders' deficit, and cash flows for the years then ended, and the related notes, which report appears in the Form 8-K/A of K12 Inc. dated April 10, 2020.

/s/ KPMG LLP

Denver, Colorado
April 10, 2020

KPMG LLP is a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

# GALVANIZE, INC.

Consolidated Financial Statements

December 31, 2018 and 2017

(With Independent Auditors' Report Thereon)

**GALVANIZE, INC.**

Table of Contents


| | Page(s) |
|---|---|
| Independent Auditors’ Report | 1 |
| Consolidated Financial Statements: | |
| Consolidated Balance Sheets | 2 |
| Consolidated Statements of Operations | 3 |
| Consolidated Statements of Changes in Preferred Stock and Stockholders’ Deficit | 4 |
| Consolidated Statements of Cash Flows | 5 |
| Notes to Consolidated Financial Statements | 6–33 |

## Independent Auditors' Report

The Board of Directors
Galvanize, Inc.:

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Galvanize, Inc. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations, changes in preferred stock and stockholders' deficit, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

*Management's Responsibility for the Financial Statements*

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

*Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Galvanize, Inc. and its subsidiaries as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

/s/KPMG LLP

Denver, Colorado
September 24, 2019, except as to Note 2(a), which is as of April 3, 2020

**GALVANIZE, INC.**

Consolidated Balance Sheets

December 31, 2018 and 2017

| Assets | 2018 | 2017 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ 10,276,199 | 3,273,044 |
| Accounts receivable, net | 4,682,732 | 3,323,927 |
| Prepaid expenses and other assets | 549,347 | 2,287,072 |
| Total current assets | 15,508,278 | 8,884,043 |
| Property and equipment, net | 20,865,249 | 24,117,818 |
| Intangible assets, net | 2,622,760 | 373,415 |
| Goodwill, net | 15,882,087 | 561,890 |
| Restricted cash | 5,669,871 | 4,637,494 |
| Security Deposits | 901,292 | 829,317 |
| Accounts receivable, noncurrent | 3,922,532 | 1,938,475 |
| Prepaid expenses and other assets, noncurrent | 147,281 | 147,282 |
| Total assets | $ 65,519,350 | 41,489,734 |
| **Liabilities, Redeemable, Convertible Preferred Stock and Stockholders' Deficit** | | |
| Current liabilities: | | |
| Accounts payable | $ 1,176,688 | 1,907,733 |
| Accrued expenses | 1,482,838 | 1,270,016 |
| Current maturities of convertible notes, net of discount | — | 5,350,839 |
| Current maturities of long-term debt | 2,980,755 | 1,001,533 |
| Put option liability related to convertible notes | — | 2,811,475 |
| Deferred revenue | 6,783,231 | 3,776,441 |
| Other current liabilities | 616,085 | 300,205 |
| Total current liabilities | 13,039,597 | 16,418,242 |
| Long-term debt, net of current maturities | 12,057,803 | 9,697,041 |
| Deferred rent, net of current portion | 20,510,020 | 21,488,846 |
| Total liabilities | 45,607,420 | 47,604,129 |
| Redeemable, convertible preferred stock | | |
| Series C convertible preferred stock – $0.000001 par value, 178,299,323 shares authorized; 178,299,310 and 0 shares issued and outstanding, respectively | 54,742,289 | — |
| Series B convertible preferred stock – $0.000001 par value, 21,519,929 shares authorized; 20,884,404 shares issued and outstanding | 53,461,914 | 49,875,784 |
| Series A convertible preferred stock – $0.000001 par value, 18,000,000 shares authorized, issued and outstanding | 24,525,528 | 23,085,616 |
| Series 1 convertible preferred stock – $0.000001 par value, 2,600,000 shares authorized, issued and outstanding | 3,558,554 | 3,350,565 |
| Total redeemable, convertible preferred stock | 136,288,285 | 76,311,965 |
| Stockholders' deficit: | | |
| Common stock – $0.000001 par value, 362,295,980 shares authorized; 24,377,099 and 23,662,503 shares issued and outstanding, respectively | 24 | 24 |
| Accumulated deficit | (116,376,379) | (82,426,384) |
| Total stockholders' deficit | (116,376,355) | (82,426,360) |
| Total liabilities, redeemable, convertible preferred stock and stockholders' deficit | $ 65,519,350 | 41,489,734 |

See accompanying notes to consolidated financial statements.

**GALVANIZE, INC.**

Consolidated Statements of Operations

Years ended December 31, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| Revenues: | | |
| Membership | $ 23,103,503 | 21,450,628 |
| Education | 22,299,174 | 20,823,589 |
| Other | 21,960 | 380,000 |
| Total revenue | 45,424,637 | 42,654,217 |
| Costs and expenses: | | |
| Cost of revenues | 41,166,278 | 41,398,441 |
| Sales and marketing | 3,315,069 | 4,819,227 |
| General and administrative | 16,938,495 | 21,887,116 |
| Impairment and restructuring charges | 838,110 | 4,767,654 |
| Total costs and expenses | 62,257,952 | 72,872,438 |
| Loss from operations | (16,833,315) | (30,218,221) |
| Interest expense, net | (3,148,798) | (1,843,137) |
| Other income (expense) | 795,372 | 162,912 |
| Loss on extinguishment of convertible notes | (5,434,077) | — |
| Net loss | (24,620,818) | (31,898,446) |
| Net loss attributable to noncontrolling interest | — | 123,394 |
| Net loss attributable to Galvanize, Inc. | $ (24,620,818) | (31,775,052) |

See accompanying notes to consolidated financial statements.

## GALVANIZE, INC.

Consolidated Statements of Changes in Preferred Stock and Stockholders' Deficit

Years ended December 31, 2018 and 2017

| | Series C Convertible preferred stock | | Series B Convertible preferred stock | | Series A Convertible preferred stock | | Series 1 Convertible preferred stock | | Stockholders' Deficit | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | Common stock | | Additional paid-in capital | Accumulated deficit | Total stockholders' deficit attributable to Galvanize, Inc. | Noncontrolling Interest | Total stockholders' deficit |
| | Shares | Amount | Shares | Amount | Shares | Amount | Shares | Amount | Shares | Amount | | | | | |
| Balance, December 31, 2016 | — | $ — | 20,884,404 | $ 46,305,406 | 18,000,000 | $ 21,650,551 | 2,600,000 | $ 3,143,277 | 23,479,372 | $ 24 | — | (45,959,855) | (45,959,831) | 123,394 | (45,836,43 |
| Shares issued in connection with: | | | | | | | | | | | | | | | |
| Series B offering costs | — | — | — | (1,603) | — | — | — | — | — | — | — | — | — | — | – |
| Exercise of stock options | — | — | — | — | — | — | — | — | 183,131 | — | 37,009 | — | 37,009 | — | 37,00 |
| Issuance of warrants for common stock | — | — | — | — | — | — | — | — | — | — | 22,260 | — | 22,260 | — | 22,26 |
| Accretion of preferred stock to redemption value | — | — | — | 3,571,981 | — | 1,435,065 | — | 207,288 | — | (522,857) | (4,691,477) | (5,214,334) | — | (5,214,334) | |
| Net loss | — | — | — | — | — | — | — | — | — | — | — | (31,775,052) | (31,775,052) | (123,394) | (31,898,44 |
| Stock-based compensation expense | — | — | — | — | — | — | — | — | — | — | 463,588 | — | 463,588 | — | 463,58 |
| Balance, December 31, 2017 | — | — | 20,884,404 | 49,875,784 | 18,000,000 | 23,085,616 | 2,600,000 | 3,350,565 | 23,662,503 | 24 | — | (82,426,384) | (82,426,360) | — | (82,426,36 |
| Shares issued in connection with: | | | | | | | | | | | | | | | |
| Conversion of convertible notes and embedded put option | 69,824,738 | 20,764,700 | — | — | — | — | — | — | — | — | — | — | — | — | – |
| Series C preferred shares, net of offering costs of $2,770,793 | 108,474,572 | 29,229,207 | — | — | — | — | — | — | — | — | — | — | — | — | – |
| Accretion of preferred stock to redemption value | — | 4,748,382 | — | 3,586,130 | — | 1,439,912 | — | 207,989 | — | — | (653,236) | (9,329,177) | (9,982,413) | — | (9,982,41 |
| Exercise of stock options | — | — | — | — | — | — | — | — | 714,596 | — | 26,714 | — | 26,714 | — | 26,71 |
| Issuance/termination of warrants for common stock | — | — | — | — | — | — | — | — | — | — | 1,623 | — | 1,623 | — | 1,62 |
| Net loss | — | — | — | — | — | — | — | — | — | — | — | (24,620,818) | (24,620,818) | — | (24,620,81 |
| Stock-based compensation expense | — | — | — | — | — | — | — | — | — | — | 624,899 | — | 624,899 | — | 624,89 |
| Balance, December 31, 2018 | 178,299,310 | $ 54,742,289 | 20,884,404 | $ 53,461,914 | 18,000,000 | $ 24,525,528 | 2,600,000 | $ 3,558,554 | 24,377,099 | $ 24 | — | (116,376,379) | (116,376,355) | — | (116,376,35 |

See accompanying notes to consolidated financial statements.

**GALVANIZE, INC.**

Consolidated Statements of Cash Flows

Years ended December 31, 2018 and 2017

| | | 2018 | 2017 |
|---|---|---|---|
| Operating activities: | | | |
| Net loss | $ | (24,620,818) | (31,898,446) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Depreciation expense | | 3,708,025 | 3,254,887 |
| Amortization expense | | 250,655 | 384,166 |
| Amortization of deferred financing costs | | 581,870 | 50,615 |
| Loss on sale of fixed assets and lease terminations | | 838,110 | 789,619 |
| Loss on property, equipment impairments, and restructuring charges | | — | 1,600,467 |
| Impairment of intangible assets | | — | 2,617,500 |
| Impairment of goodwill | | — | 641,580 |
| Allowance for doubtful accounts | | 326,759 | 349,317 |
| Stock-based compensation expense | | 624,899 | 463,588 |
| Interest expense and other charges related to convertible notes | | 1,561,756 | 806,924 |
| Fair value adjustment on embedded derivative | | (819,938) | — |
| Loss on extinguishment of convertible notes | | 5,434,077 | — |
| Interest expense related to issuance of warrants for common stock | | 1,623 | 22,260 |
| Changes in assets and liabilities, net of effects of acquisitions: | | | |
| Accounts receivable | | 2,504,371 | 386,843 |
| Accounts receivable, noncurrent | | (672,013) | (306,095) |
| Prepaid expenses and other assets | | 2,170,622 | (648,969) |
| Security deposits | | 469,491 | 66,579 |
| Prepaid expenses and other assets, noncurrent | | — | (3,750) |
| Accounts payable | | (1,024,771) | 6,712 |
| Accrued expenses | | (265,953) | (102,847) |
| Deferred revenue | | (1,643,210) | (986,819) |
| Other current liabilities | | (113,245) | (84,369) |
| Tenant improvement allowances received | | — | 8,212,938 |
| Deferred rent | | (1,946,562) | 3,544,812 |
| Other long-term liabilities | | — | (300,000) |
| Net cash used in operating activities | | (12,634,252) | (11,132,488) |
| Investing activities: | | | |
| Purchases of property and equipment | | (431,723) | (11,702,762) |
| Proceeds from sale of property and equipment | | 120,000 | — |
| Acquisitions, less cash acquired | | (13,323,611) | — |
| Net cash used in investing activities | | (13,635,334) | (11,702,762) |
| Financing activities: | | | |
| Proceeds from notes payable | | — | 5,000,000 |
| Payments on notes payable | | (698,161) | (613,102) |
| Proceeds from issuance of convertible debt | | 6,284,614 | 7,497,268 |
| Proceeds from issuance of preferred stock | | 32,000,000 | — |
| Issuance costs related to issuance of preferred stock | | (2,770,793) | (1,603) |
| Proceeds from exercise of options | | 26,714 | 37,009 |
| Payments of debt issuance costs | | (537,256) | — |
| Net cash provided by financing activities | | 34,305,118 | 11,919,572 |
| Net (decrease)/increase in cash, cash equivalents, and restricted cash | | 8,035,532 | (10,915,678) |
| Cash, cash equivalents and restricted cash at beginning of period | | 7,910,538 | 18,826,215 |
| Cash, cash equivalents and restricted cash at end of period | $ | 15,946,070 | 7,910,537 |
| Supplemental cash flow information: | | | |
| Cash paid for interest | $ | 1,237,584 | 921,040 |
| Cash paid for income taxes | | — | — |
| Noncash investing and financing activities: | | | |
| Note issued for acquisition of Hack Reactor | $ | 5,000,000 | — |
| Conversion of notes and accrued interest to Series C preferred stock | | 20,764,700 | — |
| Purchase of property and equipment in accounts payable | | — | 480,946 |
| Promissory note due based on lease cancellation | | — | 789,619 |
| Accretion of preferred stock to redemption value | | (9,982,413) | (5,214,334) |

See accompanying notes to consolidated financial statements.

**(1) Business and Organization**

Galvanize, Inc. (the Company, we or our) is a technology-enabled learning community that delivers the education, skills and platform to help people advance in key technical disciplines. Across our urban campuses, we offer a unique combination of education (full-time, part-time, remote and online), workspace and networking:

- Education: we teach courses in software development, data science and data engineering for those looking to enter or advance in tech.
- Workspace: our campuses serve as home base to over 2,200 members building tech-enabled innovations.
- Enterprise: we teach courses in software development, data science and data engineering to employees of our corporate customers in order to gain new skills or improve existing coding skills.
- Networking: we host a wide array of events that foster discussion of trends in business and technology.

As of December 31, 2018, the Company had nine campuses in the following cities: Denver, Boulder, San Francisco, Seattle, Austin, New York, Phoenix, and Los Angeles. During 2018, the Los Angeles campus opened.

The Company was originally formed on January 5, 2012 as a Colorado limited liability company under the name Galvanize, LLC. On May 23, 2014, the Company reorganized as a Delaware corporation under the name Galvanize, Inc. concurrent with the members of Galvanize, LLC exchanging all existing equity interests for stock of Galvanize, Inc. On July 26, 2018, the Company acquired Hack Reactor, a San Francisco-based provider of campus-based and online coding bootcamp programs. See note 3 for additional details regarding the acquisition.

**(2) Summary of Significant Accounting Policies**

***(a) Accounting Policy Changes***

On January 27, 2020, the Company was acquired by K12 Inc. (K12), a publicly traded company, in an all cash transaction of $177.2 million. K12 deemed the acquisition to be significant under S-X Rule 1-02(w) and thus will be including these consolidated financial statements in a Form 8-K as required by S-X Rule 3-05. As such, the Company is no longer deemed to be a private company and must adopt accounting policies applicable to public business entities. The following three accounting policy changes were implemented in these consolidated financial statements using a full retrospective method:

*(i) Goodwill amortization*

Previously, the Company amortized its goodwill over a 10 year period in accordance with an accounting alternative developed by the FASB's Private Company Council. The resulting amortization has been reversed in these consolidating financial statements resulting in the

following adjustments to previously reported amounts as of and for the years ending December 31, 2018 and 2017:

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | As previously reported | Adjustment | As adjusted | As previously reported | Adjustment | As adjusted |
| Goodwill | $ 14,984,090 | 897,997 | 15,882,087 | 383,958 | 177,932 | 561,890 |
| Total assets | 64,621,353 | 897,997 | 65,519,350 | 41,311,802 | 177,932 | 41,489,734 |
| General and administrative expense | 17,658,560 | (720,065) | 16,938,495 | 22,002,117 | (115,001) | 21,887,116 |
| Impairment and restructuring charges | 838,110 | — | 838,110 | 4,543,101 | 224,553 | 4,767,654 |
| Loss from operations | (17,553,380) | 720,065 | (16,833,315) | (30,108,669) | (109,552) | (30,218,221) |
| Net loss | (25,340,883) | 720,065 | (24,620,818) | (31,788,894) | (109,552) | (31,898,446) |

The change in accounting for goodwill amortization did not have an impact on operating, investing or financing cash flows.

*(ii) Preferred stock*

As explained in note 8, the Company's preferred stock is redeemable upon a favorable vote of the holders on the five year anniversary of issuance, which is outside of the Company's control. In accordance with accounting principles generally accepted in the United States of America (US GAAP) applicable to public entities, redeemable preferred stock is required to be classified as temporary equity. In addition, each class of preferred stock is remeasured to its redemption amount at each period end, which is equal to its original issue price plus cumulative dividends whether or not declared by the Company's Board of Directors. These remeasurement adjustments are deemed dividends and are recorded as a reduction in additional paid-in capital. To the extent that the balance of additional paid-in capital is not sufficient to absorb the entire amount of the deemed dividend for the period, the remainder is recorded as an increase to accumulated deficit.

Previously, the Company classified the preferred stock in stockholders' equity (deficit). The balances of preferred stock were reclassified on the balance sheet to temporary equity in these consolidated financial statements. The Company also recorded adjustments to preferred stock, additional paid-in capital and accumulated deficit to account for the increase in the carrying amount of the preferred stock to its redemption amount each period end. These adjustments are depicted as "Accretion of preferred stock to redemption value" in the accompanying consolidated statements of changes in preferred stock and stockholders' deficit. The January 1, 2017 balances were further adjusted as described below.

*(iii) Restricted cash*

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows – Restricted Cash ("ASU 2016-18")*. The amendments in this update require that a 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. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. Adoption is required on a retrospective basis for all periods presented. We retrospectively adopted this standard for the year ended December 31, 2017 and accordingly,

restricted cash has been included along with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the accompanying consolidated statement of cash flows. As a result of retrospectively applying this new accounting standard, cash used in investing activities was impacted as follows:

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | As previously reported | Adjustment | As adjusted | As previously reported | Adjustment | As adjusted |
| Net cash used in investing activities | $ (14,667,711) | 1,032,377 | (13,635,334) | (11,627,756) | (75,006) | (11,702,762) |

Further, as a result of applying the full retrospective method to these accounting changes, redeemable convertible preferred stock, additional paid-in capital, accumulated deficit and total stockholders' equity (deficit) as of January 1, 2017 was adjusted as follows:

| | As previously reported | Adjustment | As adjusted |
|---|---|---|---|
| Series B Redeemable, convertible preferred stock | $ 43,150,747 | 3,154,659 | 46,305,406 |
| Series A Redeemable, convertible preferred stock | 17,286,841 | 4,363,710 | 21,650,551 |
| Series 1 Redeemable, convertible preferred stock | 1,248,000 | 1,895,277 | 3,143,277 |
| Additional paid-in-capital | 3,827,422 | (3,827,422) | — |
| Accumulated deficit | (40,661,115) | (5,298,740) | (45,959,855) |
| Total stockholders' equity (deficit) | 24,975,313 | (70,811,750) | (45,836,437) |

***(b) Liquidity***

To date, the Company has funded its development efforts and operations with cash raised through private placement equity offerings, debt with financial institutions and convertible debt from equity investors. From September 2013 through December 2018, the Company has raised $111.7 million through the issuance of convertible debt, common and preferred stock. The Company has incurred net losses of $97.1 million from inception through December 31, 2018 and has stockholders' deficit of $116.4 million as of December 31, 2018. These conditions raise substantial doubt about the Company's ability to continue as a going concern prior to the consideration of management's plans described below.

Subsequent to December 31, 2018, the Company raised additional financing in the form of $10.0 million in from the issuance of Series C-1 Preferred Stock for cash in September 2019. In addition, the Company has developed a restructuring plan that consists of closing three campuses along with a reduction in force of approximately 50 employees that occurred in June 2019. New campuses will open in two of the locations to continue the education business, but the membership business will not be continued at these locations. The Company has fully exited the current lease in one of the locations and is in current negotiations to sublease the other two locations beginning in January 2020 at rental amounts at least equal to the Company's current obligations under the leases. As a result of the Company's exit or sublease of the three campuses, the Company will gain access to the restricted cash of $4.4 million that collateralized the letters of credit required under these lease

agreements. In addition, the Company has signed a term sheet from one of its lenders that converts the revolving line of credit balance of $3.25 million into a term loan with a maturity date sufficiently past twelve months from the issuance of these financial statements. Each of these events are described in more detail in note 14. The Company believes that its cash on hand and the actions described above will be sufficient to meet the Company's liquidity needs through at least twelve months from the issuance of these financial statements.

The Company's liquidity needs are driven by its development activities and administrative functions necessary to operate the Company. Ultimately, the attainment of profitable operations is dependent upon future events, including market acceptance and demand for its products and services and achieving a level of sales adequate to support the Company's cost structure. The continued execution of the Company's long-term business plan may require the Company to raise additional capital through the issuance of additional Preferred Stock or debt. There can be no assurance that any future financing will be available to the Company at terms acceptable to it or at all.

***(c) Basis of Consolidation***

The consolidated financial statements include the accounts of Galvanize, Inc. and its subsidiaries. All intercompany balances and transactions have been eliminated.

On May 23, 2014, New Engineering University, Inc. (NEU), a Delaware corporation, exchanged all existing equity interests for stock of the Company and as result, NEU became a wholly-owned subsidiary. NEU owns a majority interest of 80% in GalvanizeU-New Haven, LLC (formerly NEU Services LLC), a Delaware limited liability company. As such, the accounts of Galvanize U-New Haven, LLC are consolidated with the accounts of the Company, and the 20% minority interest has been recorded as a noncontrolling interest.

During July 2017, the Company decided to discontinue the accreditation program with the University of New Haven and the Company eliminated the final noncontrolling interest amounts in 2017. See note 4 for additional discussion of the impairment of intangible assets and goodwill related to the program during the year ending December 31, 2017.

***(d) Use of Estimates***

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates and assumptions are used in accounting for, among other things, allowances for uncollectible accounts, the fair value of assets and liabilities acquired as a result of business combinations, useful lives of long-lived assets, the fair value of derivatives embedded in our convertible notes and stock-based compensation. Although these estimates are based on our knowledge of current events and actions we may undertake in the future, actual results may ultimately differ from these estimates and assumptions.

***(e) Cash and Cash Equivalents***

The Company considers all highly liquid investments purchased with a maturity date at acquisition of three months or less to be cash equivalents. All cash equivalents are carried at cost, which approximates fair value. The Company maintains cash balances in accounts in excess of federally insured limits of $250,000. The Company has not experienced any losses related to these balances.

***(f) Restricted Cash***

Cash that is restricted as to withdrawal or use under the terms of certain contractual agreements are recorded in noncurrent assets on our balance sheet. The restricted cash balance of $5,669,871 and $4,637,494 as of December 31, 2018 and 2017, respectively, represents cash pledged as collateral for standby letters of credit issued in connection with lease agreements. See note 6 for additional discussion of the standby letters of credit.

***(g) Accounts Receivable***

The Company's current accounts receivable as of December 31, 2018 and 2017 was $6,063,510 and $3,894,221, respectively, and consisted of membership and education receivables to be received within 12 months. The Company's noncurrent accounts receivables balance as of December 31, 2018 and 2017 was $3,922,532 and $1,938,475, respectively, consisted of education receivables and are typically received in three to five years.

Since November 2014, the Company has entered into arrangements with several lending partners in order to institute tuition loan programs for our students. Under these arrangements, the students enter into the loans directly with the lending partners and the Company is not a party to those lending relationships. Under the arrangements, the lending partner will pay the Company an upfront amount (ranging from 70% to 95%) of the student's loan amount at the start of the program. The lending partners service the loans and retain all interest and fees paid by the students. The remaining (ranging from 30% to 5%) holdback amount is to be paid within 24 to 36 months following the student's completion of the program and successful payback of the loan amount by the students to the lending partners. The holdback amounts represent the total amount at risk associated with the loans. The holdback amounts are included in accounts receivable, noncurrent on the accompanying consolidated balance sheets.

Accounts receivable are stated at the invoiced amount. The carrying amount of accounts receivable is reduced by an allowance for doubtful accounts to reflect management's best estimate of amounts that will not be collected based upon the Company's historical collection experience as well as default information obtained from the Company's lending partners. At December 31, 2018 and 2017, the allowance for doubtful accounts was $1,380,778 and $570,294, respectively.

***(h) Property and Equipment***

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over estimated useful lives of five to seven years. Maintenance and repairs of property and equipment are charged to cost of revenues. All leasehold improvements are capitalized and depreciated using the straight-line method over the shorter of the remaining lease term or the estimated useful life of the assets. Construction in progress is related to the construction or development of leasehold improvements, property and equipment that have not yet been placed in service for our intended use and is included in property and equipment in the consolidated balance sheet.



(Continued)

Property and equipment as of December 31 consisted of the following:

| | Useful life (years) | 2018 | 2017 |
|---|---|---|---|
| Information technology assets | 5–7 | $ 3,933,715 | 3,028,004 |
| Leasehold improvements | Shorter of life or length of lease | 17,203,430 | 17,784,444 |
| Furniture and fixtures | 7 | 8,967,888 | 8,741,774 |
| Total | | 30,105,033 | 29,554,222 |
| Less accumulated depreciation | | 9,239,784 | 5,436,404 |
| Property and equipment, net | | $ 20,865,249 | 24,117,818 |

Depreciation expense for property and equipment was $3,708,025 and $3,254,887 for the years ended December 31, 2018 and 2017, respectively. Depreciation expense is presented in general and administrative expenses in the consolidated statements of operations. The Company did not recognize any impairment losses during the year ended December 31, 2018. During the year ending December 31, 2017, the Company recognized $1,600,467 in impairment charges related to property and equipment which are included in impairment charges on the consolidated statement of operations.

***(i) Business Combinations, Goodwill and Intangible Assets***

The Company allocates the fair value of purchase consideration to tangible assets, liabilities assumed, and intangible assets acquired based on their estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is allocated to goodwill. The allocation of the purchase consideration requires management to make significant estimates and assumptions, especially with respect to intangible assets. These estimates can include, but are not limited to, future expected cash flows from acquired technology, trade names, useful lives and discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. Acquired finite-lived intangible assets are amortized over their estimated useful lives. The Company evaluates the recoverability of intangible assets for possible impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable.



(Continued)

***(j) Impairment of Long-Lived Assets***

Long-lived assets, such as property and equipment, and purchased intangible assets subject to amortization, are reviewed for possible impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. If this evaluation indicates the carrying value will not be recoverable, based on the undiscounted expected future cash flows estimated to be generated by these assets, the Company reduces the carrying amount to the estimated fair value. Long-lived assets are grouped for impairment purposes at the lowest level at which the cash flows attributed to the asset group are independent of the cash flows from other asset groups. Individual assets that are abandoned or otherwise disposed of are written off.

***(k) Leases and Deferred Rent***

The Company recognizes rent expense on a straight-line basis over the term of the lease, taking into account lessor incentives for tenant improvements and periods, including construction periods, where no rent payment is required (rent holidays). The Company recognizes deferred rent as the difference between the expense recognized on a straight-line basis and the payments made per the terms of the lease.

***(l) Revenue Recognition***

*(i) Membership Revenue*

The Company provides monthly membership at each campus ranging from basic desk access to private suites. Membership revenue is recognized on a monthly basis as membership services or products have been provided or delivered, the fees charged are fixed and determinable, persuasive evidence of an arrangement exists, and collectability is reasonably assured. The Company records deferred revenue when cash payments are received in advance of our related membership performance.

*(ii) Education Revenue*

The Company provides a variety of comprehensive instructional programs focused on web and software development and data science. Programs range from three to six months and range in cost depending on length and type of program. Education revenue is recognized ratably over the period in which the related educational instruction is performed, the fees charged are fixed and determinable, persuasive evidence of an arrangement exists, and collectability is reasonably assured. The Company records deferred revenue when cash payments are received in advance of our related education performance.

*(iii) Enterprise Revenue*

The Company provides a variety of comprehensive instructional programs focused on web and software development and data science, tailored to the needs of the business receiving these services and courses. These engagements range from one day to three months and range in cost depending on length, type of instructional program, and number of employees enrolled in the course. Enterprise revenue is recognized ratably over the period in which the related educational instruction is performed and according to the executed contract. The fees charged are fixed and determinable, persuasive evidence of an arrangement exists, and collectability is reasonably


(Continued)

assured based on the executed contract. The Company records deferred revenue when cash payments are received in advance of our related enterprise performance.

*(iv) Other Revenue*

The Company engages strategic partners interested in supporting the Company's growth and learning atmosphere through partnership agreements. The Company provides its strategic partners' employees with access to campuses, members and students. Additionally, strategic partners receive physical and digital signage, as well as the opportunity to host events on the Company's campuses. Revenue is recognized ratably over the term of the agreement as performance on the agreements occur, the fees charged are fixed and determinable, persuasive evidence of an arrangement exists, and collectability is reasonably assured. The Company records deferred revenue when cash payments are received in advance of our related performance. To the extent that contracts are specific regarding the allocation of strategic partnership agreements to either membership and education revenue, revenue from these contracts has been allocated to those revenue categories in the consolidated statements of operations. The remainder of other revenue is representative of revenue contracts that do not include the specificity in regard to the split out between membership and education revenue.

***(m) Cost of Revenues***

Cost of revenues are primarily related to operating lease costs, costs of providing membership amenities, and personnel costs directly attributable to generating revenue. The Company incurred cost of revenues of $41,166,278 and $41,398,441 for the years ended December 31, 2018 and 2017, respectively.

***(n) Sales and Marketing***

Sales and marketing costs are expensed as incurred. The Company incurred promotional and other sales and marketing costs of $3,315,069 and $4,819,227 for the years ended December 31, 2018 and 2017, respectively.

***(o) Income Taxes***

The provision for income taxes is based on earnings reported in the consolidated financial statements. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and for operating loss and tax credit carry-forwards and carry-backs. The change in deferred tax assets and liabilities for the period measures the deferred tax provision or benefit for the period. Effects of changes in enacted tax laws on deferred tax assets and liabilities are reflected as adjustments to the tax provision or benefit in the period of enactment. A valuation allowance is recorded to the extent that management cannot conclude that realization of deferred tax assets is more likely than not.

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. Through 2018, management determined that no uncertain tax positions have been taken or are expected to be taken that could have a material effect on the Company's income tax liabilities. Management's policy for interest and penalties, if assessed, would be accrued as an adjustment to accrued taxes payable and a charge to other expense.

***(p) Stock-Based Compensation***

Compensation expense for all share-based payment awards to employees and directors is measured and recognized based on estimated grant-date fair values and expensed on a straight-line basis over the period that the holder is required to provide services, which is usually the vesting period. The Company determines the grant-date fair value of stock options using the Black-Scholes-Merton option pricing model.

***(q) Fair Value***

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, other current assets, accounts payable, accrued liabilities, warrants, and put options. The carrying values of these financial instruments approximate fair value as of December 31, 2018 and 2017. In general, asset and liability fair values are determined using the following categories:

**Level 1** – inputs utilize quoted prices in active markets for identical assets or liabilities.

**Level 2** – inputs include quoted prices for similar assets or liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

**Level 3** – inputs are unobservable inputs and include situations where there is little, if any, market activity for the balance sheet items at period end. Pricing inputs are unobservable for the terms and are based on the Company's own assumptions about the assumptions that a market participant would use.

The Company's financial instruments, including put options related to convertible debt, are measured at fair value on a recurring basis. The fair value of the outstanding put options as of December 31, 2018 and December 31, 2017 was $0 and $2,811,475, respectively, and was based on unobservable inputs, or Level 3 inputs, using assumptions made by the Company, including the probabilities of various outcomes occurring.

***(r) Commitments and Contingencies***

Liabilities for loss contingencies, arising from claims, assessments, litigation, fines, and penalties and other sources, are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated.

***(s) Advertising Expenses***

Advertising costs are expensed as incurred and amounted to $1,752,480 and $1,710,582 in 2018 and 2017, respectively.



(Continued)

***(t) Recent Accounting Pronouncements***

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those consolidated goods or services. An entity also should disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new standard is effective for the Company for annual periods in fiscal years beginning after December 15, 2018 (as amended in August 2015 by ASU 2015-14, *Deferral of the Effective Date*). The Company will implement the provisions of ASU 2014-09 as of January 1, 2019. The Company has not yet determined the effect of the new standard on its current policies for revenue recognition.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes FASB Accounting Standards Codification Topic 840, *Leases*, and makes other conforming amendments to U.S. generally accepted accounting principles. ASU 2016-02 requires, among other changes to the lease accounting guidance, lessees to recognize most leases on balance sheet via a right of use asset and lease liability, and additional qualitative and quantitative disclosures. ASU 2016-02 is effective for the Company for annual periods in fiscal years beginning after December 15, 2019, permits early adoption, and mandates a modified retrospective transition. The Company is required to adopt ASU 2016-02 on January 1, 2021. The Company is in the process of evaluating the full effect of adopting this accounting standard and expects to record a material amount for the initial right of use asset and lease liability upon adoption.

**(3) Acquisition**

On July 26, 2018, the Company acquired 100% of the stock of Hack Reactor, LLC (Hack Reactor), a San Francisco based competitor for a net purchase price of $22.3 million, consisting of $17.3 million of cash and $5.0 million seller-financed debt to be repaid in equal annual installments of principal and accrued interest on July 25, 2019 and 2020. Interest accrues at 5% per annum. The transaction was accounted for as a business combination. Hack Reactor operated four campuses located in Austin, Los Angeles, New York, and San Francisco, in addition to a remote campus that offered both a part time and online program. The goodwill attributable to the acquisition relates to the anticipated growth in the business from new customers and operational efficiencies expected to result from the increase in the size of the Company’s business.



(Continued)

The Company allocated the purchase price to the assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date, with the excess purchase price allocated to goodwill. The Company retained a third-party valuation specialist to assist with estimating these values. The valuation of the identifiable assets acquired was based upon our estimates and assumptions. The following table represents the aggregate purchase price allocation to the assets acquired and liabilities assumed for the acquisition (in thousands):

| | |
|---|---|
| Consideration: | |
| Cash | $ 17,330 |
| Note payable | 5,000 |
| Fair value of total consideration transferred | $ 22,330 |
| Recognized amounts of identifiable assets acquired and liabilities assumed: | |
| Accounts receivable, current | $ 3,773 |
| Cash | 4,006 |
| Other current assets | 825 |
| Trade name | 2,500 |
| Accounts receivable, long term | 1,227 |
| Property and equipment | 191 |
| Security deposits, long term | 156 |
| Deferred revenue | (4,147) |
| Other current liabilities | (723) |
| Accrued expenses | (621) |
| Deferred rent | (177) |
| Total identifiable net assets acquried | 7,010 |
| Goodwill | 15,320 |
| Total consideration transferred | $ 22,330 |

To determine the value of the tradename, the relief from royalty method of the income approach was utilized. The relief from royalty method measures the economic benefit that may be attributable to a particular asset by using a market based royalty rate as the starting point for quantifying the economic benefit. The value of the tradename is included with intangible assets on our consolidated balance sheets. The purchase price allocation includes an estimate of the fair value of the cost to fulfill the deferred revenue obligations which was determined by estimating the costs to provide the services plus a normal profit margin and did not include any costs associated with marketing efforts.

*Pro-forma Financial Information (Unaudited)*

The pro forma results presented below include the effects of the Hack Reactor acquisition as if the acquisition occurred on January 1, 2017. The pro forma net loss for the years ended December 31, 2018 and 2017 includes the additional amortization resulting from the adjustments to the value of intangible assets resulting from purchase accounting and adjustment to amortized revenue during 2018 and 2017 as a result of the acquisition date valuation of assumed deferred revenue. The pro forma results do not include any anticipated synergies or other expected benefits of the acquisitions. The unaudited pro forma financial

information is not necessarily indicative of either future results of operations or results that might have been achieved had the acquisitions been consummated as of January 1, 2017.

| | Years ended December 31, 2018 | Years ended December 31, 2017 |
|---|---|---|
| Revenues: | | |
| Galvanize | $ 45,424,637 | 42,654,217 |
| Hack Reactor | 12,452,051 | 20,234,258 |
| Total Revenue | $ 57,876,688 | 62,888,475 |
| Net Income (Loss): | | |
| Galvanize | $ (24,620,818) | (31,775,052) |
| Hack Reactor | (5,000) | 1,561,796 |
| Total Net Loss | $ (24,625,818) | (30,213,256) |

## (4) Goodwill and Other Intangible Assets

### *(a) Acquired Intangible Assets*

| | Weighted average amortization period | December 31, 2018 | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|---|
| | | Cost | Accumulated Amortization | Net Book Value | Cost | Accumulated Amortization | Net Book Value |
| Trade names and other | 9.2 years | $ 3,046,541 | (423,781) | 2,622,760 | 546,541 | (239,793) | 306,748 |
| Developed curriculum | 4.0 years | 320,000 | (320,000) | — | 320,000 | (253,333) | 66,667 |
| | | $ 3,366,541 | (743,781) | 2,622,760 | 866,541 | (493,126) | 373,415 |

The Company did not recognize any impairment losses related to intangible assets for the year ended December 31, 2018. In June 2017, the Company decided to discontinue the accreditation program with the University of New Haven relative to a partnership agreement intangible. The Company had net partnership agreement intangible assets of $2,617,500 ($3,490,000 cost and $872,500 of accumulated amortization) that were deemed fully impaired during December 31, 2017, which has been included in impairment charges on the consolidated statement of operations.

Amortization expense of acquired intangible assets was $250,656 and $384,166 for the years ended December 31, 2018 and 2017 respectively. Estimated amortization expense of acquired intangible assets over the next five years is as follows:

| Years ended December 31: | |
|---|---|
| 2019 | $ 318,654 |
| 2020 | 283,654 |
| 2021 | 283,654 |
| 2022 | 283,654 |
| 2023 | 283,654 |

***(b) Goodwill***

Goodwill represents the purchase price in excess of the amounts allocated to tangible and other intangible assets in business combinations. Impairment of goodwill is assessed only upon the occurrence of triggering events and is assessed at the entity level. If triggering events have occurred, the Company will perform an impairment analysis. Based on the review of triggering events, an impairment analysis was necessary for the year ended December 31, 2017, resulting in the impairment of goodwill associated with the Company's acquisition of NEU in 2014 as a result of the Company's decision to discontinue the accreditation program with the University of New Haven. The impairment of $641,580 is included in impairment charges in the consolidated statement of operations for the year ended December 31, 2017.

A reconciliation of the carrying amount of beginning and ending goodwill for the periods presented is as follows:

| | | |
|---|---|---|
| Balance January 1, 2017 | $ | 1,203,470 |
| Impairment recognized | | (641,580) |
| Balance December 31, 2017 | | 561,890 |
| Acquisition of Hack Reactor | | 15,320,197 |
| Balance December 31, 2018 | $ | 15,882,087 |

As of December 31, 2018, the total accumulated goodwill impairment was $641,580.

**(5) Debt**

Long-term debt as of December 31, 2018 and 2017 was comprised of the following:

| | | 2018 | 2017 |
|---|---|---|---|
| Trinity Capital Loans | $ | 8,979,613 | 9,564,452 |
| Hack Reactor Founder Note | | 5,000,000 | — |
| Industrial Development Authority Loan Payable | | 902,141 | 942,500 |
| 242 Linden Note Payable | | 634,620 | 714,052 |
| Total long-term debt | | 15,516,374 | 11,221,004 |
| Less debt issuance costs | | (477,816) | (522,430) |
| Less current maturities | | (2,980,755) | (1,001,533) |
| Long-term debt, net of current maturities | $ | 12,057,803 | 9,697,041 |

***(a) Trinity Capital Loans***

In May, 2016, the Company entered into a loan agreement with Trinity Capital Fund II, L.P. (Trinity Capital) for up to $10,000,000, of which the Company drew $5,000,000 in May 2016 and the remaining $5,000,000 in April 2017. The initial amount borrowed in 2016 bears interest of 12.0% with an interest only period of 12 months, where payments of this interest began in July 2016. Starting July 2017, 30 equal monthly payments of $193,741 for principal and interest became due, with a maturity date of December 1, 2019. The subsequent loan drawn in 2017, bears interest at 12.5% with an interest only period of 12 months. Starting June 2018, 30 equal monthly payments of $194,922 for principal and interest are due with a maturity date of November 1, 2020. There is an end of term payment of 5% due on both of the draws ($500,000 total) that results in additional interest accreted to the loan balance

over the term. This loan is subordinated and has cross-default language with the LSA agreement described in note 6. This loan is secured by all assets of the Company, excluding certain intellectual property, as collateral.

In the event the Company raises additional capital through the sale of capital stock at any time after the date of original agreement through the earlier of (i) eighteen (18) months from the date of original agreement; and (ii) the closing date of Company's next round of equity financing, Trinity Capital shall have the right to purchase stock at the same price and on the same terms as the offered stock is to be sold to the other purchasers of stock up to an aggregate purchase price of $1,000,000. The number of shares available to Trinity Capital is determined by dividing the $1,000,000 purchase price by the price at which the offered stock is sold by the Company. On August 4, 2016, the Company closed its Series B financing. Trinity Capital did not exercise its right to participate in the Company's Series B financing.

On October 31, 2017, the Company entered into a first amendment to the initial and subsequent loans (collectively, the Trinity Capital loans) to defer principal payments for twelve months beginning on October 1, 2017 and ending on September 1, 2018. The amendment also changes the maturity date of the first $5,000,000 draw from December 1, 2019 to December 1, 2020. The maturity date for the second $5,000,000 draw changed from November 1, 2020 to March 1, 2021. The amendment also adjusted the pre-payment premium dates to start as of the date of the amendment. Additionally, there is an executed exit letter agreement signed related to an exit fee, should the Company be sold in the next ten years. If the exit event occurs on a date between the date of the First Amendment and December 31, 2017, the exit fee will be $250,000. If the exit event occurs on a date between January 1, 2018 and March 31, 2018, the exit fee will be $325,000. If the exit event occurs on a date between April 1, 2018 and June 30, 2018, the exit fee will be $400,000. If the exit event occurs on a date between July 1, 2018 and the date this exit fee agreement terminates, the exit fee will be $500,000. The interest rates for both draws remain the same.

On December 31, 2018, the Company entered into a second amendment to the Trinity Capital loans to defer principal payments for twelve months beginning on December 1, 2018 and ending on November 1, 2019. The amendment also changes the maturity date of the first $5,000,000 draw from December 1, 2020 to December 1, 2021. The maturity date for the second $5,000,000 draw changed from March 1, 2021 to March 1, 2022. The amendment also adjusted the pre-payment premium dates to start as of the date of the amendment. The interest rates for both draws remain the same.

Prepayment of the loan on or before the following anniversaries of the closing date of the second amendment is subject to the following prepayment premiums: (i) first anniversary equal to 3% of the outstanding principal balance then outstanding under the Note being prepaid, together with 100% of the end of term payment; (ii) after the first anniversary and on or before the second anniversary equal to 2% of the outstanding principal balance then outstanding under the Note being prepaid, together with 100% of the end of term payment; (iii) after the second anniversary and before the maturity date equal to 1% of the outstanding principal balance then outstanding under the Note being prepaid, together with 100% of the end of term payment.

Interest expense related to Trinity Loan Payable was $1,170,039, and $956,909 for the years ended December 31, 2018 and 2017, respectively.

***(b) Industrial Development Authority Loan Payable (IDA)***

On July 8, 2016, the Company entered into a loan agreement with The Industrial Development Authority of the City of Phoenix for $942,500 of which the Company drew the full $942,500 in July 2016. The loan bears interest of 5.0% per annum until July 2021 and thereafter at the U.S. Treasury Five-Year Constant rate as published by the Federal Reserve in release H.15 plus 325 basis points (3.25%) as of May 3, 2021 (the third Loan Payment Date preceding August 1, 2021). The loan has an interest only period of 24 months. Starting August 2018, 96 equal monthly payments of $11,932 for principal and interest are due, with the final payment occurring in July 2026. The debt is subject to certain financial and administrative covenants that began in 2017, related to its Phoenix campus operations. Pursuant to the collateral agreement, the Company has granted IDA a second priority lien upon its rights under the development agreement, which security interest shall be perfected upon recording of a UCC-1 financing statement. Interest expense related to IDA Loan Payable was $46,790 and $45,417 for the years ended December 31, 2018 and 2017, respectively.

***(c) Note Payable (242 Linden)***

On January 1, 2017, the Company entered into a note payable agreement with 242 Linden, LLC for $789,619 in conjunction with the early cancellation of the Fort Collins, CO campus lease. The Company recorded a loss for this amount which is included in the Impairment charges line in the Statement of Operations during the year ended December 31, 2017. The loan bears interest of 5.0% per annum and matures on July 1, 2025, and principal and interest are due on a monthly basis. Interest expense related to 242 Linden Note Payable was $33,899 and $37,765 for the years ended December 31, 2018 and 2017, respectively.

***(d) Note Payable (Hack Reactor Founders' Notes)***

On July 26, 2018, the Company entered into a note payable with the original founders of Hack Reactor for $5.0 million in conjunction with the acquisition of Hack Reactor. The seller-financed debt bears interest of 5.0% per annum to be repaid in equally annual installments of principal and accrued interest, on July 25, 2019 and 2020. Interest expense was $108,960 and $0 for the years ended December 31, 2018 and 2017, respectively.

As of December 31, 2018, the amounts due under each loan are as follows:

| | Trinity loan payable | IDA loan payable | 242 Linden loan | HR founders' notes | Total |
|---|---|---|---|---|---|
| 2019 | $ 296,903 | 100,356 | 83,496 | 2,500,000 | 2,980,755 |
| 2020 | 3,808,233 | 105,490 | 87,768 | 2,500,000 | 6,501,491 |
| 2021 | 4,301,685 | 110,887 | 92,259 | — | 4,504,831 |
| 2022 | 572,792 | 116,560 | 96,979 | — | 786,331 |
| 2023 | — | 122,524 | 101,940 | — | 224,464 |
| 2024 | — | 128,792 | 107,156 | — | 235,948 |
| 2025 | — | 135,382 | 65,022 | — | 200,404 |
| 2026 | — | 82,150 | — | — | 82,150 |
| Total | $ 8,979,613 | 902,141 | 634,620 | 5,000,000 | 15,516,374 |



(Continued)

**(6) Loan and Security Agreement**

In October, 2014, the Company entered into a Loan and Security Agreement (LSA) with Silicon Valley Bank (SVB). Under the LSA, SVB agreed to issue standby letters of credit related to the Company's lease agreements. For each standby letter of credit issued by SVB, the Company is required to establish a segregated money market account at SVB with a minimum cash balance equal to fifty percent (50%) of the face value of the corresponding standby letter of credit. The Company has pledged to SVB a security interest in the money market accounts as security for the prompt payment of all the Company's obligations with respect to the standby letters of credit. See note 2(e) for additional discussion on the restricted cash balances related to standby letters of credit related to lease agreements. As of December 31, 2018 the Company has $11,017,500 available to be drawn down under existing letters of credit.

On April 10, 2018, the Company amended the existing LSA (fifth amendment) to waive certain defaults and make certain revisions. Under the letter of credit line, the Company agreed to new financial and administrative covenants.

The Company violated the existing LSA (fifth amendment) for the periods ending in April 2018 and May 2018. Specifically, the Company violated the financial covenant requirements to achieve availability equal to or greater than the letter of credit exposure in April 2018 and did not achieve the minimum revenue requirement in May 2018. The Company received a forbearance for the period from April 30, 2018 through August 15, 2018 related to the covenant violation. The Company also violated the LSA under the fifth amendment with SVB for the periods June 2018 through August 2018 because it did not meet the minimum revenue financial covenant requirement. The Company received a forbearance for the period from June 30, 2018 through August 31, 2018 related to the covenant violation. As of December 31, 2018 the company did not meet the financial covenants and amended the existing LSA (eight amendment) to comply.

On July 20, 2018, the Company amended the existing LSA (sixth amendment) to obtain SVB's consent to the acquisition of Hack Reactor and to agree to certain revisions to new financial and administrative covenants.

On November 20, 2018, the Company amended the existing LSA (seventh amendment) to waive certain events of default that occurred under the LSA, extend the maturity date of the LSA, and to agree to certain revisions to new financial and administrative covenants.

On March 4, 2019, the Company's Board of Directors adopted resolutions by unanimous consent to amend the existing LSA (eighth amendment) to extend the maturity date of the LSA to January 31, 2020, and provide a $5,000,000 revolving line of credit with SVB.

See note 14 for additional discussion on the Company's $5,000,000 draw on the SVB revolving line of credit in 2019.

**(7) Convertible Notes**

***(a) 2017***

During the year ended December 31, 2017, the Company issued convertible notes for aggregate cash proceeds of $7,497,268. These convertible notes accrue interest at 8%, mature on December 1, 2018 and can only be prepaid upon the favorable vote of the majority holders. The unpaid principal and accrued interest on the convertible notes are convertible when and if the Company completes a

qualified round of financing into the same class of equity securities offered in the qualified financing at a 20% discount. To qualify, the financing round must be at least $5,000,000. This conversion upon a qualified financing feature essentially provides the holder with a fixed return that is settled in a variable number of shares. As such, it qualified to be accounted for as an embedded derivative, a put liability, at fair value. The put liability is initially recorded as a debt discount and subsequently remeasured at its fair value each period end. The Company estimated the fair value of the put liability based upon the probability of a qualified financing occurring multiplied by the value to be received by the holder (Level 3 inputs). Upon issuance of the convertible notes, this put liability was initially measured at $937,158 and the fair value did not change at December 31, 2017 as management's estimate of the probability of a qualified financing occurring did not change.

The convertible notes also include a provision whereby upon a change in control, the Company would be obligated to pay the holders a premium equal to 100% of the unpaid principal in cash in addition to the outstanding principal and interest accrued to that date. This change in control prepayment provision qualifies as an embedded derivative that was recorded at its fair value as a put liability and debt discount upon issuance, and the put liability will be remeasured to fair value each period end. The Company estimated the fair value of the put liability based upon the probability of a change in control occurring multiplied by the value to be received by the holder (Level 3 inputs). Upon issuance of the convertible notes, this put liability was initially measured at $1,874,317 and the fair value did not change at December 31, 2017 as management's estimate of the probability of a qualified financing did not change.

Finally, the convertible notes include a provision whereby the unpaid principal and accrued interest will automatically convert at maturity into shares of the Company's Series B Preferred Stock at a conversion price of $1.7176 per share if a qualified financing or change in control has not already occurred. As the conversion price is less than the fair value of the Series B Preferred Stock at the issuance date of the convertible notes, a contingent beneficial conversion feature (BCF) exists as a result of issuing the convertible notes. This BCF of $1,109,224 was measured as the difference between the amount paid for the convertible notes and the fair value of the Series B Preferred Stock (a Level 3 measurement) that notes would convert into at maturity. The BCF will be recorded as additional interest expense and an offsetting amount in additional paid-in capital if the convertible notes are converted to Series B Preferred Stock at maturity.

The debt discounts recorded as a result of the put liabilities associated with the qualified financing conversion feature and the change in control prepayment provision totaled $2,811,475 at the issuance of the convertible notes. The total carrying amount of the put liability at December 31, 2017 was $2,811,475.

***(b) 2018***

Between March and June 2018, the Company issued convertible notes with a total principal amount of $13,981,164. Of these notes, $6,284,614 were issued for cash and $7,696,551 were issued upon the conversion of the outstanding principal and unpaid accrued interest of a portion of the convertible notes issued in 2017. The 2018 promissory notes accrue interest at 12%, have a maturity date of five years from issuance, and are convertible to preferred stock at a discounted price as described below.

The notes will be automatically converted upon the next equity financing of not less than $10,000,000 on or before the maturity date or upon an equity financing of not less than $5,000,000 on or before the first anniversary of the issuance date when combined with any asset sale or incremental debt raised on or before the first anniversary which yields aggregate gross proceeds not less than $10,000,000 (Qualified Financing). If there is a Qualified Financing, the Company will automatically issue to the holders a number of shares of preferred stock sold in the Qualified Financing equal to the outstanding principal and unpaid accrued interest divided by the conversion price. The conversion price is equal to the price paid per share for the preferred stock sold in the Qualified Financing multiplied by the discount rate of 70%, which results in a 30% discount.

In the event of an equity financing on or before the maturity date that is not a Qualified Financing, then the holder of each note may elect to convert the outstanding principal and unpaid accrued interest into such equity securities of that financing at a conversion price equal to the price paid per share by the investors of the financing.

In the event of a change of control prior to maturity or conversion thereof, immediately prior to such change of control, the outstanding principal and any unpaid accrued interest on each note shall become immediately due and payable plus a repayment premium equal to 100% of the outstanding principal.

As previously disclosed, a portion of the 2017 convertible notes were cancelled and the Company issued new replacement 2018 convertible notes having the same terms with the exception that the discount on the price per share for the preferred stock issued in a Qualified Financing increased from 20% to 30%. Upon the issuance of the 2018 convertible notes, the Company deemed the probability of a Qualified Financing occurring as highly likely and therefore remeasured the put liability associated with the conversion features in the 2017 convertible notes to fair value, resulting in a gain of $819,938, which has been recorded as other income in the accompanying consolidated statement of operations for the year ended December 31, 2018. Similar to the aforementioned accounting described above for the 2017 convertible notes, the Company measured the initial fair value of the embedded derivative related to the conversion features in the 2018 convertible notes under an assumption that it was highly likely that a Qualified Financing would occur, resulting in an initial put liability value of $5,991,927, which was recorded as a debt discount. This initial put liability value includes the balance related to the 2017 convertible notes that were cancelled and replaced with 2018 convertible notes.

On June 26, 2018, the Company completed a Qualified Financing with the issuance of the Series C Preferred Stock. Immediately prior to the Qualified Financing, the put liability associated with the 2017 and 2018 convertible notes was remeasured to fair value equal to a 100% probability that the Qualified Financing would occur, or $6,019,104. In conjunction with the Qualified Financing, the outstanding principal, unpaid interest and balance of the embedded put liability related to the convertible notes totaling $20,764,700 converted into 69,824,738 shares of Series C Preferred Stock. Upon conversion of the convertible notes to Series C preferred stock, the Company derecognized unamortized debt discount related to the convertible notes issued in 2017 and 2018 and recognized a loss on the extinguishment of the convertible notes of $5,434,077.

Interest expense related to the convertible notes was $1,561,757 and $806,924 for the years ended December 31, 2018 and 2017, respectively, which included the amortization of the debt discount of

$1,047,908 and $665,046, respectively. The unamortized debt discount as of December 31, 2018 and 2017 was $0 and $2,146,429, respectively.

**(8) Preferred Stock**

On July 26, 2018, the Company along with growth equity firm Catalyst Investors and other investors entered into a Series C Preferred Stock Purchase Agreement. The Company agreed to sell and issue 168,129,823 shares of Series C for an aggregate purchase price of $43.4 million comprised of $29.0 million in cash and $14.4 million convertible debt principal and accrued interest. An additional $2.8 million was raised following the initial closing consisting of approximately $165,000 from private investors with the remaining funding from ABS Capital Partners and University Ventures, which were guaranteed under their original commitment letters. The Company agreed to sell and issue an additional 10,169,487 shares of Series C Preferred Stock in those subsequent raises, for a total of 178,299,310 shares issued through the end of 2018.

The Company has authorized 220,419,252 shares of preferred stock, $0.000001 par value per share, of which 178,299,323 are designated as Series C Preferred Stock (Series C), 21,519,929 are designated as Series B Preferred Stock (Series B), 18,000,000 are designated as Series A Preferred Stock (Series A) and 2,600,000 are designated as Series 1 Preferred Stock (Series 1). Collectively, the classes are referred to as Preferred.

Preferred Stock has the following rights:

***(a) Conversion Rights***

Each share of Preferred, at the option of the holder, is convertible, at any time after the date of issuance of such share, into such number of fully paid and nonassessable shares of common stock as is equal to the product obtained by multiplying the Conversion Rate then in effect for such series of Preferred by the number of shares of Preferred being converted. The conversion rate in effect at any time for conversion of the Preferred shall be the quotient obtained by dividing the applicable Original Issue Price of the series of Preferred by the Conversion Price of such series of Preferred. The Conversion Price for the Preferred shall initially be equal to the applicable Original Issue Price of the series of Preferred, which results in a one-for-one conversion rate. Under the terms of the Company's Amended and Restated Certificate of Incorporation (the Certificate), such initial Conversion Price shall be adjusted from time to time for stock splits, combinations, dividends, distributions, reorganizations, mergers, consolidations, or certain dilutive issuances, none of which have occurred since the Company's inception.

Under the terms of the Certificate, each share of Preferred shall automatically be converted into shares of common stock, based on the then-effective Conversion Price, immediately upon the earlier to occur of (a) the closing of a firmly 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 in which the cash proceeds to the Company, net of the underwriting discount and commissions, are at least $100,000,000 and in which the price per share is at least three times the Series C Original Issue Price or (b) the date and time, or the occurrence of an event, specified by affirmative vote or written consent of the holders of a majority of the then outstanding shares of Series A and Series B, the Series B Lead Investor, and the Required Series C Holders, as defined in the certificate.

***(b) Voting***

The holders of Preferred are entitled to vote, together with the holders of common stock, on all matters submitted to stockholders for vote. Each holder of Preferred is entitled to the number of votes on an as if converted to common stock basis. The holders of a majority of the shares of Series C, Series B, and Series A Preferred Stock each are entitled to elect one director of the Corporation.

The Preferred Stock contains certain protective rights that require the written consent or affirmative vote of the holders of (a) a majority of the outstanding shares of Preferred Stock, (b) the Required Series C Holders, and (c) either (i) the holders of a majority of the outstanding shares of Series A Preferred Stock or (ii) the holders of a majority of the outstanding shares of Series B Preferred Stock to effect certain matters. These matters include, but are not limited to, authorizing any additional class of stock, amending the Company's certificate of incorporation or bylaws, authorizing the repurchase of stock or payment of dividends, changing the total number of directors on the Company's board, or affecting an acquisition of, or any interest in, another company.

For as long as any shares of Series A, Series B, or Series C remain outstanding, in addition to any other vote or consent required, the written consent or affirmative vote of the holders of a majority of the then outstanding shares of such series of preferred stock (or, with respect to Series C, the Required Series C Holders) shall be necessary for effecting the following matters: (a) amending the Company's certificate of incorporation or bylaws in a manner that adversely affects the powers, preferences, or rights of such series of preferred stock, (b) changing the number of authorized shares of that such series of preferred stock, and (c) amending any securities junior to such series of preferred stock if such amendments would render the securities senior to the series of preferred stock.

***(c) Dividends***

The holders of Preferred are entitled to receive, when and if declared by the Board of Directors and in preference to the common stock, cumulative cash or in kind Preferred dividends at a rate equal to 10% of the applicable original issuance price per share, per annum for the Series C and 8% of the applicable original issuance price per share, per annum for all other series of Preferred. Dividends with respect to Series C compound annually and do not compound with respect to the other series of Preferred.

***(d) Liquidation Preference***

In the event of a liquidation, dissolution, or winding up of the Company, the proceeds would be distributed to the following classes of preferred stock in the following order. Note that the Series A was split between two classes within the liquidation preference, the first 74% being on par with the Series B (Series A Senior) and the second 26% in a class by itself (Series A Junior).

1) Series C is an amount equal to the greater of (a) the original issuance price of $0.295 per share plus all accrued and unpaid dividends, whether or not declared, or (b) the amount distributable to common stock on an as if converted basis.

2) Series B and Series A Senior in an amount equal to the greater of (a) the original issuance price of $2.147 per share and $1.00 per share, respectively, plus all accrued and unpaid dividends, whether or not declared, or (b) the amount distributable to common stock on an as if converted basis.

3) Series A Junior in an amount equal to the greater of (a) the original issuance price of $1.00 per share plus all accrued and unpaid dividends, whether or not declared, or (b) the amount distributable to common stock on an as if converted basis.

4) Series 1 in an amount equal to the greater of (a) the original issuance price of $1.00 per share plus all accrued and unpaid dividends, whether or not declared, or (b) the amount distributable to common stock on an as if converted basis.

After the payment of the full liquidation preference of Series B, Series A (Senior), Series A (Junior) and Series 1, the remaining assets of the Company will be distributed to the holders of common stock.

The liquidation preference values for each series of preferred stock is equal to the redeemable, convertible preferred stock balances presented in the consolidated balance sheets.

***(e) Redemption***

At any time on or after the 5 year anniversary date of the original issue date with respect to the Series C Preferred Stock, and if the Company has not completed an underwritten public offering or a liquidation event has not occurred, the Series C Preferred Stock is redeemable with written notice from the Series C Holders requesting redemption at a price equal to the greater of (a) the Series C Original Issue Price plus all accrued and unpaid dividends, whether or not declared, and (b) the fair market value of a single share of Series C Preferred Stock as of the date of the redemption request.

Upon receipt of a Series C redemption request, the Company is required to apply all of its assets to the redemption and for no other corporate purposes.

At any time on or after the 5 year anniversary date of the original issue date with respect to the Series C Preferred Stock, and if the Company has not completed an underwritten public offering or a liquidation event has not occurred, the Series B Preferred Stock is redeemable upon the affirmative vote of the majority of the Series B holders including the Series B Lead Investor at a price equal to the greater of (a) the Series B Original Issue Price plus all accrued and unpaid dividends, whether or not declared, and (b) the fair market value of a single share of Series B Preferred Stock as of the date of the redemption request. In addition, the Series A Senior Preferred Stock would be redeemed at a price equal to the greater of (a) the Series A Original Issue Price plus all accrued and unpaid dividends, whether or not declared, and (b) the fair market value of a single share of Series A Preferred Stock as of the redemption request.

Upon receipt of a Series B redemption request, the Company is required to apply all of its assets to the redemption and for no other corporate purpose.

If the Corporation has paid all of the Series C, Series B and Series A Senior redemption requests in full, then if the holders of at least 50% of the then outstanding shares of Series A Preferred Stock, exclusively and as a separate class, provide the Company with written notice requesting redemption, then all outstanding shares of Series A Junior shall be redeemed by the Corporation at a price equal to the Series A Original Issue Price plus any dividends accrued but unpaid.

Upon receipt of the Series A Junior redemption request, the Company is required to apply all of its assets to the redemption and for no other corporate purpose.

## (9) Stock Compensation

In 2014, the Company established the 2014 Stock Plan (the Plan) pursuant to which the Company's Board of Directors may grant stock options to employees and other key individuals who perform services for the Company. To date, the Company has only granted stock options settleable in shares. The Plan authorizes grants to purchase up to 56,306,503 and 20,222,848 shares of authorized but unissued Common shares as of December 31, 2018 and 2017, respectively. Options granted pursuant to the Plan can be granted with an exercise price equal to or greater than the stock's fair value at the date of grant. Options granted pursuant to the Plan generally vest over four years and expire ten years from the date of grant.

At December 31, 2018 and 2017, there were 10,701,686 and 6,235,838 remaining shares available for the Company to grant under the Plan. Forfeited and canceled stock options are returned to the pool of shares available to be granted. The grant-date fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton option pricing model.

The weighted average assumptions for 2018 and 2017 grants are provided in the following table:

| | 2018 | 2017 |
|---|---|---|
| Risk-free interest rate | 2.8 % | 2.1 % |
| Dividend yield | — | — |
| Volatility | 46.6 % | 38.7 % |
| Expected term | 5.9 years | 5.8 years |

### (a) At-The-Money Stock Options

At-the-money stock options represent options to purchase shares granted with an exercise price equal to the stock's fair value at the date of grant.

At-the-money stock option activity during the years ended December 31, 2018 and 2017 was as follows:

| | Number of shares | Weighted average exercise price |
|---|---|---|
| Balance at January 1, 2017 | 7,715,484 | $ 0.29 |
| Granted | 4,692,568 | 0.59 |
| Exercised | (183,131) | 0.20 |
| Forfeited/canceled | (3,284,744) | 0.45 |
| Balance at December 31, 2017 | 8,940,177 | 0.39 |
| Granted | 41,760,673 | 0.16 |
| Exercised | (714,596) | 0.22 |
| Forfeited/canceled | (5,716,190) | 0.31 |
| Balance at December 31, 2018 | 44,270,064 | 0.18 |
| Exercisable at December 31, 2018 | 2,855,879 | 0.38 |

During the years ended December 31, 2018 and 2017, the Company recognized stock-based compensation expense of $624,899 and $463,588, respectively. At December 31, 2018, there was $1,694,022 of total unrecognized compensation cost related to unvested stock options granted under



(Continued)

the Plan. The unrecognized compensation cost as of December 31, 2018 is expected to be recognized over a weighted average period of 1.3 years. The weighted average contractual term of outstanding options as of December 31, 2018, was 9.7 years.

***(b) Growth Incentive Stock Options***

Growth incentive stock options represent options to purchase shares granted with an exercise price greater than the stock's fair value at the date of grant.

Growth incentive stock option activity during the years ended December 31, 2018 and 2017 was as follows:

| | Number of shares | Weighted average exercise price |
|---|---|---|
| Balance at January 1, 2017 | 5,267,076 | $ 10.00 |
| Granted | — | — |
| Exercised | — | — |
| Forfeited/canceled | (1,475,400) | 10.00 |
| Balance at December 31, 2017 | 3,791,676 | 10.00 |
| Granted | — | — |
| Exercised | — | — |
| Forfeited/canceled | (3,791,676) | 10.00 |
| Balance at December 31, 2018 | — | — |
| Exercisable at December 31, 2018 | — | — |

The grant date fair value of these growth incentive stock options was less than $0.01 per option and associated compensation expense was negligible during the years ending December 31, 2018 and 2017.

## (10) Warrants

On May 29, 2017, in exchange for letters of credit extended by certain guarantors dated May 17, 2016, the Company issued warrants to purchase 250,000 shares of common stock at a weighted average exercise price of $1.5735 per share. The warrants expire May 26, 2026. On April 10, 2018, the Company issued warrants to purchase 842,104 shares of common stock at a weighted average exercise price of $0.60 in exchange for providing a $2.4 million backstop to the Company's letter of credit agreement. The warrants expire on March 23, 2028. See notes 3, 6, and 13 for additional discussion on standby letters of credit and guarantor on letter of credit.

The grant-date fair value of each warrant is estimated on the date of grant using the Black-Scholes-Merton option pricing model. During the years ended December 31, 2018 and 2017, the Company recognized expense related to the warrants of $7,973 and $22,260, respectively, as other income (expense) in the consolidated statements of operations.



(Continued)

**(11) Commitments and Contingencies**

*Lease Obligations*

The Company leases office space under various operating leases. The durations of these leases range from 40 months to 16 years. Rent expense was $17,324,612 and $17,190,132 for the years ended December 31, 2018 and 2017, respectively. The following is a schedule of the future minimum lease payments under operating leases as of December 31, 2018:

| | |
|---|---|
| 2019 | $ 19,715,576 |
| 2020 | 19,302,113 |
| 2021 | 19,215,239 |
| 2022 | 19,657,676 |
| 2023 | 19,954,575 |
| Thereafter | 76,561,769 |
| | $ 174,406,948 |

On December 31, 2016, the Company terminated the operating lease in Fort Collins, Colorado. As settlement under the lease termination, the Company paid a termination fee of $789,619 in the form of a promissory note due in monthly installments through 2025. See note 5.

**(12) Income Taxes**

The Company has not recorded any provision for income taxes for federal and state income tax purposes due to the Company incurring cumulative losses since inception.

A reconciliation between the Company's statutory federal income tax rate and the effective tax rate is as follows for the years ended December 31, 2018 and 2017:

| | 2018 | 2017 |
|---|---|---|
| Rate Reconciliation: | | |
| U.S. federal tax at statutory rates | 21.0 % | 34.0 % |
| Permanent items | (2.2) | (0.6) |
| State taxes, net of federal benefit | 3.2 | 3.3 |
| Change in valuation allowance | (16.8) | (12.6) |
| Loss on debt extinguishment | (4.6) | — |
| Impact of federal tax rate reduction | — | (23.1) |
| Other | (0.6) | (1.0) |
| Provision for income taxes | — % | — % |

Deferred tax assets and liabilities consist of the following as of December 31, 2018 and 2017:

| | 2018 | 2017 |
|---|---|---|
| Deferred Tax Assets & Liabilities: | | |
| Deferred tax assets: | | |
| Net operating loss carryforward | $ 13,148 | 9,774 |
| Reserves | 566 | 144 |
| Accrued expenses and other | 683 | 317 |
| Stock-based compensation | 85 | 76 |
| Deferred rent | 5,292 | 5,383 |
| Total deferred tax assets | 19,774 | 15,694 |
| Deferred tax liabilities: | | |
| Property and equipment | (426) | (538) |
| Intangibles | (176) | (77) |
| Basis differences in investments | (392) | (428) |
| Total deferred tax liabilities | (994) | (1,043) |
| Net deferred tax (liability) asset before valuation allowance | 18,780 | 14,651 |
| Valuation allowance | (18,780) | (14,651) |
| Net deferred tax (liability) asset | $ — | — |

The Company has provided a valuation allowance equal to its entire net deferred tax asset balance as of December 31, 2018 and 2017, as management does not believe realization of the deferred tax asset is more likely than not due to the uncertainty of future taxable earnings. The increase in the valuation allowance was approximately $4.1 million in 2018 and $4.0 million in 2017. The Company's net operating loss carryforwards of $37.6 million as of December 31, 2017 expire beginning in 2034. The remaining balance of the Company's net operating loss carryforwards of $14.4 million originating in 2018 have no expiration date. The Internal Revenue Code contains provisions that may limit the net operating loss carryovers available to be used in any year if certain events occur, including significant changes in ownership interest.

On December 22, 2017, the Tax Cuts and Jobs Act (The Act) was signed into law. Among other changes is a permanent reduction in the federal corporate income tax rate from 34% to 21% effective January 1, 2018. As a result of the reduction in the corporate income tax rate, the Company remeasured its deferred tax assets and liabilities, including the valuation allowance, at December 31, 2017. The largest impact was a reduction in the value of the deferred tax assets of approximately $7.3 million, which was offset by a corresponding reduction in the valuation allowance of $7.3 million. Other relevant provisions of the Act that may impact the Company include: (i) allowance for immediate capital expensing of certain qualified property, (ii) limitation on the deduction for net interest expense incurred by a U.S. corporation, (iii) removal of the expiration period for net operating loss carryforwards, and (iv) limiting the annual utilization of net operating loss carryforwards to 80% of taxable income for net operating losses generated in taxable years after December 31, 2017.

The Company has analyzed its filing positions in all significant federal, state and foreign jurisdictions where it is required to file income tax returns, as well as open tax years in these jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local tax examinations by tax authorities for the years prior to 2015, though the NOL carryforwards can be adjusted upon audit and could impact taxes



(Continued)

owed in open tax years. No income tax returns are currently under examination by the taxing authorities. The Company has no unrecognized tax benefits.

**(13) Related-Party Transactions**

***(a) Upslope Venture Fund I, LLC (formerly, Galvanize Venture Fund 1, LLC)***

The Company has made a $50,000 commitment to Galvanize Venture Fund I, LLC. As of December 31, 2018, $44,000 (88%) has been called and paid-in, with the balance of $6,000 (12%) yet to be called.

Effective February 1, 2018, the Company terminated the amended and restated administrative services agreement dated May 23, 2014 with Galvanize Venture Fund I, LLC. The Company earned a management fee from Galvanize Venture Fund I, LLC equal to 2.5% per annum of aggregate capital commitments and received a final payment in the amount of $16,960 for January 2018 management fees. For the year ended December 31, 2017, the company earned $255,000 in management fees. Members of this fund are former executives of the Company and investors in the Company.

***(b) Guarantor on Certain Letter of Credit – Private Investor***

An investor is the guarantor to and has provided a $2,500,000 letter of credit on the Company's behalf related to the Company's San Francisco lease agreement. In February 2014, the Company entered into a letter agreement with this individual, providing that the Company would make reasonable efforts to replace/reduce the letter of credit to $1,250,000 within three years and replace it to zero within five years (from date noted above).

On February 28, 2019, the Company released the private investor from the letter of credit guarantee.

***(c) Guarantor on Certain Letter of Credit – University Ventures***

University Ventures Fund I, L.P. and University Ventures Fund II, L.P. (Investors in the Company) are the guarantors to and have provided letters of credit on the Company's behalf related to several of the Company's letters of credit under the Loan and Security Agreement with SVB. In December 2015 and May 2017, the Company entered into an agreement with University Ventures Fund I, L.P. and University Ventures Fund II L.P., whereby the Company issued additional warrants to purchase shares of Common Stock. On April 10, 2018, the Company issued additional warrants to purchase 421,052 shares of Common Stock at a weighted average exercise price of $0.60 per share. The warrants were issued in exchange for providing a $1.2 million backstop to the Company's letter of credit. The warrants expire on March 23, 2028.

See notes 6, 10 and 14 for additional discussion on standby letters of credit and warrants.

***(d) Guarantor on Certain Letter of Credit – ABS Capital Partners***

ABS Capital Partners (Investors in the Company) are the guarantors to and have provided letters of credit on the Company's behalf related to several of the Company's letters of credit under the Loan and Security Agreement with SVB. On April 10, 2018, the Company entered into an agreement with ABS Capital Partners VII Offshore, L.P. and ABS Capital Partners VII, L.P., whereby the Company issued warrants to purchase 421,052 shares of Common Stock at a weighted average exercise price of $0.60

per share. The warrants were issued in exchange for providing a $1.2 million backstop to the Company's letter of credit. The warrants expire on March 23, 2028.

See notes 6, 10 and 14 for additional discussion on standby letters of credit and warrants.

***(e) Seller Financed Debt – Hack Reactor Founders***

On July 26, 2018, the Company entered into a $5.0 million seller-financed promissory note with the founders of Hack Reactor for the purchase of Hack Reactor. The note is to be repaid in equal annual installments of principal and accrued interest on July 25, 2019 and 2020, Interest accrues at 5% per annum. The principal and accrued interest on the note is subject to specified rights of offset, reduction and forfeiture of amounts owed to Galvanize as a result of indemnification claims. As of February 27, 2019, the amount subject to offset totaled $66,842. One of the Hack Reactor founders is employed by the Company and another Hack Reactor founder provided consulting services as an instructor during 2018.

## (14) Subsequent Events

The Company has evaluated subsequent events from the balance sheet date through September 24, 2019, the date at which the financial statements were available to be issued.

***(a) Loan and Security Agreement***

On February 28, 2019, the Company's letter of credit agreement with SVB, which was entered into in February 2014 and was previously guaranteed by a private investor for the benefit of our San Francisco landlord was amended. The new letter of credit was increased to $3.0 million from $1.5 million.

On April 17, 2019 and May 31, 2019 the Company drew down $2.0 million and $3.0 million, respectively, on the SVB revolving line of credit subject to the terms and conditions of the existing LSA. The debt bears interest of 7.0% per annum and matures on January 31, 2020. Interest is payable monthly in arrears at the end of each month and is computed on the basis of a 360-day year for the actual number of days elapsed.

On September 13, 2019 the Company signed a term sheet to restructure the SVB credit agreement to a 48 month term loan for $3.25 million that accrues interest at the prime rate as published by the Wall Street Journal plus 2%. The term loan has an interest only period through June 30, 2020, at which point principle will be paid in 39 equal monthly payments plus interest through the maturity date of September 30, 2023. At the time of the restructuring the Company had approximately $3.56 million outstanding which was subsequently paid down to $3.25 million. The restructured SVB credit agreement requires the Company to maintain minimum free cash flow levels and a minimum liquidity coverage ratio through the term of the agreement.

***(b) Reduction in Force***

On June 12, 2019, the Company announced a reduction in force eliminating numerous positions across almost all of the Company's locations. The Company determined the amount of the total severance to be approximately $1.3 million, all of which has been paid as of September 24, 2019.

***(c) Campus Closures***

In July 2019 the Company moved its corporate headquarters to its Denver Platte location and ended operations in the Denver Golden Triangle campus. In August 2019 the Company moved its New York campus and discontinued membership and café operations while maintaining its education business in New York.

***(d) Equity Financing***

The Company raised $10.0 million in equity financing from the issuance of Series C-1 Preferred Stock for cash in September 2019. The Series C-1 Preferred Stock contains the same terms as the Series C Preferred Stock described in note 8.

***(e) Hack Reactor Note Conversion***

During September 2019 the holders of the $5.0 million notes from the Hack Reactor acquisition converted $3,250,000 of principle and $185,651 of accrued interest into Series C-1 Preferred Stock. The Company paid $1.5 million plus accrued interest in September 2019 with the remaining principle of $250,000 due July 2020.

Exhibit 99.2

# GALVANIZE, INC.

Unaudited Consolidated Financial Statements

As of September 30, 2019 and December 31, 2018 and for the
Nine Months Ended September 30, 2019 and 2018

(With Independent Auditors’ Review Report Thereon)

**GALVANIZE, INC.**

**Table of Contents**


| | Page(s) |
|---|---|
| Independent Auditors’ Review Report | 1 |
| Unaudited Consolidated Financial Statements: | |
| Unaudited Consolidated Balance Sheets | 2 |
| Unaudited Consolidated Statements of Operations | 3 |
| Unaudited Consolidated Statements of Changes in Preferred Stock and Stockholders’ Deficit | 4 |
| Unaudited Consolidated Statements of Cash Flows | 5 |
| Notes to Unaudited Consolidated Financial Statements | 6–30 |

## Independent Auditors’ Review Report

The Board of Directors
Galvanize, Inc.:

### Report on the Financial Statements

We have reviewed the consolidated financial statements of Galvanize, Inc. and its subsidiaries, which comprise the consolidated balance sheet as of September 30, 2019, and the related consolidated statements of operations, changes in preferred stock and stockholders’ deficit, and cash flows for the nine-month periods ended September 30, 2019 and 2018.

*Management’s Responsibility*

The Company’s management is responsible for the preparation and fair presentation of the financial information in accordance with U.S. generally accepted accounting principles; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with U.S. generally accepted accounting principles.

*Auditors’ Responsibility*

Our responsibility is to conduct our reviews in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

*Conclusion*

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial information referred to above for it to be in accordance with U.S. generally accepted accounting principles.

### Report on Balance Sheet as of December 31, 2018

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet as of December 31, 2018, and the related consolidated statements of operations, changes in preferred stock and stockholders’ deficit, and cash flows for the year then ended (not presented herein); and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated September 24, 2019, except as to Note 2(a), which is as of April 3, 2020. In our opinion, the accompanying consolidated balance sheet of Galvanize, Inc. and its subsidiaries as of December 31, 2018 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

/s/KPMG LLP

Denver, Colorado
April 3, 2020

**GALVANIZE, INC.**

Consolidated Balance Sheets

| Assets | | September 30, 2019 | December 31, 2018 |
|---|---|---|---|
| | | (Unaudited) | |
| Current assets: | | | |
| Cash and cash equivalents | $ | 10,373,378 | 10,276,199 |
| Accounts receivable, net | | 8,074,738 | 4,682,732 |
| Prepaid expenses and other assets | | 676,416 | 549,347 |
| Total current assets | | 19,124,532 | 15,508,278 |
| Property and equipment, net | | 13,202,833 | 20,865,249 |
| Intangible assets, net | | 2,378,520 | 2,622,760 |
| Goodwill, net | | 15,882,087 | 15,882,087 |
| Restricted cash | | 4,326,202 | 5,669,871 |
| Security deposits | | 808,868 | 901,292 |
| Accounts receivable, noncurrent | | 3,548,790 | 3,922,532 |
| Prepaid expenses and other assets, noncurrent | | 143,282 | 147,281 |
| Total assets | $ | 59,415,114 | 65,519,350 |
| **Liabilities, Redeemable, Convertible Preferred Stock and Stockholders' Deficit** | | | |
| Current liabilities: | | | |
| Accounts payable | $ | 2,702,830 | 1,176,688 |
| Accrued expenses | | 601,076 | 1,482,838 |
| Current maturities of long-term debt | | 6,663,288 | 2,980,755 |
| Deferred revenue | | 6,205,177 | 6,783,231 |
| Other current liabilities | | 639,523 | 616,085 |
| Total current liabilities | | 16,811,894 | 13,039,597 |
| Long-term debt, net of current maturities | | 7,174,629 | 12,057,803 |
| Deferred rent | | 10,211,290 | 20,510,020 |
| Total liabilities | | 34,197,813 | 45,607,420 |
| Redeemable, convertible preferred stock: | | | |
| Series C-1 convertible preferred stock – $0.000001 par value, 133,127,132 shares authorized; 112,788,149 and 0 shares issued and outstanding, respectively | | 33,388,321 | — |
| Series C convertible preferred stock – $0.000001 par value, 178,299,310 shares authorized; 178,299,310 shares issued and outstanding | | 58,787,151 | 54,742,289 |
| Series B convertible preferred stock – $0.000001 par value, 21,519,929 shares authorized; 20,884,404 shares issued and outstanding | | 56,145,004 | 53,461,914 |
| Series A convertible preferred stock – $0.000001 par value, 18,000,000 shares authorized, issued and outstanding | | 25,602,676 | 24,525,528 |
| Series 1 convertible preferred stock – $0.000001 par value, 2,600,000 shares authorized, issued and outstanding | | 3,714,144 | 3,558,554 |
| Total redeemable, convertible preferred stock | | 177,637,296 | 136,288,285 |
| Stockholders' deficit: | | | |
| Common stock – $0.000001 par value, 362,295,980 shares authorized; 24,509,393 and 24,377,099 shares issued and outstanding, respectively | | 24 | 24 |
| Accumulated deficit | | (152,420,019) | (116,376,379) |
| Total stockholders' deficit | | (152,419,995) | (116,376,355) |
| Total liabilities, redeemable, convertible preferred stock and stockholders' deficit | $ | 59,415,114 | 65,519,350 |

See accompanying notes to unaudited consolidated financial statements.

**GALVANIZE, INC.**

Unaudited Consolidated Statements of Operations

| | Nine months ended September 30 | |
|---|---|---|
| | **2019** | **2018** |
| Revenues: | | |
| Membership | $ 15,704,957 | 17,350,819 |
| Education | 22,520,137 | 15,315,236 |
| Other | — | 21,960 |
| Total revenue | 38,225,094 | 32,688,015 |
| Costs and expenses: | | |
| Cost of revenues | 34,834,867 | 29,346,631 |
| Sales and marketing | 3,374,622 | 2,623,083 |
| General and administrative | 9,694,024 | 11,259,833 |
| Lease abandonment (gain) loss and other | (2,918,310) | 171,748 |
| Total costs and expenses | 44,985,203 | 43,401,295 |
| Loss from operations | (6,760,109) | (10,713,280) |
| Interest expense, net | (1,192,336) | (2,498,160) |
| Other income (expense) | (335,850) | 840,245 |
| Loss on extinguishment of convertible notes | — | (5,434,077) |
| Net loss | $ (8,288,295) | (17,805,272) |

See accompanying notes to unaudited consolidated financial statements.

**GALVANIZE, INC.**

Unaudited Consolidated Statements of Changes in Preferred Stock and Stockholders' Deficit

| | Series C-1 Convertible preferred stock | | Series C Convertible preferred stock | | Series B Convertible preferred stock | | Series A Convertible preferred stock | | Series 1 Convertible preferred stock | | Stockholders' Deficit | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | Common stock | | Additional paid-in capital | Accumulated deficit | Total stockholders' deficit |
| | Shares | Amount | Shares | Amount | Shares | Amount | Shares | Amount | Shares | Amount | Shares | Amount | | | |
| Balance, December 31, 2017 | — | $ — | — | $ — | 20,884,404 | $ 49,875,784 | 18,000,000 | $ 23,085,616 | 2,600,000 | $ 3,350,565 | 23,662,503 | $ 24 | — | (82,426,384) | (82,426,360) |
| Shares issued in connection with: | | | | | | | | | | | | | | | |
| Conversion of convertible notes and embedded put options | — | — | 69,824,738 | 20,764,700 | — | — | — | — | — | — | — | — | — | — | — |
| Issuance of Series C preferred shares, net of offering costs of $757,670 | — | — | 98,864,306 | 28,407,301 | — | — | — | — | — | — | — | — | — | — | — |
| Accretion of preferred stock to redemption value | — | — | — | 1,453,547 | — | 2,682,808 | — | 1,077,152 | — | 155,591 | — | — | (494,752) | (4,874,346) | (5,369,098) |
| Exercise of stock options | — | — | — | — | — | — | — | — | — | — | 714,596 | — | 24,454 | — | 24,454 |
| Issuance/termination of warrants for common stock | — | — | — | — | — | — | — | — | — | — | — | — | 1,623 | — | 1,623 |
| Net loss | — | — | — | — | — | — | — | — | — | — | — | — | — | (17,805,272) | (17,805,272) |
| Stock-based compensation expense | — | — | — | — | — | — | — | — | — | — | — | — | 468,675 | — | 468,675 |
| Balance, September 30, 2018 | — | $ — | 168,689,044 | $ 50,625,548 | 20,884,404 | $ 52,558,592 | 18,000,000 | $ 24,162,768 | 2,600,000 | $ 3,506,156 | 24,377,099 | $ 24 | — | (105,106,002) | (105,105,978) |
| Balance, December 31, 2018 | — | $ — | 178,299,310 | $ 54,742,289 | 20,884,404 | $ 53,461,914 | 18,000,000 | $ 24,525,528 | 2,600,000 | $ 3,558,554 | 24,377,099 | $ 24 | — | (116,376,379) | (116,376,355) |
| Shares issued in connection with: | | | | | | | | | | | | | | | |
| Conversion of Hack Reactor notes | 26,087,649 | 3,435,651 | — | — | — | — | — | — | — | — | — | — | — | — | — |
| Issuance of Series C-1 preferred shares, net of offering costs of $68,940 | 86,700,500 | 9,931,060 | — | — | — | — | — | — | — | — | — | — | — | — | — |
| Accretion of preferred stock to redemption value | — | 20,021,610 | — | 4,044,862 | — | 2,683,090 | — | 1,077,148 | — | 155,590 | — | — | (226,955) | (27,755,345) | (27,982,300) |
| Exercise of stock options | — | — | — | — | — | — | — | — | — | — | 132,294 | — | 17,353 | — | 17,353 |
| Net loss | — | — | — | — | — | — | — | — | — | — | — | — | — | (8,288,295) | (8,288,295) |
| Stock-based compensation expense | — | — | — | — | — | — | — | — | — | — | — | — | 209,602 | — | 209,602 |
| Balance, September 30, 2019 | 112,788,149 | $ 33,388,321 | 178,299,310 | $ 58,787,151 | 20,884,404 | $ 56,145,004 | 18,000,000 | $ 25,602,676 | 2,600,000 | $ 3,714,144 | 24,509,393 | $ 24 | — | (152,420,019) | (152,419,995) |

See accompanying notes to unaudited consolidated financial statements.

**GALVANIZE, INC.**

Unaudited Consolidated Statements of Cash Flows

| | Nine months ended September 30 | |
|---|---|---|
| | **2019** | **2018** |
| Operating activities: | | |
| *Net loss* | *$ (8,288,295)* | *(17,805,272)* |
| Adjustments: | | |
| Depreciation expense | 2,700,587 | 2,621,730 |
| Amortization expense | 244,240 | 116,741 |
| Amortization of debt issuance costs | 327,718 | 399,015 |
| Lease abandonment (gain) loss and other | (2,918,310) | 171,748 |
| Allowance for doubtful accounts | 157,947 | (25,596) |
| Stock-based compensation expense | 209,602 | 468,675 |
| Interest expense and other charges related to convertible notes | — | 1,561,756 |
| Fair value adjustment on embedded derivative | — | (819,938) |
| Loss on extinguishment of convertible notes | — | 5,434,077 |
| Noncash expense related to issuance of warrants for common stock | — | 1,623 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (3,549,953) | 786,013 |
| Accounts receivable, noncurrent | 373,742 | 861,984 |
| Prepaid expenses and other assets | (127,069) | 2,133,398 |
| Security deposits | 92,424 | 68,052 |
| Prepaid expenses and other assets, noncurrent | 3,999 | (4,000) |
| Accounts payable | 650,062 | (1,430,071) |
| Accrued expenses | (696,111) | 225,976 |
| Deferred revenue | (578,054) | (1,099,304) |
| Other current liabilities | 46,876 | (645,158) |
| Deferred rent | (1,396,571) | (1,018,260) |
| Net cash used in operating activities | (12,747,166) | (7,996,811) |
| Investing activities: | | |
| Purchases of property and equipment | (169,378) | (234,152) |
| Proceeds from disposition of property and equipment | — | 120,000 |
| Acquisitions, less cash acquired | — | (13,323,611) |
| Net cash used in investing activities | (169,378) | (13,437,763) |
| Financing activities: | | |
| Proceeds from notes payable | 5,000,000 | — |
| Payments on notes payable | (3,076,557) | (75,244) |
| Proceeds from issuance of convertible debt | — | 6,284,614 |
| Proceeds from issuance of preferred stock | 10,000,000 | 29,164,971 |
| Issuance costs related to issuance of preferred stock | (68,940) | (757,670) |
| Proceeds from exercise of options | 17,353 | 24,454 |
| Payment of debt issuance costs | (201,802) | (411,182) |
| Net cash provided by financing activities | 11,670,054 | 34,229,943 |
| Net (decrease)/increase in cash, cash equivalents, and restricted cash | (1,246,490) | 12,795,369 |
| Cash, cash equivalents, and restricted cash at beginning of period | 15,946,070 | 7,910,538 |
| Cash, cash equivalents, and restricted cash at end of period | $ 14,699,580 | 20,705,907 |
| Supplemental cash flow information: | | |
| Cash paid for interest | $ 1,194,937 | 933,672 |
| Noncash investing and financing activities: | | |
| Accretion of preferred stock to redemption value | $ 27,982,300 | 5,369,098 |
| Notes issued for acquisition of Hack Reactor | — | 5,000,000 |
| Conversion of Hack Reactor notes to Series C-1 Preferred Stock | 3,435,651 | — |

See accompanying notes to unaudited consolidated financial statements.

**(1) Business and Organization**

Galvanize, Inc. (the Company, we or our) is a technology-enabled learning community that delivers the education, skills and platform to help people advance in key technical disciplines. Across our urban campuses, we offer a unique combination of education (full-time, part-time, remote and online), workspace and networking:

- Education: we teach courses in software development, data science and data engineering for those looking to enter or advance in tech.
- Workspace: our campuses serve as home base to over 2,200 members building tech-enabled innovations.
- Enterprise: we teach courses in software development, data science and data engineering to employees of our corporate customers in order to gain new skills or improve existing coding skills.
- Networking: we host a wide array of events that foster discussion of trends in business and technology.

As of September 30, 2019, the Company had nine campuses in the following cities: Denver, Boulder, San Francisco, Seattle, Austin, New York, Phoenix, and Los Angeles. During 2018, the Los Angeles campus opened.

The Company was originally formed on January 5, 2012 as a Colorado limited liability company under the name Galvanize, LLC. On May 23, 2014, the Company reorganized as a Delaware corporation under the name Galvanize, Inc. concurrent with the members of Galvanize, LLC exchanging all existing equity interests for stock of Galvanize, Inc. On July 26, 2018, the Company acquired Hack Reactor, a San Francisco-based provider of campus-based and online coding bootcamp programs. See note 3 for additional details regarding the acquisition.

**(2) Summary of Significant Accounting Policies**

***(a) Liquidity***

On January 27, 2020, the Company was acquired by K-12 Inc. (K-12) for $165.0 million in cash. Up until the date of the acquisition by K-12, the Company had funded its development efforts and operations with cash raised through private placement equity offerings, debt with financial institutions and convertible debt from equity investors. From September 2013 through September 2019, the Company has raised $127.9 million through the issuance of convertible debt, common and preferred stock. The Company has incurred net losses of $105.0 million from inception through September 30, 2019 and has a stockholders' deficit of $152.4 million as of September 30, 2019.

The Company's liquidity needs are driven by its development activities and administrative functions necessary to operate the Company. Ultimately, the attainment of profitable operations is dependent upon future events, including market acceptance and demand for its products and services and achieving a level of sales adequate to support the Company's cost structure. The Company's liquidity needs will be met by its parent company, K-12, after the acquisition.

***(b) Basis of Presentation***

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). The unaudited

interim financial statements have been prepared on the same basis as the annual financial statements, and in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the Company's financial position and results of operations for the periods presented. The consolidated balance sheet as of December 31, 2018 included herein was derived from the audited consolidated financial statements as of that date. These unaudited consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements.

The consolidated financial statements include the accounts of Galvanize, Inc. and its subsidiaries. All intercompany balances and transactions have been eliminated.

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

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates and assumptions are used in accounting for, among other things, allowances for uncollectible accounts, the fair value of assets and liabilities acquired as a result of business combinations, useful lives of long-lived assets, the fair value of derivatives embedded in our convertible notes and stock-based compensation. Although these estimates are based on our knowledge of current events and actions we may undertake in the future, actual results may ultimately differ from these estimates and assumptions.

***(d) Cash and Cash Equivalents***

The Company considers all highly liquid investments purchased with a maturity date at acquisition of three months or less to be cash equivalents. All cash equivalents are carried at cost, which approximates fair value. The Company maintains cash balances in accounts in excess of federally insured limits of $250,000. The Company has not experienced any losses related to these balances.

***(e) Restricted Cash***

Cash that is restricted as to withdrawal or use under the terms of certain contractual agreements are recorded in noncurrent assets on our balance sheet. The restricted cash balance of $4,326,202 and $5,669,871 as of September 30, 2019 and December 31, 2018, respectively, represents cash pledged as collateral for standby letters of credit issued in connection with lease agreements. See note 5 for additional discussion of the standby letters of credit.

***(f) Accounts Receivable***

The Company's current accounts receivable as of September 30, 2019 and December 31, 2018 was $8,074,738 and $4,682,732, respectively, and consisted of membership and education receivables to be received within 12 months. The Company's noncurrent accounts receivables balance as of September 30, 2019 and December 31, 2018 was $3,548,790 and $3,922,532, respectively, and consisted of education receivables that are typically received in three to five years.

Since November 2014, the Company has entered into arrangements with several lending partners in order to institute tuition loan programs for our students. Under these arrangements, the students enter into the loans directly with the lending partners and the Company is not a party to those lending relationships. Under the arrangements, the lending partner will pay the Company an upfront amount

(ranging from 70% to 95%) of the student's loan amount at the start of the program. The lending partners service the loans and retain all interest and fees paid by the students. The remaining (ranging from 30% to 5%) holdback amount is to be paid within 24 to 36 months following the student's completion of the program and successful payback of the loan amount by the students to the lending partners. The holdback amounts represent the total amount at risk associated with the loans. The holdback amounts are included in accounts receivable, noncurrent on the accompanying consolidated balance sheets.

Accounts receivable are stated at the invoiced amount. The carrying amount of accounts receivable is reduced by an allowance for doubtful accounts to reflect management's best estimate of amounts that will not be collected based upon the Company's historical collection experience as well as default information obtained from the Company's lending partners. At September 30, 2019 and December 31, 2018, the allowance for doubtful accounts was $1,461,542 and $1,380,778, respectively.

***(g) Property and Equipment***

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over estimated useful lives of five to seven years. Maintenance and repairs of property and equipment are charged to cost of revenues. All leasehold improvements are capitalized and depreciated using the straight-line method over the shorter of the remaining lease term or the estimated useful life of the assets. Construction in progress is related to the construction or development of leasehold improvements, property and equipment that have not yet been placed in service for our intended use and is included in property and equipment in the consolidated balance sheet.

Property and equipment as of September 30, 2019 and December 31, 2018 consisted of the following:

| | Useful life (years) | September 30, 2019 | December 31, 2018 |
|---|---|---|---|
| Information technology assets | 5–7 | $ 3,324,332 | 3,933,715 |
| Leasehold improvements | Shorter of life or length of lease | 10,904,765 | 17,203,430 |
| Furniture and fixtures | 7 | 8,332,334 | 8,967,888 |
| Total | | 22,561,431 | 30,105,033 |
| Less accumulated depreciation | | 9,358,598 | 9,239,784 |
| Property and equipment, net | | $ 13,202,833 | 20,865,249 |

Depreciation expense for property and equipment was $2,700,587 and $2,621,730 for the nine months ended September 30, 2019 and 2018, respectively. Depreciation expense is presented in general and administrative expenses in the consolidated statements of operations. In September 2019, the Company terminated the lease of its Galvanize campus in New York City. In conjunction with the lease termination, $5,131,207 in leasehold improvements, net of accumulated amortization, were written-off resulting in a loss recorded to lease abandonment (gain) loss for the nine months ended September 30, 2019. In September 2018, the Company recognized a loss of $148,073 for the termination of the Hack Reactor campus in New York City. This loss is recognized in lease abandonment (gain) loss in the statement of operations.


(Continued)

***(h) Business Combinations, Goodwill and Intangible Assets***

The Company allocates the fair value of purchase consideration to tangible assets, liabilities assumed, and intangible assets acquired based on their estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is allocated to goodwill. The allocation of the purchase consideration requires management to make significant estimates and assumptions, especially with respect to intangible assets. These estimates can include, but are not limited to, future expected cash flows from acquired technology, trade names, useful lives and discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. Acquired finite-lived intangible assets are amortized over their estimated useful lives. Goodwill has an indefinite useful life and is not amortized, but instead is tested for impairment at least annually. The Company evaluates the recoverability of intangible assets for possible impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable.

***(i) Impairment of Long-Lived Assets***

Long-lived assets, such as property and equipment, and purchased intangible assets subject to amortization, are reviewed for possible impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. If this evaluation indicates the carrying value will not be recoverable, based on the undiscounted expected future cash flows estimated to be generated by these assets, the Company reduces the carrying amount to the estimated fair value. Long-lived assets are grouped for impairment purposes at the lowest level at which the cash flows attributed to the asset group are independent of the cash flows from other asset groups. Individual assets that are abandoned or otherwise disposed of are written off.

***(j) Leases and Deferred Rent***

The Company recognizes rent expense on a straight-line basis over the term of the lease, taking into account lessor incentives for tenant improvements and periods, including construction periods, where no rent payment is required (rent holidays). The Company recognizes deferred rent as the difference between the expense recognized on a straight-line basis and the payments made per the terms of the lease.

***(k) Revenue Recognition***

The Company adopted ASU 2014-09, *Revenue from Contracts with Customers*, also known as Accounting Standards Codification Topic 606 ("ASC 606"), as of January 1, 2019. Prior to January 1, 2019, the Company accounted for revenue recognized under ASC 605, *Revenue Recognition*. Each revenue stream is described further below, but under ASC 605, the Company recognized revenue when the service or product had been provided or delivered (typically ratably over the length of the service offering), the fees charged were fixed and determinable, persuasive evidence of an arrangement existed, and collectability was reasonably assured.



(Continued)

Under ASC 606, revenue is recognized when control of the promised goods or services is transferred to the Company's customers, in an amount that reflects the consideration it expects to be entitled to in exchange for those goods or services using the following steps:

- identify the contract, or contracts, with a customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract; and
- recognize revenue when, or as, the Company satisfies a performance obligation

*Performance Obligations*

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account in ASC 606. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. For the majority of its contracts, the Company's performance obligations are satisfied over time, as the Company delivers, and the customer receives the services, over the service period of the contract. The Company's payment terms are generally net 30 or net 45, but can vary depending on how students receive funding.

The Company has elected, as a practical expedient, not to report the value of unsatisfied performance obligations for contracts with customers that have an expected duration of one year or less. The amount of unsatisfied performance obligations for contracts with customers which extend beyond one year as of September 30, 2019 was zero.

*Contract Balances*

The timing of revenue recognition, invoicing, and cash collection results in accounts receivable, unbilled receivables (a contract asset) and deferred revenue (a contract liability) in the consolidated balance sheets. Accounts receivable is recorded when there is an executed customer contract and the customer is billed. Unbilled receivables are created when revenue is earned prior to the customer being billed. Deferred revenue is recorded when customers are billed in advance of services being provided.

*Significant Judgments*

The Company determined that all of its contracts with customers contain one performance obligation. The Company markets its services as an integrated package. It does not market distinct products or services to be sold independently.

The Company has determined that the time elapsed method as described under ASC 606 is the most appropriate measure of progress towards the satisfaction of the performance obligation. The Company delivers educational services to individuals and enterprise customers along with monthly memberships for co-work space. The education package includes enrollment, marketing, teacher training, etc. in addition to the core curriculum and instruction. All of these services are necessary and contribute to the overall education of its students, which occurs evenly throughout the 3-6 months. The membership package includes either an assigned desk, open desk, suite, internet and member's portal. All of these



(Continued)

services are necessary and contribute to the overall membership which occurs evenly each day. Accordingly, the Company will recognize revenue on a straight-line basis.

*Sales Taxes*

Sales tax collected from customers is excluded from revenues. Collected but unremitted sales tax is included as part of accrued liabilities in the accompanying consolidated balance sheets. Revenues do not include sales tax as the Company considers itself a pass-through conduit for collecting and remitting sales tax.

The Company recognizes revenue in the categories described below. Each category of revenue is accounted for under the five step model of ASC 606 described previously.

*(i) Membership Revenue*

The Company provides monthly membership at each campus ranging from basic desk access to private suites. The Company records deferred revenue (contract liability) when cash payments are received in advance of our related membership performance.

*(ii) Education Revenue*

The Company provides a variety of comprehensive instructional programs focused on web and software development and data science. Programs range from three to six months and range in cost depending on length and type of program. The Company records deferred revenue (contract liability) when cash payments are received in advance of our related education performance.

*(iii) Enterprise Revenue*

The Company provides a variety of comprehensive instructional programs focused on web and software development and data science, tailored to the needs of the business receiving these services and courses. These engagements range from one day to three months and range in cost depending on length, type of instructional program, and number of employees enrolled in the course. The Company records deferred revenue (contract liability) when cash payments are received in advance of our related enterprise performance. Enterprise revenue is included with educational revenue in the accompanying consolidated statements of operations.

***(l) Cost of Revenues***

Cost of revenues are primarily related to operating lease costs, costs of providing membership amenities, and personnel costs directly attributable to generating revenue. Costs to fulfill contracts and membership agreements are expensed as incurred. The Company incurred cost of revenues of $34,834,867 and $29,346,631 for the nine months ended September 30, 2019 and 2018, respectively.

***(m) Sales and Marketing***

Sales and marketing costs are expensed as incurred. The Company incurred promotional and other sales and marketing costs of $3,374,622 and $2,623,083 for the nine months ended September 30, 2019 and 2018, respectively.

***(n) Income Taxes***

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and for operating loss and tax credit carry-forwards and carry-backs. The change in deferred tax assets and liabilities for the period measures the deferred tax provision or benefit for the period. Effects of changes in enacted tax laws on deferred tax assets and liabilities are reflected as adjustments to the tax provision or benefit in the period of enactment. A valuation allowance is recorded to the extent that management cannot conclude that realization of deferred tax assets is more likely than not.

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. Through September 30, 2019, management determined that no uncertain tax positions have been taken or are expected to be taken that could have a material effect on the Company’s income tax liabilities. Management’s policy for interest and penalties, if assessed, would be accrued as an adjustment to accrued taxes payable and a charge to other expense.

***(o) Preferred Stock***

As explained in note 7, the Company’s preferred stock is redeemable upon a favorable vote of the holders on the 5 year anniversary of issuance, which is outside of the Company’s control. In accordance with US GAAP applicable to public entities, redeemable preferred stock is required to be classified as temporary equity. In addition, each class of preferred stock is remeasured to its redemption amount at each period end, which is equal to its original issue price plus cumulative dividends whether or not declared by the Company’s Board of Directors. These remeasurement adjustments are deemed dividends and are recorded as a reduction in additional paid-in capital. To the extent that the balance of additional paid-in capital is not sufficient to absorb the entire amount of the deemed dividend for the period, the remainder is recorded as an increase to accumulated deficit.

***(p) Stock-Based Compensation***

Compensation expense for all share-based payment awards to employees and directors is measured and recognized based on estimated grant-date fair values and expensed on a straight-line basis over the period that the holder is required to provide services, which is usually the vesting period. The Company determines the grant-date fair value of stock options using the Black-Scholes-Merton option pricing model.

***(q) Fair Value***

The Company’s financial instruments consist of cash and cash equivalents, accounts receivable, other current assets, accounts payable, accrued liabilities, and warrants. The carrying values of these financial instruments approximate fair value as of September 30, 2019 and December 31, 2018. In general, asset and liability fair values are determined using the following categories:

**Level 1** – inputs utilize quoted prices in active markets for identical assets or liabilities.

**Level 2** – inputs include quoted prices for similar assets or liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

**Level 3** – inputs are unobservable inputs and include situations where there is little, if any, market activity for the balance sheet items at period end. Pricing inputs are unobservable for the terms and are based on the Company's own assumptions about the assumptions that a market participant would use.

***(r) Commitments and Contingencies***

Liabilities for loss contingencies, arising from claims, assessments, litigation, fines, and penalties and other sources, are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated.

***(s) Advertising Expenses***

Advertising costs are expensed as incurred and amounted to $2,218,318 and $1,150,043 in the nine months ended September 30, 2019 and 2018, respectively.

***(t) Recent Accounting Pronouncements***

*Accounting Standards Adopted*

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, also known as Accounting Standards Codification Topic 606 ("ASC 606"), which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those consolidated goods or services. An entity also should disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new standard is effective for the Company for annual periods in fiscal years beginning after December 15, 2018 (as amended in August 2015 by ASU 2015-14, *Deferral of the Effective Date*). The Company adopted ASU 2014-19 on January 1, 2019, which did not result in a material change to its revenue recognition policies and there were no adjustments to accumulated deficit as a result of adoption. The Company does not incur material contract acquisition costs and therefore the provisions of ASU 2014-19 requiring the capitalization of such costs did not have a material impact to the Company's financial position at January 1, 2019.

*Accounting Standards Not Yet Adopted*

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842) ("ASU 2016-02"), also known as Accounting Standards Codification Topic 842 ("ASC 842"), which supersedes most existing lease guidance under ASC Topic 840 ("ASC 840"). The core principal of ASC 842 establishes a right-of-use model that requires a lessee to record a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations. This ASU will be effective for the Company on January 1, 2021. The Company is currently evaluating the impact of this ASU on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326) ("ASU 2016-13") related to the methodology for recognizing credit losses. The new standard revises the

accounting requirements related to the measurement of credit losses and will require organizations to measure all expected credit losses for financial assets based on historical experience, current conditions and reasonable and supportable forecasts about collectability. Assets must be presented in the financial statements at the net amount expected to be collected. This ASU will be effective for the Company on January 1, 2021, and early adoption is permitted. The Company is currently evaluating the impact of this ASU on its consolidated financial statements and will evaluate whether to increase or decrease the allowance for doubtful accounts at the time of adoption.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements on fair value measurements. The new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Upon the effective date, certain provisions are to be applied prospectively, while others are to be applied retrospectively to all periods presented. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this ASU and delay adoption of the additional disclosures until their effective date. The Company is currently evaluating the impact of the amendments on the financial statement disclosures.

The Company reviewed all other recently issued accounting pronouncements and concluded that they were either not applicable or not expected to have a significant impact to the financial statements.

**(3) Acquisition**

On July 26, 2018, the Company acquired 100% of the stock of Hack Reactor, LLC (Hack Reactor), a San Francisco based competitor for a purchase price of $22.3 million, consisting of $17.3 million of cash and $5.0 million seller-financed debt to be repaid in equal annual installments of principal and accrued interest on July 25, 2019 and 2020. Interest accrues at 5% per annum (see footnote 5(d) for more information). The transaction was accounted for as a business combination. Hack Reactor operated four campuses located in Austin, Los Angeles, New York, and San Francisco, in addition to a remote campus that offered both a part time and online program. The goodwill attributable to the acquisition relates to the anticipated growth in the business from new customers and operational efficiencies expected to result from the increase in the size of the Company's business.

The Company allocated the purchase price to the assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date, with the excess purchase price allocated to goodwill. The Company retained a third-party valuation specialist to assist with estimating these values. The valuation of the identifiable assets acquired was based upon our estimates and assumptions. The following table

represents the aggregate purchase price allocation to the assets acquired and liabilities assumed for the acquisition (in thousands):

| | | |
|---|---|---|
| Consideration: | | |
| Cash | $ | 17,330 |
| Note payable | | 5,000 |
| Fair value of total consideration transferred | $ | 22,330 |
| Recognized amounts of identifiable assets acquired and liabilities assumed: | | |
| Accounts receivable, current | $ | 3,773 |
| Cash | | 4,006 |
| Other current assets | | 825 |
| Trade name | | 2,500 |
| Accounts receivable, long term | | 1,227 |
| Property and equipment | | 191 |
| Security deposits, long term | | 156 |
| Deferred revenue | | (4,147) |
| Other current liabilities | | (723) |
| Accrued expenses | | (621) |
| Deferred rent | | (177) |
| Total identifiable net assets acquired | | 7,010 |
| Goodwill | | 15,320 |
| Total consideration transferred | $ | 22,330 |

To determine the value of the tradename, the relief from royalty method of the income approach was utilized. The relief from royalty method measures the economic benefit that may be attributable to a particular asset by using a market based royalty rate as the starting point for quantifying the economic benefit. The value of the tradename is included with intangible assets on our consolidated balance sheets. The purchase price allocation includes an estimate of the fair value of the cost to fulfill the deferred revenue obligations which was determined by estimating the costs to provide the services plus a normal profit margin and did not include any costs associated with marketing efforts.

***Pro-forma Financial Information***

The pro forma results presented below include the effects of the Hack Reactor acquisition as if the acquisition occurred on January 1, 2018. The pro forma net income (loss) for the nine-months ended September 30, 2018 includes the additional amortization resulting from the adjustments to the value of intangible assets resulting from purchase accounting and adjustment to amortized revenue during 2018 as a result of the acquisition date valuation of assumed deferred revenue. The pro forma results do not include any anticipated synergies or other expected benefits of the acquisitions. The unaudited pro forma financial information is not necessarily indicative of either future results of operations or results that might have been achieved had the acquisitions been consummated as of January 1, 2018.

Nine months ended September 30 (unaudited)

| | 2018 |
|---|---|
| Revenues: | |
| Hack Reactor | $ 12,452,051 |
| Galvanize | 32,688,015 |
| Total revenue | $ 45,140,066 |
| Net loss: | |
| Hack Reactor | $ (5,000) |
| Galvanize | (17,805,272) |
| Total net loss | $ (17,810,272) |

**(4) Goodwill and Other Intangible Assets**

***(a) Acquired Intangible Assets***

| | Weighted average amortization period | September 30, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|---|
| | | Cost | Accumulated amortization | Net book value | Cost | Accumulated amortization | Net book value |
| Trade names and other | 9.2 years | $ 3,046,541 | (668,021) | 2,378,520 | 3,046,541 | (423,781) | 2,622,760 |
| Developed curriculum | 4.0 years | 320,000 | (320,000) | — | 320,000 | (320,000) | — |
| | | $ 3,366,541 | (988,021) | 2,378,520 | 3,366,541 | (743,781) | 2,622,760 |

The Company did not recognize any impairment losses related to intangible assets for the nine months ended September 30, 2019 and 2018.

Amortization expense of acquired intangible assets was $244,240 and $116,741 for the nine months ended September 30, 2019 and 2018, respectively. Estimated amortization expense of acquired intangible assets over the next five years is as follows:

| Years ended December 31: | |
|---|---|
| 2019 (remaining three months) | $ 74,414 |
| 2020 | 283,654 |
| 2021 | 283,654 |
| 2022 | 283,654 |
| 2023 | 283,654 |

***(b) Goodwill***

The Company's goodwill balance as of September 30, 2019 and December 31, 2018 was $15,882,207. Goodwill represents the purchase price in excess of the amounts allocated to tangible and other intangible assets in business combinations. Impairment of goodwill is assessed only upon the occurrence of triggering events and is assessed at the entity level. If triggering events have occurred, the Company will perform an impairment analysis. The Company did not recognize any impairment losses related to goodwill for the nine months ended September 30, 2019 and 2018.

**(5) Debt**

Long-term debt as of September 30, 2019 and December 31, 2018 was comprised of the following:

| | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Trinity Capital Loans | $ 8,979,614 | 8,979,613 |
| Notes Payable – Silicon Valley Bank | 3,560,526 | — |
| Hack Reactor Founder Note | 250,000 | 5,000,000 |
| Industrial Development Authority Loan Payable | 827,345 | 902,141 |
| 242 Linden Note Payable | 572,332 | 634,620 |
| Total long-term debt | 14,189,817 | 15,516,374 |
| Less debt issuance costs | (351,900) | (477,816) |
| Less current maturities | (6,663,288) | (2,980,755) |
| Long-term debt, net of current maturities | $ 7,174,629 | 12,057,803 |

***(a) Trinity Capital Loans***

In May 2016, the Company entered into a loan agreement with Trinity Capital Fund II, L.P. (Trinity Capital) for up to $10,000,000, of which the Company drew $5,000,000 in May 2016 and the remaining $5,000,000 in April 2017. The initial amount borrowed in 2016 bears interest of 12.0% with an interest only period of 12 months, where payments of this interest began in July 2016. Starting July 2017, 30 equal monthly payments of $193,741 for principal and interest became due, with a maturity date of December 1, 2019. The subsequent loan drawn in 2017, bears interest at 12.5% with an interest only period of 12 months. Starting June 2018, 30 equal monthly payments of $194,922 for principal and interest are due with a maturity date of November 1, 2020. There is an end of term payment of 5% due on both of the draws ($500,000 total) that results in additional interest accreted to the loan balance over the term. This loan is subordinated and has cross-default language with the LSA agreement described in (e) below. This loan is secured by all assets of the Company, excluding certain intellectual property, as collateral.

On October 31, 2017, the Company entered into a first amendment to the initial and subsequent loans (collectively, the Trinity Capital loans) to defer principal payments for twelve months beginning on October 1, 2017 and ending on September 1, 2018. The amendment also changes the maturity date of the first $5,000,000 draw from December 1, 2019 to December 1, 2020. The maturity date for the second $5,000,000 draw changed from November 1, 2020 to March 1, 2021. The amendment also adjusted the pre-payment premium dates to start as of the date of the amendment. Additionally, there is an executed exit letter agreement signed related to an exit fee, should the Company be sold in the next ten years. If the exit event occurs on a date between July 1, 2018 and the date this exit fee agreement terminates, the exit fee will be $500,000. The interest rates for both draws remain the same.

On December 31, 2018, the Company entered into a second amendment to the Trinity Capital loans to defer principal payments for twelve months beginning on December 1, 2018 and ending on November 1, 2019. The amendment also changes the maturity date of the first $5,000,000 draw from December 1, 2020 to December 1, 2021. The maturity date for the second $5,000,000 draw changed

from March 1, 2021 to March 1, 2022. The amendment also adjusted the pre-payment premium dates to start as of the date of the amendment. The interest rates for both draws remain the same.

Prepayment of the loan on or before the following anniversaries of the closing date of the second amendment is subject to the following prepayment premiums: (i) first anniversary equal to 3% of the outstanding principal balance then outstanding under the Note being prepaid, together with 100% of the end of term payment; (ii) after the first anniversary and on or before the second anniversary equal to 2% of the outstanding principal balance then outstanding under the Note being prepaid, together with 100% of the end of term payment; (iii) after the second anniversary and before the maturity date equal to 1% of the outstanding principal balance then outstanding under the Note being prepaid, together with 100% of the end of term payment.

Interest expense related to Trinity Loan Payable was $825,838 and $879,551 for the nine months ended September 30, 2019 and 2018, respectively.

***(b) Industrial Development Authority Loan Payable (IDA)***

On July 8, 2016, the Company entered into a loan agreement with The Industrial Development Authority of the City of Phoenix for $942,500 of which the Company drew the full $942,500 in July 2016. The loan bears interest of 5.0% per annum until July 2021 and thereafter at the U.S. Treasury Five-Year Constant rate as published by the Federal Reserve in release H.15 plus 325 basis points (3.25%) as of May 3, 2021 (the third Loan Payment Date preceding August 1, 2021). The loan has an interest only period of 24 months. Starting August 2018, 96 equal monthly payments of $11,932 for principal and interest are due, with the final payment occurring in July 2026. The debt is subject to certain financial and administrative covenants that began in 2017, related to its Phoenix campus operations. Pursuant to the collateral agreement, the Company has granted IDA a second priority lien upon its rights under the development agreement, which security interest shall be perfected upon recording of a UCC-1 financing statement.

Interest expense related to IDA Loan Payable was $32,592 and $35,310 for the nine months ended September 30, 2019 and 2018, respectively.

***(c) Note Payable (242 Linden)***

On January 1, 2017, the Company entered into a note payable agreement with 242 Linden, LLC for $789,619 in conjunction with the early cancellation of the Fort Collins, CO campus lease. The loan bears interest of 5.0% per annum and matures on July 1, 2025, and principal and interest are due on a monthly basis.

Interest expense related to 242 Linden Note Payable was $22,768 and $25,797 for the nine months ended September 30, 2019 and 2018, respectively.

***(d) Note Payable (Hack Reactor or HR Founders' Notes)***

On July 26, 2018, the Company entered into a note payable with the original founders of Hack Reactor for $5.0 million in conjunction with the acquisition of Hack Reactor (HR Founders' Notes). The seller-financed debt bears interest of 5.0% per annum. During September 2019, the holders of the $5.0 million notes from the Hack Reactor acquisition converted $3,250,000 of principle and $185,651 of accrued interest into 26,087,649 shares Series C-1 Preferred Stock. The Company paid $1.5 million



(Continued)

plus accrued interest in cash in September 2019 with the remaining principle of $250,000 due July 2020.

Interest expense was $177,712 and $45,205 for the nine months ended September 30, 2019 and 2018, respectively.

***(e) Notes Payable – Silicon Valley Bank***

In October, 2014, the Company entered into a Loan and Security Agreement (LSA) with Silicon Valley Bank (SVB). Under the LSA, SVB agreed to issue standby letters of credit related to the Company's lease agreements. For each standby letter of credit issued by SVB, the Company is required to establish a segregated money market account at SVB with a minimum cash balance equal to fifty percent (50%) of the face value of the corresponding standby letter of credit. The Company has pledged to SVB a security interest in the money market accounts as security for the prompt payment of all the Company's obligations with respect to the standby letters of credit. See note 2(e) for additional discussion on the restricted cash balances related to standby letters of credit related to lease agreements.

On April 10, 2018, the Company amended the existing LSA (fifth amendment) to waive certain defaults and make certain revisions. Under the letter of credit line, the Company agreed to new financial and administrative covenants.

The Company violated the existing LSA (fifth amendment) for the periods ending in April 2018 and May 2018. Specifically, the Company violated the financial covenant requirements to achieve availability equal to or greater than the letter of credit exposure in April 2018 and did not achieve the minimum revenue requirement in May 2018. The Company received a forbearance for the period from April 30, 2018 through August 15, 2018 related to the covenant violation. The Company also violated the LSA under the fifth amendment with SVB for the periods June 2018 through August 2018 because it did not meet the minimum revenue financial covenant requirement. The Company received a forbearance for the period from June 30, 2018 through August 31, 2018 related to the covenant violation.

On July 20, 2018, the Company amended the existing LSA (sixth amendment) to obtain SVB's consent to the acquisition of Hack Reactor and to agree to certain revisions to new financial and administrative covenants.

On November 20, 2018, the Company amended the existing LSA (seventh amendment) to waive certain events of default that occurred under the LSA, extend the maturity date of the LSA, and to agree to certain revisions to new financial and administrative covenants.

On February 28, 2019, the Company's letter of credit agreement with SVB, which was entered into in February 2014 and was previously guaranteed by a private investor for the benefit of our San Francisco landlord was amended. The new letter of credit was increased to $3.0 million from $1.5 million.

On March 4, 2019, the Company's Board of Directors adopted resolutions by unanimous consent to amend the existing LSA (eighth amendment) to extend the maturity date of the LSA to January 31, 2020 and provide a $5,000,000 revolving line of credit with SVB.



(Continued)

On April 17, 2019 and May 31, 2019 the Company drew down $2.0 million and $3.0 million, respectively, on the SVB revolving line of credit subject to the terms and conditions of the existing LSA. The debt bears interest of 7.0% per annum and matures on January 31, 2020. Interest is payable monthly in arrears at the end of each month and is computed on the basis of a 360-day year for the actual number of days elapsed.

On September 13, 2019 the Company signed a term sheet to restructure the SVB credit agreement to convert the revolving line of credit to a 48 month term loan for $3.25 million that accrues interest at the prime rate as published by the Wall Street Journal plus 2%. The term loan has an interest only period through June 30, 2020, at which point principle will be paid in 39 equal monthly payments plus interest through the maturity date of September 30, 2023. At the time of the restructuring the Company had approximately $3.56 million outstanding which was subsequently paid down to $3.25 million in October 2019. The restructured SVB credit agreement requires the Company to maintain minimum free cash flow levels and a minimum liquidity coverage ratio through the term of the agreement.

As of September 30, 2019, the company did not meet the financial covenants and amended the existing LSA (eighth amendment) that waived noncompliance.

Interest expense was $127,701 and $0 for the nine months ended September 30, 2019 and 2018, respectively.

As of September 30, 2019, the amounts due under each loan are as follows:

| | Trinity loan payable | Notes payable - Silicon Valley Bank | IDA loan payable | 242 Linden loan | HR Founders' notes | Total |
|---|---|---|---|---|---|---|
| 2019 (remaining 3 months) | $ 148,451 | 310,526 | 25,560 | 21,208 | — | 505,745 |
| 2020 | 3,335,954 | 500,000 | 105,490 | 87,768 | 250,000 | 4,279,212 |
| 2021 | 4,854,992 | 1,000,000 | 110,887 | 92,259 | — | 6,058,138 |
| 2022 | 640,217 | 1,000,000 | 116,560 | 96,979 | — | 1,853,756 |
| 2023 | — | 750,000 | 122,524 | 101,940 | — | 974,464 |
| 2024 | — | — | 128,792 | 107,156 | — | 235,948 |
| 2025 | — | — | 135,382 | 65,022 | — | 200,404 |
| 2026 | — | — | 82,150 | — | — | 82,150 |
| Total | $ 8,979,614 | 3,560,526 | 827,345 | 572,332 | 250,000 | 14,189,817 |

## (6) Convertible Notes

### *(a) 2017*

During the year ended December 31, 2017, the Company issued convertible notes for aggregate cash proceeds of $7,497,268. These convertible notes accrue interest at 8%, mature on December 1, 2018 and can only be prepaid upon the favorable vote of the majority holders. The unpaid principal and accrued interest on the convertible notes are convertible when and if the Company completes a qualified round of financing into the same class of equity securities offered in the qualified financing at a 20% discount. To qualify, the financing round must be at least $5,000,000. This conversion upon a qualified financing feature essentially provides the holder with a fixed return that is settled in a variable number of shares. As such, it qualified to be accounted for as an embedded derivative, a put liability, at fair value. The put liability is initially recorded as a debt discount and subsequently remeasured at its fair value each period end. The Company estimated the fair value of the put liability based upon the probability of a qualified financing occurring multiplied by the value to be received by the holder

(Level 3 inputs). Upon issuance of the convertible notes, this put liability was initially measured at $937,158 and the fair value did not change at December 31, 2017 as management's estimate of the probability of a qualified financing occurring did not change.

The convertible notes also include a provision whereby upon a change in control, the Company would be obligated to pay the holders a premium equal to 100% of the unpaid principal in cash in addition to the outstanding principal and interest accrued to that date. This change in control prepayment provision qualifies as an embedded derivative that was recorded at its fair value as a put liability and debt discount upon issuance, and the put liability will be remeasured to fair value each period end. The Company estimated the fair value of the put liability based upon the probability of a change in control occurring multiplied by the value to be received by the holder (Level 3 inputs). Upon issuance of the convertible notes, this put liability was initially measured at $1,874,317 and the fair value did not change at December 31, 2017 as management's estimate of the probability of a qualified financing did not change.

Finally, the convertible notes include a provision whereby the unpaid principal and accrued interest will automatically convert at maturity into shares of the Company's Series B Preferred Stock at a conversion price of $1.7176 per share if a qualified financing or change in control has not already occurred. As the conversion price is less than the fair value of the Series B Preferred Stock at the issuance date of the convertible notes, a contingent beneficial conversion feature (BCF) exists as a result of issuing the convertible notes. This BCF of $1,109,224 was measured as the difference between the amount paid for the convertible notes and the fair value of the Series B Preferred Stock (a Level 3 measurement) that notes would convert into at maturity. The BCF will be recorded as additional interest expense and an offsetting amount in additional paid-in capital if the convertible notes are converted to Series B Preferred Stock at maturity.

The debt discounts recorded as a result of the put liabilities associated with the qualified financing conversion feature and the change in control prepayment provision totaled $2,811,475 at the issuance of the convertible notes. The total carrying amount of the put liability at December 31, 2017 was $2,811,475.

***(b) 2018***

Between March and June 2018, the Company issued convertible notes with a total principal amount of $13,981,164. Of these notes, $6,284,614 were issued for cash and $7,696,551 were issued upon the conversion of the outstanding principal and unpaid accrued interest of a portion of the convertible notes issued in 2017. The 2018 promissory notes accrue interest at 12%, have a maturity date of five years from issuance, and are convertible to preferred stock at a discounted price as described below.

The notes will be automatically converted upon the next equity financing of not less than $10,000,000 on or before the maturity date or upon an equity financing of not less than $5,000,000 on or before the first anniversary of the issuance date when combined with any asset sale or incremental debt raised on or before the first anniversary which yields aggregate gross proceeds not less than $10,000,000 (Qualified Financing). If there is a Qualified Financing, the Company will automatically issue to the holders a number of shares of preferred stock sold in the Qualified Financing equal to the outstanding principal and unpaid accrued interest divided by the conversion price. The conversion price is equal to

the price paid per share for the preferred stock sold in the Qualified Financing multiplied by the discount rate of 70%, which results in a 30% discount.

In the event of an equity financing on or before the maturity date that is not a Qualified Financing, then the holder of each note may elect to convert the outstanding principal and unpaid accrued interest into such equity securities of that financing at a conversion price equal to the price paid per share by the investors of the financing.

In the event of a change of control prior to maturity or conversion thereof, immediately prior to such change of control, the outstanding principal and any unpaid accrued interest on each note shall become immediately due and payable plus a repayment premium equal to 100% of the outstanding principal.

As disclosed above, a portion of the 2017 convertible notes were cancelled and the Company issued new replacement 2018 convertible notes having the same terms with the exception that the discount on the price per share for the preferred stock issued in a Qualified Financing increased from 20% to 30%. Upon the issuance of the 2018 convertible notes, the Company deemed the probability of a Qualified Financing occurring as highly likely and therefore remeasured the put liability associated with the conversion features in the 2017 convertible notes to fair value, resulting in a gain of $819,938, which has been recorded as other income in the accompanying consolidated statement of operations for the nine months ended September 30, 2018. The Company measured the initial fair value of the embedded derivative related to the conversion features in the 2018 convertible notes under an assumption that it was highly likely that a Qualified Financing would occur, resulting in an initial put liability value of $5,991,927, which was recorded as a debt discount. This initial put liability value includes the balance related to the 2017 convertible notes that were cancelled and replaced with 2018 convertible notes.

On June 26, 2018, the Company completed a Qualified Financing with the issuance of the Series C Preferred Stock. Immediately prior to the Qualified Financing, the put liability associated with the 2017 and 2018 convertible notes was remeasured to fair value equal to a 100% probability that the Qualified Financing would occur, or $6,019,104. In conjunction with the Qualified Financing, the outstanding principal, unpaid interest and balance of the embedded put liability related to the convertible notes totaling $20,764,700 converted into 69,824,738 shares of Series C Preferred Stock. Upon conversion of the convertible notes to Series C preferred stock, the Company derecognized unamortized debt discount related to the convertible notes issued in 2017 and 2018 and recognized a loss on the extinguishment of the convertible notes of $5,434,077 during the nine months ended September 30, 2018.

Interest expense related to the convertible notes was $0 and $1,561,757 for the nine months ended September 30, 2019 and 2018, respectively, which included the amortization of the debt discount of $0 and $1,047,908, respectively.

**(7) Preferred Stock**

On July 26, 2018, the Company along with growth equity firm Catalyst Investors and other investors entered into a Series C Preferred Stock Purchase Agreement. The Company agreed to sell and issue 168,129,823 shares of Series C for an aggregate purchase price of $43.4 million comprised of $29.0 million

in cash and $14.4 million convertible debt principal and accrued interest. An additional $2.8 million was raised following the initial closing consisting of approximately $165,000 from private investors with the remaining funding from ABS Capital Partners and University Ventures, which were guaranteed under their original commitment letters. The Company agreed to sell and issue an additional 10,169,487 shares of Series C Preferred Stock in those subsequent raises, for a total of 178,299,310 shares issued through the end of 2018.

In September 2019, the Company entered into a Series C-1 Preferred Stock Purchase Agreement. The Company agreed to sell and issue 86,700,500 shares of Series C-1 for an aggregate purchase price of $10.0 million.

During the nine months ended September 30, 2019, the Company recorded a significant amount of deemed dividend on the Series C-1 Preferred Stock since the proceeds from the sale of the stock and conversion of the Hack Reactor notes was significantly less than the original issue price of $0.295 per share.

The Company has authorized 353,546,384 shares of preferred stock, $0.000001 par value per share, of which 133,127,132 are designated as Series C-1 Preferred Stock (Series C-1), 178,299,310 are designated as Series C Preferred Stock (Series C), 21,519,929 are designated as Series B Preferred Stock (Series B), 18,000,000 are designated as Series A Preferred Stock (Series A) and 2,600,000 are designated as Series 1 Preferred Stock (Series 1). Collectively, the classes are referred to as Preferred.

Preferred Stock has the following rights:

***(a) Conversion Rights***

Each share of Preferred, at the option of the holder, is convertible, at any time after the date of issuance of such share, into such number of fully paid and nonassessable shares of common stock as is equal to the product obtained by multiplying the Conversion Rate then in effect for such series of Preferred by the number of shares of Preferred being converted. The conversion rate in effect at any time for conversion of the Preferred shall be the quotient obtained by dividing the applicable Original Issue Price of the series of Preferred by the Conversion Price of such series of Preferred. The Conversion Price for the Preferred shall initially be equal to the applicable Original Issue Price of the series of Preferred, which results in a one-for-one conversion rate. Under the terms of the Company's Amended and Restated Certificate of Incorporation (the Certificate), such initial Conversion Price shall be adjusted from time to time for stock splits, combinations, dividends, distributions, reorganizations, mergers, consolidations, or certain dilutive issuances, none of which have occurred since the Company's inception.

Under the terms of the Certificate, each share of Preferred shall automatically be converted into shares of common stock, based on the then-effective Conversion Price, immediately upon the earlier to occur of (a) the closing of a firmly 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 in which the cash proceeds to the Company, net of the underwriting discount and commissions, are at least $100,000,000 and in which the price per share is at least three times the Series C Original Issue Price or (b) the date and time, or the occurrence of an event, specified by affirmative vote or written consent

of the holders of a majority of the then outstanding shares of Series A and Series B, the Series B Lead Investor, and the Required Series C Holders, as defined in the certificate.

***(b) Voting***

The holders of Preferred are entitled to vote, together with the holders of common stock, on all matters submitted to stockholders for vote. Each holder of Preferred is entitled to the number of votes on an as if converted to common stock basis. The holders of a majority of the shares of Series C, Series B, and Series A Preferred Stock each are entitled to elect one director of the Corporation.

The Preferred Stock contains certain protective rights that require the written consent or affirmative vote of the holders of (a) a majority of the outstanding shares of Preferred Stock, (b) the Required Series C Holders, and (c) either (i) the holders of a majority of the outstanding shares of Series A Preferred Stock or (ii) the holders of a majority of the outstanding shares of Series B Preferred Stock to effect certain matters. These matters include, but are not limited to, authorizing any additional class of stock, amending the Company's certificate of incorporation or bylaws, authorizing the repurchase of stock or payment of dividends, changing the total number of directors on the Company's board, or affecting an acquisition of, or any interest in, another company.

For as long as any shares of Series A, Series B, or Series C remain outstanding, in addition to any other vote or consent required, the written consent or affirmative vote of the holders of a majority of the then outstanding shares of such series of preferred stock (or, with respect to Series C, the Required Series C Holders) shall be necessary for effecting the following matters: (a) amending the Company's certificate of incorporation or bylaws in a manner that adversely affects the powers, preferences, or rights of such series of preferred stock, (b) changing the number of authorized shares of that such series of preferred stock, and (c) amending any securities junior to such series of preferred stock if such amendments would render the securities senior to the series of preferred stock.

***(c) Dividends***

The holders of Preferred Stock are entitled to receive, when and if declared by the Board of Directors and in preference to the common stock, cumulative cash or in-kind Preferred dividends at a rate equal to 10% of the applicable original issuance price per share, per annum for the Series C-1 and Series C and 8% of the applicable original issuance price per share, per annum for all other series of Preferred. Dividends with respect to Series C-1 and Series C compound annually, and dividends with respect to all other series of Preferred stock do not compound.

***(d) Liquidation Preference***

In the event of a liquidation, dissolution, or winding up of the Company, the proceeds would be distributed to the following classes of Preferred Stock in the following order:

1) Series C-1 and Series C on a pari passu basis, in an amount equal to the greater of: (a) the original issue price of $0.295 per share plus all accrued and unpaid dividends, whether or not declared, or (b) the amount per share as would have been payable to Series C-1 or Series C, respectively, had all shares of Preferred Stock been converted into Common Stock immediately prior to the liquidation.

2) Series B and Series A on a pari passu basis, in an amount equal to the greater of: (a) the original issuance price of $2.147 per share for Series B and 74% of the Series A original issue price of $1.00 per share (the Series A Senior Liquidation Preference), respectively, plus all accrued and unpaid dividends for Series B and 74% of accrued and unpaid dividends for Series A, whether or not declared, or, (b) the amount per share as would have been payable to Series B and 74% of Series A had all shares of Preferred Stock been converted into Common Stock immediately prior to the liquidation.

3) Series A in an amount equal to the greater of: (a) 26% of the Series A original issue price (the Series A Junior Liquidation Preference) of $1.00 per share plus 26% of accrued and unpaid dividends for Series A, whether or not declared, or (b) the amount per share as would have been payable to 26% of Series A had all shares of Preferred Stock been converted into Common Stock immediately prior to the liquidation.

4) Series 1 in an amount equal to the greater of: (a) the original issuance price of $1.00 per share plus all accrued and unpaid dividends, whether or not declared, or (b) the amount per share as would have been payable to Series 1 had all shares of Preferred Stock been converted into Common Stock immediately prior to the liquidation.

After the payment of the full liquidation preference to Series C-1, Series C, Series B, Series A Senior Liquidation Preference, Series A Junior Liquidation Preference, and Series 1, the remaining assets of the Company would be distributed to the holders of common stock.

The liquidation preference values for each series of preferred stock is equal to the redeemable, convertible preferred stock balances presented in the consolidated balance sheets.

***(e) Redemption***

At any time on or after July 19, 2023 with respect to the Series C-1 Preferred Stock if the Company has not completed an underwritten public offering or a liquidation event has not occurred, the Series C-1 Preferred Stock is redeemable upon written notice from the holders of a majority of the Series C-1 shares requesting redemption at a per share price equal to the greater of (a) the Series C-1 Original Issue Price plus all accrued and unpaid dividends, whether or not declared, or (b) the fair market value per share of Series C-1 Preferred Stock as of the date of the redemption request.

At any time on or after July 19, 2023 with respect to the Series C Preferred Stock, if the Company has not completed an underwritten public offering or a liquidation event has not occurred, the Series C Preferred Stock is redeemable upon written notice from the Required Series C Holders (as defined in the Company's Certificate of Incorporation) at a per share price equal to the greater of (a) the Series C Original Issue Price plus all accrued and unpaid dividends, whether or not declared, or (b) the fair market value per share of Series C Preferred Stock as of the date of the redemption request.

Upon receipt of a Series C-1 or Series C redemption request, the Company is required to apply all of its assets to satisfy the redemption requirement and for no other corporate purposes.

At any time on or after July 26, 2023 with respect to the Series B shares and 74% of the Series A shares, if the Company has not completed an underwritten public offering or a liquidation event has not occurred, the Series B Preferred Stock and 74% of the shares of Series A Preferred Stock are

redeemable upon a written notice from both the majority of the Series B holders and the Series B Lead Investor. The Series B Preferred Stock shall be redeemed at a price per share equal to the greater of (a) the Series B Original Issue Price plus all accrued and unpaid dividends, whether or not declared, or (b) the fair market value per share of Series B Preferred Stock as of the date of the redemption request. 74% of the shares of Series A Preferred Stock shall be redeemed at a per share price equal to the greater of: (a) the Series A Original Issue Price plus accrued and unpaid dividends, whether or not declared, or (b) the fair market value per share of Series A Preferred Stock as of the date of the redemption request.

Upon receipt of a Series B and 74% of shares of Series A redemption request, the Company is required to apply all of its assets to satisfy the redemption requirement and for no other corporate purposes.

If the Corporation has paid all of the Series C-1, Series C, Series B and 74% of the Series A redemption requests in full, then upon written request of the majority of the remaining outstanding shares of Series A Preferred Stock, all remaining outstanding shares of Series A shall be redeemed by the Corporation at a price equal to the Series A Original Issue Price plus accrued and unpaid dividends.

Upon receipt of the Series A Junior redemption request, the Company is required to apply all of its assets to satisfy the redemption request and for no other corporate purposes.

## (8) Stock Compensation

In 2014, the Company established the 2014 Stock Plan (the Plan) pursuant to which the Company's Board of Directors may grant stock options to employees and other key individuals who perform services for the Company. To date, the Company has only granted stock options settleable in shares. The Plan authorizes grants to purchase up to 56,306,503 shares of authorized but unissued Common shares as of September 30, 2019 and December 31, 2018. Options granted pursuant to the Plan can be granted with an exercise price equal to or greater than the stock's fair value at the date of grant. Options granted pursuant to the Plan generally vest over four years and expire ten years from the date of grant.

At September 30, 2019 and December 31, 2018, there were 26,869,209 and 10,701,686 remaining shares available for the Company to grant under the Plan. Forfeited and canceled stock options are returned to the pool of shares available to be granted. Forfeitures are recognized as they occur. The grant-date fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton option pricing model.

### *(a) Stock Options*

Stock options represent options to purchase shares granted with an exercise price equal to the stock's fair value at the date of grant.

Stock option activity during the nine months ended September 30, 2019 was as follows:

| | Number of shares | Weighted average exercise price |
|---|---|---|
| Balance at December 31, 2018 | 44,270,064 | $ 0.18 |
| Granted | 20,000 | 0.05 |
| Exercised | (132,294) | 0.13 |
| Forfeited/canceled | (16,550,848) | 0.06 |
| Balance at September 30, 2019 | 27,606,922 | 0.25 |
| Exercisable at September 30, 2019 | 10,727,383 | 0.05 |

During the nine months ended September 30, 2019 and 2018, the Company recognized stock-based compensation expense of $209,602 and $468,675, respectively. At September 30, 2019, there was $960,757 of total unrecognized compensation cost related to unvested stock options granted under the Plan. The unrecognized compensation cost as of September 30, 2019 is expected to be recognized over a weighted average period of 2.8 years. The weighted average contractual term of outstanding options as of September 30, 2019, was 5.6 years.

### (9) Warrants

On May 29, 2017, in exchange for letters of credit extended by certain guarantors dated May 17, 2016, the Company issued warrants to purchase 250,000 shares of common stock at a weighted average exercise price of $1.5735 per share. The warrants expire May 26, 2026. On April 10, 2018, the Company issued warrants to purchase 842,104 shares of common stock at a weighted average exercise price of $0.60 in exchange for providing a $2.4 million backstop to the Company's letter of credit agreement. The warrants expire on March 23, 2028. See notes 3, 5, and 12 for additional discussion on standby letters of credit and guarantor on letter of credit.

The grant-date fair value of each warrant is estimated on the date of grant using the Black-Scholes-Merton option pricing model. During the nine months ended September 30, 2019 and 2018, the Company recognized expense related to the warrants of $0 and $7,973, respectively, as other income (expense) in the consolidated statements of operations.

## (10) Commitments and Contingencies

*Lease Obligations*

The Company leases office space under various operating leases. The durations of these leases range from 40 months to 16 years. Rent expense was $12,458,279 and $12,620,385 for the nine months ended September 30, 2019 and 2018, respectively. In September 2019, the Company terminated its lease for the New York City campus and wrote-off the remaining deferred rent balance of $8,925,597, which was recorded to lease abandonment (gain) loss in the accompanying consolidated statement of operations for the nine months ended September 30, 2019. The following is a schedule of the future minimum lease payments under operating leases as of September 30, 2019:

| | |
|---|---|
| 2019 (remaining 3 months) | $ 3,820,985 |
| 2020 | 15,212,868 |
| 2021 | 15,096,664 |
| 2022 | 15,274,621 |
| 2023 | 15,027,826 |
| Thereafter | 61,298,177 |
| | $ 125,731,141 |

## (11) Income Taxes

The provision for income taxes is based on earnings reported in the consolidated financial statements. A deferred income tax asset or liability is determined by applying currently enacted tax laws and rates to the expected reversal of the cumulative temporary differences between the carrying value of assets and liabilities for financial statement and income tax purposes. Deferred income tax expense or benefit is measured by the change in the deferred income tax asset or liability during the period. For the nine months ended September 30, 2019 and 2018, the Company's effective income tax rate was 0.0% as the Company has recorded a full valuation allowance against its deferred tax assets for all periods presented given the determination that the net deferred tax assets will not, on a more likely than not basis, be realized.

## (12) Related-Party Transactions

### *(a) Upslope Venture Fund I, LLC (formerly, Galvanize Venture Fund 1, LLC)*

The Company has made a $50,000 commitment to Galvanize Venture Fund I, LLC. As of September 30, 2019, $44,000 (88%) has been called and paid-in, with the balance of $6,000 (12%) yet to be called. Members of this fund are former executives of the Company and investors in the Company.

### *(b) Guarantor on Certain Letter of Credit – Private Investor*

An investor is the guarantor to and has provided a $2,500,000 letter of credit on the Company's behalf related to the Company's San Francisco lease agreement. In February 2014, the Company entered into a letter agreement with this individual, providing that the Company would make reasonable efforts to replace/reduce the letter of credit to $1,250,000 within three years and replace it to zero within five years (from date noted above).

On February 28, 2019, the Company released the private investor from the letter of credit guarantee.

***(c) Guarantor on Certain Letter of Credit – University Ventures***

University Ventures Fund I, L.P. and University Ventures Fund II, L.P. (Investors in the Company) are the guarantors to and have provided letters of credit on the Company's behalf related to several of the Company's letters of credit under the Loan and Security Agreement with SVB. In December 2015 and May 2017, the Company entered into an agreement with University Ventures Fund I, L.P. and University Ventures Fund II L.P., whereby the Company issued additional warrants to purchase shares of Common Stock. On April 10, 2018, the Company issued additional warrants to purchase 421,052 shares of Common Stock at a weighted average exercise price of $0.60 per share. The warrants were issued in exchange for providing a $1.2 million backstop to the Company's letter of credit. The warrants expire on March 23, 2028.

See notes 5 and 9 for additional discussion on standby letters of credit and warrants.

***(d) Guarantor on Certain Letter of Credit – ABS Capital Partners***

ABS Capital Partners (Investors in the Company) are the guarantors to and have provided letters of credit on the Company's behalf related to several of the Company's letters of credit under the Loan and Security Agreement with SVB. On April 10, 2018, the Company entered into an agreement with ABS Capital Partners VII Offshore, L.P. and ABS Capital Partners VII, L.P., whereby the Company issued warrants to purchase 421,052 shares of Common Stock at a weighted average exercise price of $0.60 per share. The warrants were issued in exchange for providing a $1.2 million backstop to the Company's letter of credit. The warrants expire on March 23, 2028.

See notes 5 and 9 for additional discussion on standby letters of credit and warrants.

***(e) Seller Financed Debt – Hack Reactor Founders***

On July 26, 2018, the Company entered into a $5.0 million seller-financed promissory note with the founders of Hack Reactor for the purchase of Hack Reactor. The note is to be repaid in equal annual installments of principal and accrued interest on July 25, 2019 and 2020, Interest accrues at 5% per annum. The principal and accrued interest on the note is subject to specified rights of offset, reduction and forfeiture of amounts owed to Galvanize as a result of indemnification claims. As of February 27, 2019, the amount subject to offset totaled $66,842. One of the Hack Reactor founders is employed by the Company and another Hack Reactor founder provided consulting services as an instructor during 2018.

**(13) Subsequent Events**

The Company has evaluated subsequent events from the balance sheet date through April 3, 2020, the date at which the financial statements were available to be issued.

***(a) Loan and Security Agreement***

On October 21, 2019 the Company signed a Third Amendment to Master Loan and Security Agreement with Trinity Capital. The Third Amendment reduced payments of principal by approximately 50% from December 1, 2019 to May 1, 2020.

***(b) C-1 Preferred Stock***

On November 15, 2019 the Company closed a second round of Series C-1 Preferred Stock for $2.1 million for cash.

***(c) K12 Merger***

On January 27, 2020, K12 Inc., acquired 100% of the Company's capital stock for approximately $177.2 million in cash, subject to customary transaction adjustments as provided in the merger agreement, and the Company became a wholly owned indirect subsidiary of K12 Inc. In conjunction with the acquisition, all of the Company's long-term debt was repaid in accordance with the terms of the underlying credit agreements.

***(d) COVID-19***

The World Health Organization announced the coronavirus as a global health emergency on 30 January 2020. Due to this emergency during the month of March 2020 the Company closed all campuses and moved all education to online distance learning only. The financial impact can not be estimated.

# K12 INC.
## UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

On January 27, 2020, K12 Inc. (“K12” or the “Company”) completed its acquisition (“Acquisition”) of Galvanize, Inc. (“Galvanize”) for approximately $177.2 million in cash, inclusive of the working capital adjustment. Galvanize is a leader in developing talent and capabilities for individuals and corporations in technical fields such as software engineering and data science.

The unaudited pro forma condensed combined financial statements were prepared using the acquisition method of accounting in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 805, *Business Combinations*, (“ASC 805”) with the Company considered as the accounting acquirer and Galvanize as the accounting acquiree. Accordingly, consideration paid by the Company to complete the Acquisition has been allocated to identifiable assets and liabilities of Galvanize based on estimated fair values as of the closing date of the Acquisition. Management’s allocation of the consideration was based on a preliminary valuation of the fair value of tangible and intangible assets acquired and liabilities assumed. The finalization of the purchase accounting assessment may result in changes to the valuation of assets acquired and liabilities assumed, which could be material. Accordingly, the pro forma adjustments related to the allocation of the consideration transferred are preliminary and have been presented solely for the purpose of providing unaudited pro forma condensed combined financial statements in this Current Report on Form 8-K/A. Management expects to finalize the accounting for the business combination as soon as practicable within the measurement period in accordance with ASC 805, but in no event later than one year from January 27, 2020.

The following unaudited pro forma condensed combined financial statements are based on the historical consolidated financial statements of the Company and Galvanize as adjusted to give effect to the Acquisition. The unaudited pro forma condensed combined balance sheet as of December 31, 2019 gives effect to the Acquisition as if it had occurred on December 31, 2019. The unaudited pro forma condensed combined statements of operations for the six months ended December 31, 2019 and for the fiscal year ended June 30, 2019 give effect to the Acquisition as if it had occurred on July 1, 2018.

The unaudited pro forma condensed combined financial statements do not include any adjustments regarding liabilities incurred or cost savings achieved resulting from the integration of the companies, as management is in the process of assessing what, if any, future actions are necessary, nor do they reflect any revenue or cost saving synergies that may be achieved subsequent to the completion of the Acquisition. The unaudited pro forma condensed combined financial statements are provided for informational purposes only and do not purport to represent or be indicative of the consolidated results of operations or financial condition of the Company that would have been reported had the Acquisition been completed as of the dates presented, and should not be construed as representative of the future consolidated results of operations or financial condition of the combined entity. Future results may vary significantly from the results reflected due to various factors, including those discussed in Part I, Item 1A entitled “Risk Factors” of the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2019.

The unaudited pro forma condensed combined financial statements have been derived from, and should be read in conjunction with:

- the audited consolidated financial statements and accompanying notes of the Company as of and for the fiscal year ended June 30, 2019, as contained in its Annual Report on Form 10-K filed on August 7, 2019;
- the unaudited condensed consolidated financial statements and accompanying notes of the Company as of and for the six months ended December 31, 2019, as contained in its Quarterly Report on Form 10-Q filed on January 28, 2020; and
- the audited consolidated financial statements and accompanying notes of Galvanize for the year ended December 31, 2018 (Exhibit 99.1).

The Company and Galvanize have a different fiscal year end, June 30th and December 31st, respectively. Consequently, Galvanize’s statements of operations have been aligned to more closely conform to the fiscal periods of the Company as follows:

- the unaudited pro forma condensed combined statements of operations for the fiscal year ended June 30, 2019 combines the Company's historical consolidated statement of operations for the fiscal year ended June 30, 2019 with Galvanize's unaudited condensed consolidated statements of operations for the four fiscal quarters ended June 30, 2019; and
- the unaudited pro forma condensed combined statements of operations for the six months ended December 31, 2019 combines the Company's historical unaudited condensed consolidated statement of operations for the six months ended December 31, 2019 with Galvanize's unaudited condensed consolidated statements of operations for the two fiscal quarters ended December 31, 2019.

**K12 INC.**
**UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET**

| *(In thousands)* | As Reported December 31, 2019 | Galvanize, Inc. December 31, 2019 | Pro Forma Adjustments | | Pro Forma December 31, 2019 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current assets** | | | | | |
| Cash and cash equivalents | $ 211,641 | $ 7,718 | $ (177,228) | (1) | $ 42,131 |
| Accounts receivable, net | 251,624 | 15,336 | | | 266,960 |
| Inventories, net | 20,071 | 5 | | | 20,076 |
| Prepaid expenses | 16,669 | 455 | | | 17,124 |
| Other current assets | 13,689 | 132 | | | 13,821 |
| **Total current assets** | 513,694 | 23,646 | (177,228) | | 360,112 |
| Property and equipment, net | 35,188 | 11,754 | | | 46,942 |
| Operating lease right-of-use assets, net | — | — | 86,043 | (9) | 105,257 |
| | | | 19,214 | (12) | |
| Capitalized software, net | 49,259 | — | | | 49,259 |
| Capitalized curriculum development costs, net | 52,345 | — | | | 52,345 |
| Intangible assets, net | 13,495 | 2,304 | 4,785 | (5) | 45,657 |
| | | | 24,020 | (6) | |
| | | | 3,357 | (7) | |
| | | | (2,304) | (8) | |
| Goodwill | 90,197 | 15,882 | 91,819 | (11) | 197,898 |
| Deposits and other assets | 72,772 | 5,499 | (19,214) | (12) | 59,057 |
| **Total assets** | $ 826,950 | $ 59,085 | $ 30,492 | | $ 916,527 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | | | |
| **Current liabilities** | | | | | |
| Accounts payable | $ 30,598 | $ 1,787 | $ | | $ 32,385 |
| Accrued liabilities | 19,616 | 2,232 | (672) | (9) | 21,176 |
| Accrued compensation and benefits | 28,055 | 65 | | | 28,120 |
| Deferred revenue | 23,569 | 8,959 | (5,325) | (4) | 27,203 |
| Current portion of long-term debt | — | 4,362 | (4,362) | (2) | — |
| Current portion of finance lease liability | 23,336 | — | | | 23,336 |
| Current portion of operating lease liability | 8,496 | — | 10,773 | (9) | 19,269 |
| **Total current liabilities** | 133,670 | 17,405 | 414 | | 151,489 |
| Long-term debt | — | 9,061 | (9,061) | (2) | — |
| Long-term finance lease liability | 2,146 | — | | | 2,146 |
| Long-term operating lease liability | 14,906 | — | 86,009 | (9) | 100,915 |
| Long-term deferred rent | — | 10,067 | (10,067) | (9) | — |
| Deferred tax liability | 16,789 | — | (14,251) | (10) | 2,538 |
| Other long-term liabilities | 8,343 | — | | | 8,343 |
| **Total liabilities** | 175,854 | 36,533 | 53,044 | | 265,431 |

| | | | | | |
|---|---|---|---|---|---|
| **Commitments and contingencies** | — | — | — | | — |
| **Redeemable, convertible preferred stock** | — | 189,032 | (189,032) | (3) | — |
| **Stockholders' equity** | | | | | |
| Common stock | 4 | — | — | | 4 |
| Preferred stock | — | — | — | | — |
| Additional paid-in capital | 720,451 | — | — | | 720,451 |
| Accumulated other comprehensive income (loss) | (188) | — | — | | (188) |
| Retained earnings | 33,311 | (166,480) | 166,480 | | 33,311 |
| Treasury stock | (102,482) | — | — | | (102,482) |
| **Total stockholders' equity** | 651,096 | (166,480) | 166,480 | (3) | 651,096 |
| **Total liabilities, redeemable, convertible preferred stock, and stockholders' equity** | $ 826,950 | $ 59,085 | $ 30,492 | | $ 916,527 |

See accompanying notes to unaudited pro forma condensed combined financial statements.

**K12 INC.**
**UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS**

| *(In thousands except share and per share data)* | As Reported Year Ended June 30, 2019 | Galvanize, Inc. Four Quarters Ended June 30, 2019 | Pro Forma Adjustments | | Pro Forma Year Ended June 30, 2019 |
|---|---|---|---|---|---|
| **Revenues** | $ 1,015,752 | $ 52,850 | $ (3,077) | (14) | $ 1,065,525 |
| Instructional costs and services | 663,437 | 51,615 | — | | 715,052 |
| **Gross margin** | 352,315 | 1,235 | (3,077) | | 350,473 |
| Selling, general, and administrative expenses | 306,829 | 15,160 | 3,427 | (13) | 325,416 |
| **Income from operations** | 45,486 | (13,925) | (6,504) | | 25,057 |
| Interest income (expense), net | 2,761 | (3,273) | — | | (512) |
| Other income (expense), net | 114 | — | — | | 114 |
| **Income before income taxes and loss from equity method investments** | 48,361 | (17,198) | (6,504) | | 24,659 |
| Income tax expense | (10,520) | (56) | 1,691 | (15) | (8,885) |
| Loss from equity method investments | (632) | — | — | | (632) |
| **Income from continuing operations** | 37,209 | (17,254) | (4,813) | | 15,142 |
| Loss from discontinued operations | — | — | — | | — |
| **Net income attributable to common stockholders** | $ 37,209 | $ (17,254) | $ (4,813) | | $ 15,142 |
| **Net income attributable to common stockholders per share:** | | | | | |
| Basic | $ 0.96 | | | | $ 0.39 |
| Diluted | $ 0.91 | | | | $ 0.37 |
| **Weighted average shares used in computing per share amounts:** | | | | | |
| Basic | 38,848,780 | | | | 38,848,780 |
| Diluted | 40,944,800 | | | | 40,944,800 |

See accompanying notes to unaudited pro forma condensed combined financial statements.

K12 INC.
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

| (In thousands except share and per share data) | As Reported Six Months Ended December 31, 2019 | Galvanize, Inc. Two Quarters Ended December 31, 2019 | Pro Forma Adjustments | | Pro Forma Six Months Ended December 31, 2019 |
|---|---|---|---|---|---|
| **Revenues** | $ 514,680 | $ 22,500 | $ (170) | (14) | $ 537,010 |
| Instructional costs and services | 336,828 | 21,074 | — | | 357,902 |
| **Gross margin** | 177,852 | 1,426 | (170) | | 179,108 |
| Selling, general, and administrative expenses | 166,935 | 6,104 | 1,331 | (13) | 174,370 |
| **Income from operations** | 10,917 | (4,678) | (1,501) | | 4,738 |
| Interest income, net | 1,351 | (760) | — | | 591 |
| Other income (expense), net | 357 | — | — | | 357 |
| **Income before income taxes and loss from equity method investments** | 12,625 | (5,438) | (1,501) | | 5,686 |
| Income tax expense | (1,574) | (34) | 390 | (15) | (1,218) |
| Loss from equity method investments | (187) | — | — | | (187) |
| **Income from continuing operations** | 10,864 | (5,472) | (1,111) | | 4,281 |
| Loss from discontinued operations | — | — | — | | — |
| **Net income attributable to common stockholders** | $ 10,864 | $ (5,472) | $ (1,111) | | $ 4,281 |
| **Net income attributable to common stockholders per share:** | | | | | |
| Basic | $ 0.28 | | | | $ 0.11 |
| Diluted | $ 0.27 | | | | $ 0.11 |
| **Weighted average shares used in computing per share amounts:** | | | | | |
| Basic | 39,369,287 | | | | 39,369,287 |
| Diluted | 40,692,822 | | | | 40,692,822 |

See accompanying notes to unaudited pro forma condensed combined financial statements.

**Note 1. Basis of Pro Forma Presentation**

The unaudited pro forma condensed combined financial statements have been prepared by K12 Inc. ("K12" or the "Company") pursuant to the rules and regulations of the Securities and Exchange Commission for the purposes of inclusion in the Company's amended Form 8-K prepared and filed in connection with the Company's acquisition of Galvanize, Inc. ("Galvanize") on January 27, 2020 ("Acquisition"). Galvanize is a leader in developing talent and capabilities for individuals and corporations in technical fields such as software engineering and data science.

Certain information and certain disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted pursuant to such rules and regulations. The Company believes, however, that the disclosures provided herein are adequate to make the information presented not misleading.

The following unaudited pro forma condensed combined financial statements are based on the historical consolidated financial statements of the Company and Galvanize as adjusted to give effect to the Acquisition. The unaudited pro forma condensed combined balance sheet as of December 31, 2019 gives effect to the Acquisition as if it had occurred on December 31, 2019. The unaudited pro forma condensed combined statements of operations for the six months ended December 31, 2019 and for the fiscal year ended June 30, 2019 give effect to the Acquisition as if it had occurred on July 1, 2018.

The Company and Galvanize have a different fiscal year end, June 30th and December 31st, respectively. Consequently, Galvanize's statements of operations have been aligned to more closely conform to the fiscal periods of the Company as follows:

- the unaudited pro forma condensed combined statements of operations for the fiscal year ended June 30, 2019 combines the Company's historical consolidated statement of operations for the fiscal year ended June 30, 2019 with Galvanize's unaudited condensed consolidated statements of operations for the four fiscal quarters ended June 30, 2019; and
- the unaudited pro forma condensed combined statements of operations for the six months ended December 31, 2019 combines the Company's historical unaudited condensed consolidated statement of operations for the six months ended December 31, 2019 with Galvanize's unaudited condensed consolidated statements of operations for the two fiscal quarters ended December 31, 2019.

The unaudited condensed consolidated financial statements for Galvanize that are included in these unaudited pro forma condensed combined financial statements assumes the adoption of Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers* ("ASC 606") and ASC Topic 842, *Leases* ("ASC 842"). ASC 606 adoption is assumed as of July 1, 2018 and ASC 842 adoption is assumed as of July 1, 2019.

The unaudited pro forma condensed combined financial statements do not include any adjustments regarding liabilities incurred or cost savings achieved resulting from the integration of the companies, as management is in the process of assessing what, if any, future actions are necessary. The unaudited pro forma condensed combined financial statements are not intended to represent or be indicative of the consolidated results of operations or financial condition of the Company that would have been reported had the acquisition been completed as of the dates presented, and should not be construed as representative of the future consolidated results of operations or financial condition of the combined entity.

**Note 2. Preliminary Purchase Price Allocation**

The Acquisition has been accounted for as a business combination, under the acquisition method of accounting, which results in acquired assets and assumed liabilities being measured at their estimated fair values as of January 27, 2020, the acquisition date. As of the acquisition date, goodwill is measured as the excess of consideration transferred and the fair values of the assets acquired and liabilities assumed.

Based on management's preliminary valuation of the fair value of tangible and intangible assets acquired and liabilities assumed, which are based on estimates and assumptions that are subject to change, and other factors as described in the introduction to these unaudited pro forma condensed combined financial statements, the preliminary estimated purchase price is allocated as follows (in thousands):

| | |
|---|---|
| Cash | $ 7,718 |
| Current assets, excluding cash | 15,928 |
| Property and equipment, net | 11,754 |
| Operating lease right-of-use assets, net | 86,043 |
| Intangible assets, net | 32,162 |
| Goodwill | 107,701 |
| Other assets | 5,499 |
| Current liabilities | (3,412) |
| Deferred revenue | (3,634) |
| Deferred tax liability | 14,251 |
| Current operating lease liability | (10,773) |
| Long-term operating lease liability | (86,009) |
| Total consideration | $ 177,228 |

Prior to the end of the measurement period for finalizing the purchase price allocation, if information becomes available which would indicate material adjustments are required to the purchase price allocation, such adjustments will be included in the purchase price allocation retrospectively. The estimated fair values for the intangible assets are considered preliminary and are subject to change based on final purchase price valuation amounts. Section 382 of the Internal Revenue Code could limit the Company's ability to utilize Galvanize's net operating losses and the analysis under Section 382 is preliminary. The purchase price valuation and Section 382 analysis are still under review. The Company has not made an assessment of its unfavorable/favorable leases as it relates to the value assigned to its operating lease right-of-use assets. It expects to complete that assessment within the measurement period.

The fair value of the identified intangible assets was determined using an income-based approach of either the multi-period excess earnings method or relief from royalty method, as well as a replacement cost approach. Intangible assets are amortized on a straight-line basis over the amortization periods noted below.

| Intangible Assets | Amount | Estimated Useful Life (in Years) |
|---|---|---|
| Developed technology | $ 3,357 | 4.00 yrs. |
| Customer relationships | 4,785 | 4.22 yrs. |
| Trade names | 24,020 | 18.00 yrs. |
| | $ 32,162 | |

Goodwill represents the excess of the purchase price of an acquired business over the fair value of the net tangible liabilities assumed and intangible assets acquired. Goodwill will not be amortized but instead will be tested for impairment at least annually (more frequently if indicators of impairment arise). In the event that management determines that the goodwill has become impaired, the Company will incur an accounting charge for the amount of the impairment during the fiscal quarter in which the determination is made. Goodwill is not deductible for tax purposes.

**Note 3. Preliminary Pro Forma Financial Statements Adjustments**

The historical consolidated financial statements have been adjusted in the unaudited pro forma condensed combined financial statements to give effect to pro forma events that are: (i) directly attributable to the Acquisition,

(ii) factually supportable, and (iii) with respect to the statements of operations, expected to have a continuing effect on the combined results. The pro forma combined income tax expense does not necessarily reflect the amounts that would have resulted had the Company and Galvanize recorded consolidated income tax provisions during the periods presented.

***Balance Sheet Adjustments***

(1) Reflects the cash consideration paid by the Company to acquire Galvanize.
(2) To record the payoff of Galvanize's debt obligations.
(3) Reflects the elimination of Galvanize's equity.
(4) To record the preliminary fair value reduction to the deferred revenue assumed.
(5) To record the preliminary fair value of the customer relationships intangible assets.
(6) To record the preliminary fair value of the trade name intangible asset.
(7) To record the preliminary fair value of the developed technology intangible assets.
(8) To eliminate the legacy intangible assets of Galvanize.
(9) To record the operating lease right of use asset and lease liability associated with Galvanize through its adoption of ASC 842. The values assigned to the lease liability assumed an incremental borrowing rate of 3.86% and lease terms ranging from 1 – 11 years.
(10) To record the deferred taxes associated with the book/tax differences on the acquired assets and liabilities of Galvanize at a rate of 25.3%.
(11) To write-off goodwill for Galvanize and record the excess of the purchase price over the fair value of assets acquired and liabilities assumed.

***Balance Sheet Reclassification***

(12) To reclassify the Company's operating lease right-of-use asset to a separate line due to the combined amount exceeding 10% of total assets.

***Statements of Operations Adjustments***

(13) To record the estimated amortization related to the acquired intangible assets.
(14) To record the impact of the reduction in deferred revenue.
(15) To reflect the tax impact of the amortization and revenue pro forma adjustments.