Mersive Technologies, Inc.

Consolidated Financial Statements as of and for the Year Ended December 31, 2018, and Independent Auditors' Report

Deloitte.

Deloitte & Touche LLP
Suite 400
1601 Wewatta Street
Denver, CO 80202
USA

Tel: + 1 303 292 5400
Fax: + 1 303 312 4000
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Mersive Technologies, Inc.
Denver, Colorado

We have audited the accompanying consolidated financial statements of Mersive Technologies, Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheet as of December 31, 2018, and the related consolidated statements of operations, changes in stockholder's equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; 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 audit. We conducted our audit 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 auditor's 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 Company'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 Company'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 the Company as of December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

February 3, 2020

MERSIVE TECHNOLOGIES, INC.

CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2018

ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 5,752,437
Accounts receivable, less allowance for doubtful accounts of $81,963	5,031,442
Prepaid expenses	498,162
Inventory deposits	607,140
Inventory	1,389,885
Income tax receivable	499,804
Deferred sales commissions	221,108
Total current assets	13,999,978
PROPERTY AND EQUIPMENT—Net	731,954
DEFERRED SALES COMMISSIONS	118,057
OTHER NONCURRENT ASSETS	103,301
INTANGIBLE ASSETS—Net	2,690,192
GOODWILL—Net	28,759,922
DEFERRED TAX ASSET	3,500,717
TOTAL ASSETS	$49,904,121
LIABILITIES AND STOCKHOLDER’S EQUITY	
CURRENT LIABILITIES:	
Accounts payable	$ 344,806
Accrued expenses	2,126,850
Warranty liability	154,066
Deferred revenue	4,423,234
Term loan	3,500,000
Total current liabilities	10,548,956
DEFERRED REVENUE	2,367,498
DEFERRED RENT	65,443
Total liabilities	12,981,897
COMMITMENTS AND CONTINGENCIES (Note 10)	
STOCKHOLDER’S EQUITY:	
Common stock, $.001 par value—authorized, 1,000 shares; issued and outstanding, 1,000 shares in 2018	1
Additional paid-in capital	40,620,573
Retained earnings	(3,698,350)
Total stockholder’s equity	36,922,224
TOTAL LIABILITIES AND STOCKHOLDER’S EQUITY	$49,904,121

See notes to consolidated financial statements.

MERSIVE TECHNOLOGIES, INC.

CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2018

REVENUE	$ 26,564,442
COST OF GOODS SOLD	6,185,268
GROSS PROFIT	20,379,174
OPERATING EXPENSES:	
Research and development	4,487,908
Sales and marketing	7,739,514
General and administrative	6,033,674
Amortization and depreciation	3,998,133
Total operating expenses	22,259,229
LOSS FROM OPERATIONS	(1,880,055)
OTHER EXPENSE:	
OTHER EXPENSE—Interest expense	180,888
CONSOLIDATED NET LOSS BEFORE INCOME TAXES	(2,060,943)
INCOME TAX EXPENSE	835,572
CONSOLIDATED NET LOSS	$ (2,896,515)

See notes to consolidated financial statements.

MERSIVE TECHNOLOGIES INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY FOR THE YEAR ENDED DECEMBER 31, 2018

	Common Stock		Additional Paid-In	Accumulated	
	Shares	Amount	Capital	Deficit	Total
BALANCE—January 1, 2018	1,000	$ 1	$ 40,620,573	$ (801,835)	$ 39,818,739
Consolidated net loss				(2,896,515)	(2,896,515)
BALANCE—December 31, 2018	1,000	$ 1	$ 40,620,573	$ (3,698,350)	$ 36,922,224

See notes to consolidated financial statements.

MERSIVE TECHNOLOGIES, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES:	
Consolidated net loss	$ (2,896,515)
Adjustments to reconcile consolidated net loss to net cash flows provided by operating activities:	
Depreciation	108,932
Amortization of intangible assets and goodwill	3,889,200
Deferred income tax benefit	(275,634)
Changes in operating assets and liabilities:	
Accounts receivable—net	(1,917,592)
Prepaid expenses	503,140
Inventory deposits	(287,140)
Inventory	(882,402)
Income taxes receivable	(499,804)
Deferred commissions	(251,009)
Other assets	(89,072)
Accounts payable	(249,076)
Accrued expenses	935,363
Deferred revenue	5,230,251
Warranty liability	130,274
Net cash flows provided by operating activities	3,448,916
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of property and equipment	(600,905)
Acquisitions—final cash adjustments	453,392
Net cash flows used in investing activities	(147,513)
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,301,403
CASH AND CASH EQUIVALENTS—Beginning of year	2,451,034
CASH AND CASH EQUIVALENTS—End of year	$ 5,752,437
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION—	
Total cash paid for income taxes	$ 1,000,000

See notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations—Mersive Technologies, Inc. and its wholly owned consolidated subsidiaries (collectively, the "Company") was incorporated on June 29, 2006, in the state of Delaware. On December 15, 2017, the Company was acquired by Mersive Holdings, Inc. (a subsidiary of Open Gate Capital). The Company is a provider of wireless media streaming and collaboration solutions that enable multiple users to simultaneously share content from computers, tablets, and phones to any meeting room display.

Basis of Presentation—The consolidated financial statements include accounts of Mersive Technologies, Inc. and its wholly owned consolidated subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying consolidated financial statements reflect revenue, expenses, and changes in assets and liabilities of Mersive Technologies, Inc. since the date of its acquisition by Mersive Holdings, Inc. The basis of the assets and liabilities of Mersive Technologies, Inc. as of the date of acquisition was adjusted to reflect the allocation of the purchase price to the fair value of the assets and liabilities acquired pursuant to a methodology known as push-down accounting.

Use of Estimates—The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents—The Company considers all highly liquid investments with original maturities of three months or less, at the time of purchase, to be cash and cash equivalents.

Business Combinations—Accounting for acquisitions requires the Company to recognize separately from goodwill the assets acquired, and the liabilities assumed at their acquisition date fair values. The Company elected the accounting alternative, which gives private companies the option to not recognize customer intangibles and noncompetition agreements separate from goodwill. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net of the acquisition date fair values of the assets acquired and the liabilities assumed. While management uses the best estimates and assumptions to accurately value assets acquired, and liabilities assumed at the acquisition date, the estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, adjustments to the assets acquired and liabilities assumed may be made with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the consolidated statement of operations.

Inventory—Inventory is stated at the lower of cost or net realizable value. Cost is determined using the first-in, first-out basis. The Company has placed a deposit with a supplier of inventory amounting to $607,140.

Internal Use Software—The Company capitalizes costs incurred to implement software obtained for internal use for certain cloud hosting arrangements that are service contracts. The capitalized implementation costs are amortized to general and administrative expenses over the estimated useful life of the service contracts of four years.

Property and Equipment—Property and equipment are stated at cost. Depreciation and amortization are computed using the straight-line method over the following estimated useful lives:

Assets	Useful Lives
Furniture and fixtures	7 years
Trade show equipment	3–7 years
Equipment	3–7 years
Leasehold improvements	5 years

Expenditures for renewals or betterments that materially extend the useful life of an asset or increase its productivity are capitalized in the property and equipment accounts. Expenditures for maintenance and repairs that do not extend asset lives or improve productivity are charged to the appropriate expense accounts as incurred. When assets are sold, retired, or otherwise disposed of, the cost and related accumulated depreciation are eliminated from the accounts and a gain or loss is recognized.

Impairment of Long-Lived Assets—The Company evaluates long-lived assets, including property and equipment, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss exists when estimated undiscounted net cash flows expected to be generated by the use of the asset, including eventual disposition, are less than its carrying value. The excess of the asset's carrying value as compared to its estimated fair value would result in the need to recognize an impairment loss. The Company did not identify any events or circumstances, which require the recognition of an impairment loss for the year ended December 31, 2018.

Intangible Assets—Intangible assets consist of trademarks and developed technology. Acquisition-related intangible assets result from the Company's acquisitions of businesses. Intangible assets subject to amortization are initially recognized at fair value and subsequently amortized over their estimated useful lives and are tested for impairment along with other long-lived assets. No impairment was recognized during the year ended December 31, 2018.

Goodwill—The Company utilizes the acquisition method of accounting for business combinations. Goodwill represents the excess of cost over the fair value of net assets acquired in a business combination. As a private company, the Company has elected to amortize its goodwill over 10 years, and to apply a simplified impairment model to goodwill. The Company also elected to test goodwill for impairment at the entity level. As of December 31, 2018, the Company concluded that it was more likely than not that the fair value of goodwill was greater than its carrying value. As such, there was no impairment loss for the year ended December 31, 2018.

Deferred Sales Commissions—The Company records the incremental costs directly associated with customer sales, which consist of sales commissions paid to the Company's sales force, as deferred sales commissions. The commissions are deferred and amortized over the term of the contract, which is typically 12 to 60 months. The commission payments are generally paid in full in the month following the invoicing. Amortization of deferred commissions is included in selling and marketing expense in the accompanying consolidated statement of operations.

During the year ended December 31, 2018, the Company capitalized $1,576,629 and amortized $1,325,620 of sales commissions.

The Company reviews deferred commissions for impairment during each reporting period. No impairments were identified for the year ended December 31, 2018.

Revenue Recognition—The Company earns revenue from sales of hardware, software, and customer support and software updates. The Company applies the following five steps to recognize revenue in accordance with Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers*:

1) Identification of the Contract, or Contracts, with a Customer

The Company considers the terms and conditions of its contracts and its customary business practices to identify contracts under ASC 606. The Company considers that it has a contract with a customer when the contract is approved by both parties and each party is committed to perform their respective obligations, the Company can identify each party's rights regarding the products or services to be transferred, the Company can identify the payment terms for the products or services to be transferred, the Company has determined that the customer has the ability and intent to pay, and the contract has commercial substance. The Company applies judgment in determining the customer's ability and intention to pay, which is based on a variety of factors, including the customer's historical payment experience or, in the case of a new customer, credit and financial information pertaining to the customer.

2) Identification of the Performance Obligations in the Contract

Performance obligations promised in a contract are identified based on the products or services that will be transferred to the customer that are both:

- Capable of being distinct, whereby the customer can benefit from the product or services either on their own or together with other resources that are readily available from third parties or from the Company

- Distinct in the context of the contract, whereby the transfer of the products or services is separately identifiable from other promises in the contract

To the extent a contract includes multiple promised products or services, the Company applies judgment to determine whether promised products or services are capable of being distinct and are distinct in the context of the contract. If these criteria are not met, the promised products or services are accounted for as a combined performance obligation.

3) Determination of the Transaction Price

The transaction price is determined based on the consideration that the Company will be entitled to in exchange for transferring products or services to the customer. Variable consideration is included in the transaction price, if, in the Company's judgment, it is probable that no significant future reversal of cumulative revenue under the contract will occur. Variable consideration is not typically constrained.

In instances where the timing of revenue recognition differs from the timing of invoicing, the Company has determined that its contracts generally do not include a significant financing component. The primary purpose of the Company's invoicing terms is to provide customers with simplified and predictable ways of purchasing its products and services, not to receive financing from its customers or to provide customers with financing. An example is invoicing at the beginning of a subscription term with revenue recognized ratably over the contract period.

4) Allocation of the Transaction Price to Performance Obligations in the Contract

If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on relative stand-alone selling price (SSP) basis. The Company determines SSP based on the price at which the performance obligation is sold separately. If the SSP is not observable through past transactions, the Company estimates the SSP considering available information, such as market conditions and internally approved pricing guidelines related to the performance obligation.

5) Recognition of Revenue When, or as, a Performance Obligation is Satisfied

Revenue is recognized at the time the related performance obligation is satisfied by transferring the promised product or service to a customer. The Company recognizes revenue when it transfers control of the products or services to the customer for an amount that reflects the consideration that the Company expects to receive in exchange for those products or services. For hardware and software, control is transferred when the goods are received by the customer. For customer support and software updates, control is transferred ratably over the contract life. During the year ended December 31, 2018, $21,778,071 of revenue was related to hardware and software, which is recognized at a point in time and $4,783,508 of revenue, exclusive of the allowance for returns, was recognized related to support and maintenance, which is recognized over time. Revenue is recognized net of allowances for returns. At December 31, 2018, the allowance for returns was not material.

Accounts Receivable—The Company grants credit to all qualified customers. Accounts receivable are carried at cost, less an allowance for losses, if an allowance is deemed necessary. The Company does not accrue finance or interest charges. On a periodic basis, the Company evaluates its receivables and determines the requirement for an allowance for losses, based on history of past write-offs, collections, and current credit conditions. An accounts receivable balance is written off when it is determined that all collection efforts have been exhausted. Accounts receivable at December 31, 2018, were $5,031,442.

Payment terms and conditions vary by contract type and customer. For larger enterprise customers, payment terms generally range from 30 to 60 days. For smaller enterprise customers, sales to end customers are done by credit card, which generally are settled within three days.

Contract Liabilities (Deferred Revenue)—Deferred revenue consists of billings and payments received in advance of revenue recognition for the Company's support and software update contracts. For these services, in multiyear or annual contracts, customers are typically invoiced at the beginning of the term and revenue is recognized related to this performance obligation over the contract period. Accordingly, the deferred revenue balance does not represent the total contract value of annual or multiyear noncancelable contracts. Deferred revenue at December 31, 2018, was $6,790,732.

Product Warranties—The Company provides for the estimated cost of hardware warranties at the time the related revenue is recognized. The Company assesses the adequacy of its preexisting warranty liabilities and adjusts the amounts as necessary based on actual experience and changes in future estimates.

Income Taxes—Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently payable and deferred taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, and operating losses and tax credit carryforwards.

A valuation allowance is provided when it is more likely than not that some portion of a deferred tax asset will not be realized. The Company determines valuation allowances based on all available evidence. Such evidence includes historical results, the reversal of deferred tax liabilities, expectations of future profitability, and the feasibility of tax-planning strategies. Determining valuation allowances includes significant judgment by management, and different judgments could yield different results.

Accounting for uncertain tax positions requires a more-likely-than-not threshold for recognition in the consolidated financial statements. The Company recognizes a tax benefit based on whether it is more likely than not that a tax position will be sustained. The Company records a liability to the extent that a tax position taken or expected to be taken on a tax return exceeds the amount recognized in the consolidated financial statements. The Company recognizes interest and penalties, if any, associated with uncertain tax positions, as a component of the provision for income taxes.

Advertising—Advertising costs, which are included in sales and marketing expenses, are expensed as incurred. Advertising expense was $126,744 for the year ended December 31, 2018.

Leases—The Company's leases are evaluated at inception or at any subsequent modification and, depending on the lease terms, are classified as either capital leases or operating leases. For operating leases that contain contractual rent escalations, rent holidays, or rent concessions, rent expense is recognized on a straight-line basis over the life of the lease.

Sales Tax—The Company reports sales net of sales taxes collected and remitted to government authorities.

Shipping and Handling Costs—The Company includes shipping and handling billed to customers in net sales and the related shipping and handling costs in cost of goods sold.

Research and Development—Research and development costs are charged to expense as incurred and consist of salaries and other direct costs. Software development costs are expensed as incurred until technological feasibility has been established, at which time such costs are capitalized until the product is available for general release to customers. To date, the Company's software has been available for general release concurrent with the establishment of technological feasibility and, accordingly, no development costs have been capitalized.

Recently Issued Accounting Pronouncements

Leases—In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases*, which was intended to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing key information about leasing arrangements. Under the new guidance, lessees will be required to recognize a right-of-use asset and a lease liability, measured on a discounted basis, at the commencement date for all leases with terms greater than 12 months. Additionally, this guidance will require disclosures to help investors and other financial statement users to better understand the amount, timing, and uncertainty of cash flows arising from leases, including qualitative and quantitative requirements. The guidance should be applied under a modified retrospective transition approach for leases existing at the beginning of the earliest comparative period presented in the adoption-period financial statements. Any leases that expire before the initial application date will not require any accounting adjustment. In November of 2019, the FASB issued ASU No. 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842),* which extends the effective date for ASU No. 2016-02, *Leases (Topic 842),* for private companies to fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. As such, the standard is effective for annual periods beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021, with early adoption permitted. The Company has not determined the effect of the standard on its ongoing financial reporting.

Financial Instruments—In April 2019, the FASB issued ASU No. 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*, which requires entities to use a current expected credit loss (CECL) model to measure impairment for most financial assets that are not recorded at fair value through net income. Under the CECL model, an entity will estimate lifetime expected credit losses considering available relevant information about historical events, current conditions, and supportable forecasts. The CECL model does not apply to available-for-sale debt securities. This guidance also expands the required credit loss disclosures and will be applied using a modified retrospective approach by recording a cumulative effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. In November of 2019, the FASB issued ASU No. 2019-10, which extends the effective date for ASU No. 2019-04 as it relates to credit losses for private companies to fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. As such, the standard will be effective for annual periods beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022, with early adoption permitted. The Company has not determined the effect of the standard on its ongoing financial reporting.

2. PROPERTY AND EQUIPMENT—NET

Property and equipment consist of the following at December 31, 2018:

Furniture and fixtures	$ 141,503
Trade show equipment	68,261
Equipment	573,564
Leasehold improvements	61,042
Total property and equipment	844,370
Less accumulated depreciation	(112,416)
Property and equipment—net	$ 731,954

Total depreciation expense for the year ended December 31, 2018, was $108,932.

3. GOODWILL AND INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for the year ended December 31, 2018, are as follows:

	Gross	Accumulated Amortization	Net
Balance January 1, 2018	$ 32,565,265	$ (142,752)	$ 32,422,513
Purchase price adjustments[(1)]	(453,391)		(453,391)
Amortization of goodwill		(3,209,200)	(3,209,200)
Balance December 31, 2018	$ 32,111,874	$ (3,351,952)	$ 28,759,922

(1) During 2018, purchase price adjustments were recorded for the finalization of the purchase price for the December 2017 merger transaction with Mersive Technologies, Inc. Purchase accounting was completed in 2018.

For the year ended December 31, 2018, the amortization expense for goodwill was $3,209,200 and goodwill is amortized over an estimated useful life of 10 years.

Intangible assets consist of the following as of December 31, 2018:

	Estimated Useful Life	Gross	Accumulated Amortization	Net
Trademarks	5 years	$ 1,700,000	$ (354,904)	$ 1,345,096
Developed technology	5 years	1,700,000	(354,904)	1,345,096
		$ 3,400,000	$ (709,808)	$ 2,690,192

For the year ended December 31, 2018, the amortization expense for intangible assets was $680,000.

Future estimated amortization expense for goodwill and intangible assets at December 31, 2018, is as follows:

Years Ending December 31	
2019	$ 3,891,187
2020	3,891,187
2021	3,891,187
2022	3,861,379
2023	3,211,187
Thereafter	12,703,987
	$ 31,450,114

4. TERM LOAN

On December 15, 2017, the Company assumed a term loan with a bank with a borrowing limit of $3,500,000. Interest is due monthly on the outstanding amount at the bank's prime rate, which was 5.5% at December 31, 2018. Total interest incurred on the term loan for the year ended December 31, 2018, was $180,888.

The term loan was amended in December 2018, to extend the maturity date to December 2019. The term loan is collateralized by substantially all assets of the Company and is subject to certain financial covenants. The Company is in compliance with all loan covenants at December 31, 2018.

5. INCOME TAXES

The components of income tax expense for the year ended December 31, 2018, are as follows:

Current income tax expense	$1,111,206
Deferred income tax expense	(275,634)
Total income tax expense	$ 835,572

The Company applies the asset and liability method to account for income taxes, under which deferred tax assets and liabilities are recognized for the 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. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled.

The effective tax rate of (40.5%) differs from the statutory rate of 21% primarily due to goodwill amortization and a nondeductible fair value adjustment to deferred revenue associated with purchase accounting.

Significant components of deferred income taxes as of December 31, 2018, net are as follows:

Deferred rent	$ 16,340
Net operating loss carryforward	1,342,779
Allowance for doubtful accounts	20,464
Accrued paid time off	67,194
Deferred revenue	1,817,505
Accrued bonuses	327,885
Accrued warranty	38,468
Property and equipment	(137,340)
Other	7,422
Net deferred tax asset	$ 3,500,717

At December 31, 2018, the Company had approximately $6,430,817 of federal and state net operating loss carryforwards, which expire through 2037.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which those temporary differences become deductible. Management considers projected future taxable income and tax planning strategies in making this assessment.

The Company's federal and state income tax returns are subject to examination by the Internal Revenue Service and Colorado Department of Revenue, generally for three years after they are filed.

6. RELATED-PARTY TRANSACTIONS

In December 2017, the Company entered into an agreement with a related party for ongoing monitoring and management support services. Under the terms of the agreement, the Company is required to pay $600,000 per year, payable in quarterly installments, for a term of 10 years. During the year ended December 31, 2018, $600,000 was recorded as general and administrative expense in the consolidated statement of operations. The monitoring and management support services were increased to $1,000,000 annually in 2019.

7. OPERATING LEASE

The Company leases its office facility under a noncancelable operating lease expiring in December 2024. Rent consists of base rent, plus operating expenses. In February 2019, the Company entered into an amendment of its facility lease agreement that extended the lease term to January 2024. The future minimum lease payments required under this amended lease are as follows:

Years Ending December 31	
2019	$ 749,185
2020	932,426
2021	957,592
2022	983,514
2023	1,010,213
Thereafter	86,280
	$ 4,719,210

Total rental expense for the year ended December 31, 2018, was $508,534.

8. RETIREMENT PLAN

The Company sponsors a 401(k) plan. All employees of the Company that meet the entry requirements are eligible to participate in the plan. Each plan year, the Company's board of directors will determine the amount, if any, that the Company will contribute to the plan as a Company matching contribution for that year. Matching contributions made by the Company were $0 for the year ended December 31, 2018.

9. CONCENTRATIONS

Customers—At December 31, 2018, the Company had one customer with an accounts receivable balance that accounted for 11% of total accounts receivable and with 2018 sales that accounted for 16% of total invoiced sales. The Company had another customer with an accounts receivable balance that accounted for 10% of total accounts receivable.

Major Supplier—For the year ended December 31, 2018, one supplier accounted for 100% of the Company's inventory purchases. The Company is dependent on this supplier. The loss of any of this supplier could have a material effect on the Company's financial position and results of operations.

Credit Risk—The Company maintains its cash at highly rated financial institutions. The FDIC insurance coverage is $250,000 on the aggregate of interest-bearing and non-interest-bearing accounts. During the year ended December 31, 2018, account balances have exceeded this amount.

10. COMMITMENTS AND CONTINGENCIES

Software License Agreement—In October 2015, the Company entered into a Software License Agreement wherein the Company engaged a software engineering firm to develop software for the Company. The original agreement was amended in September 2016 for additional development services. Under the agreement, in addition to the software development fees, the Company is to pay royalties on a per unit basis on all sales of the licensed software, subject to a $20,000 per year minimum, which is payable in advance. Royalty expenses in the amount of $280,422 are reflected in cost of goods sold for the year ended December 31, 2018.

Inventory Purchase Agreement—The Company paid a deposit in the amount of $607,140, which is recorded in inventory deposits on the balance sheet.

Accrued Warranty—The Company offers a basic assurance-type warranty on its hardware products for a one-year period from the date of purchase by the customer. The Company provides for the estimated cost that may be incurred under its warranties at the time revenue is recognized. At December 31, 2018, $154,066 was recorded in warranty liability on the consolidated balance sheet.

Supplier Dispute—The Company was a party to a dispute with a former supplier. Pursuant to the acquisition agreement for the purchase by Mersive Holdings, Inc., of Mersive Technologies, Inc., Mersive Technologies, Inc. deposited into an escrow account the full amount of the balance due to the supplier, plus an additional amount to cover any additional legal fees related to this dispute. The dispute was settled in 2018 for an amount equal to or less than the amount in escrow. As a result of the deposit into the escrow account, the Company reversed the account payable balance to the vendor. No additional liability has been recorded for this dispute at December 31, 2018.

11. SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 3, 2020, the date on which the consolidated financial statements were available to be issued.

* * * * * *