

inrule

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Monthly Operating Review – October 2019

12 August 2020

Monthly Operating Review Agenda

- Executive Summary
- Financial Review
- Governance Reporting
- Appendix

Executive Summary

Good News / Positives to Business and Plan:

- Revenue up 20.4% over previous MTD and 16.7% over previous YTD
- Maintained Microsoft AppStore presence with new royalty agreement
- Submitted Salesforce AppExchange listing – awaiting approval
- Recruited and finalized employment agreement for new Accounting Manager with start date of 11/12
- Successful Advisory Day with Forrester
- Exhibited at Mortgage Bankers' Association Conference – first Mortgage industry conference presence

Risks / Challenges to the Business and Plan:

- Unfavorable YTD revenue variance of (\$145k) due to slower than expected subscription bookings in the beginning the year
- Non-renewal from Flight Centre
- Lower Services utilization than expected, partially due to bundled services with new projects





Executive Summary (Continued)

	Description	Potential Impact	Plan to Address
Risks	▪ Funnel metrics and pipeline not supporting subscription goal	▪ Missed new subscription bookings target	<ul style="list-style-type: none"> ▪ Study funnel metric churn ▪ Increase marketing AdWord dollars ▪ First five minutes initiative
	▪ Ability to add new headcount in a timely manner	▪ Initiative execution will move slower than estimated	<ul style="list-style-type: none"> ▪ Finalize staffing needs for next six months ▪ Develop recruiting strategy
Opportunities	▪ Sourced a solid CPO Candidate	▪ Begin optimizing product machine and moving on product enhancements	▪ Understanding compensation requirements and determining offer package
	• ~\$750K of solid pipeline for Q4	<ul style="list-style-type: none"> ▪ Significant new ARR ▪ Good growth in new logos 	<ul style="list-style-type: none"> ▪ Deep into legal process ▪ Driving sales team to push deals to close before EOY
	▪ .NET Core Upsell to Conduent	▪ Would become first ~\$400K ARR customer	▪ Working with procurement to finalize deal

Product Sales Metrics – License Type & Channel



Wins			Key Losses/Delays		
<ul style="list-style-type: none">TN Dept of Education Upsell \$60kPayoneer Upsell \$25k			<ul style="list-style-type: none">CU Direct - ~\$97K<ul style="list-style-type: none">Intro from First American, lack of web authoring / multi tenancyGoreMutual – lost sponsor		
Upcoming Pipeline					
Potential Customer	▼	Perpetual ▼	Subscription ▼	Industry ▼	Revenue Subclass ▼
FIDELITY INTERNATIONAL			\$154,174.00	Financial Services - Other	Initial/New Project
American Airlines			\$125,179.00	Logistics and Transportation	Initial/New Project
ADECCO GROUP			\$106,800.00	Professional Services	Initial/New Project
CONDUENT (FORMERLY XEROX SERVICES)			\$104,000.00	Information Technology and Services	Additional Project
BUPA BHF			\$100,000.00	Healthcare - Payor	Expanded Revenue (Add Licenses to Existing Project)
CANCER TREATMENT CENTERS OF AMERICA GLOBAL, INC.			\$90,000.00	Healthcare - Provider	Initial/New Project
STIHL INC			\$73,548.00	Manufacturing	Initial/New Project
WORLDSTRIDES		\$20,000.00		Education	Expanded Revenue (Add Licenses to Existing Project)

2019 Key Initiatives

Initiative	Status	Recent Progress	Next Steps	Risks
Restructure the product machine organization		<ul style="list-style-type: none"> Delivered proposed org structure to leadership and product org Began interviewing CPO candidate(s) 	<ul style="list-style-type: none"> Determine appropriate compensation package and offer 	<ul style="list-style-type: none"> Compensation package may not be adequate Delay in finding another candidate will affect progress on product goals
Deliver decision services		<ul style="list-style-type: none"> UI complete Implemented runtime API 	<ul style="list-style-type: none"> Execute launch plan Final testing 	<ul style="list-style-type: none"> Resources may be pulled to modify Java offering
Deliver centralized authentication capability		<ul style="list-style-type: none"> Added solution to SaaS customer instances 	<ul style="list-style-type: none"> Project completed 	<ul style="list-style-type: none"> Project completed
Develop integrations team strategy and roadmap		<ul style="list-style-type: none"> App source certification successful 	<ul style="list-style-type: none"> InRule SaaS trial provision Batch processing Market penetration strategy for Salesforce PowerPlatform integration plan 	<ul style="list-style-type: none"> Heavy services demand in Q4 may delay progress

 Complete
  On-Schedule
  At Risk
  Behind

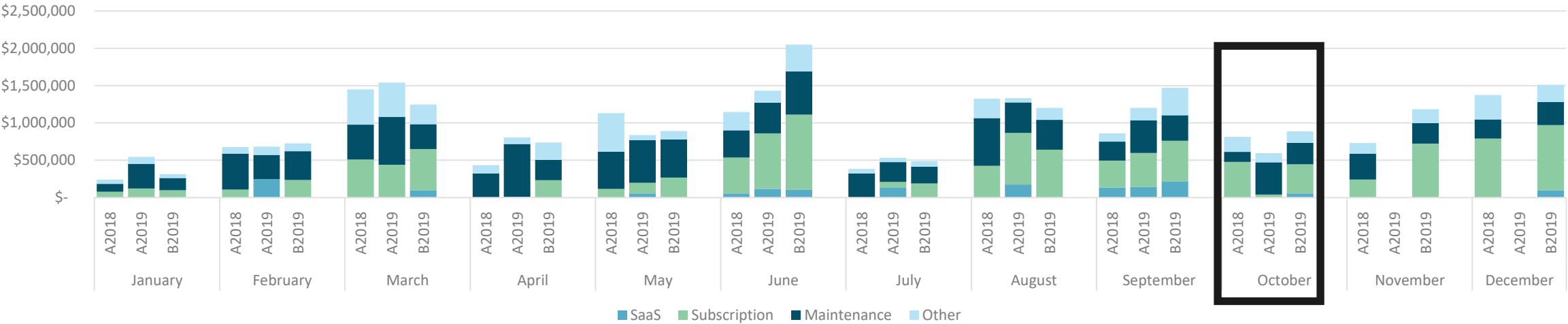
2019 Key Initiatives (Continued)

Initiative	Status	Recent Progress	Next Steps	Risks
Select new ERP system		<ul style="list-style-type: none"> Discover session with Keystone (Netsuite) Discover session with BTPartners (Intaact) 	<ul style="list-style-type: none"> Determine must have components Get demos from both integrators 	<ul style="list-style-type: none"> Financial reporting continues to be a drag on productivity
Develop recruiting strategy to fill key open positions		<ul style="list-style-type: none"> IT Manager-working with recruiter to fill position Accounting Manager started on 11/12 Verbal acceptance for Sales Development Representative position. Target start date of 12/2 	<ul style="list-style-type: none"> CPO - Determine next steps to fill role (internal or external) IT Manger-Select a candidate and extend an offer Accounting Manager-onboarding underway SDR-obtain written acceptance and begin onboarding 	<ul style="list-style-type: none"> CPO-product development delays

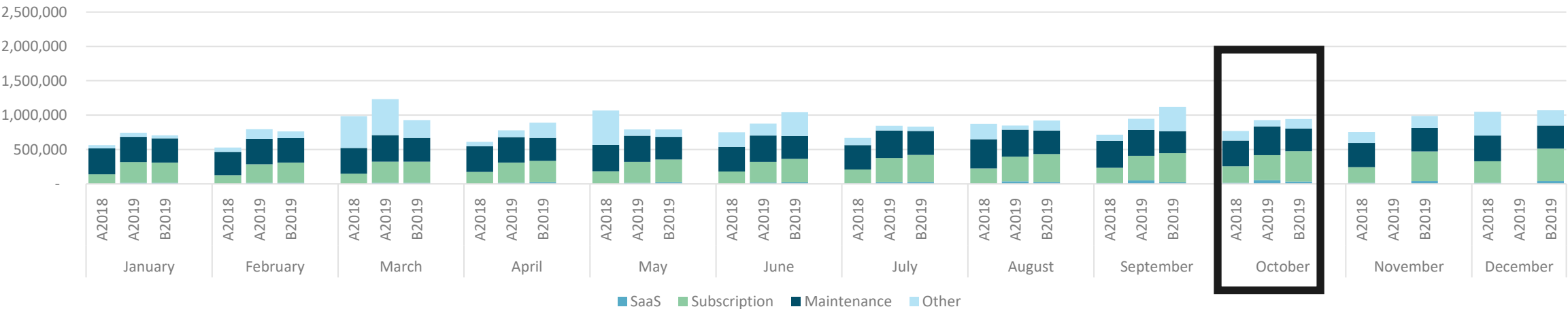
 Complete
  On-Schedule
  At Risk
  Behind

Product Sales Metrics – Monthly Trend

Monthly Trend - Bookings

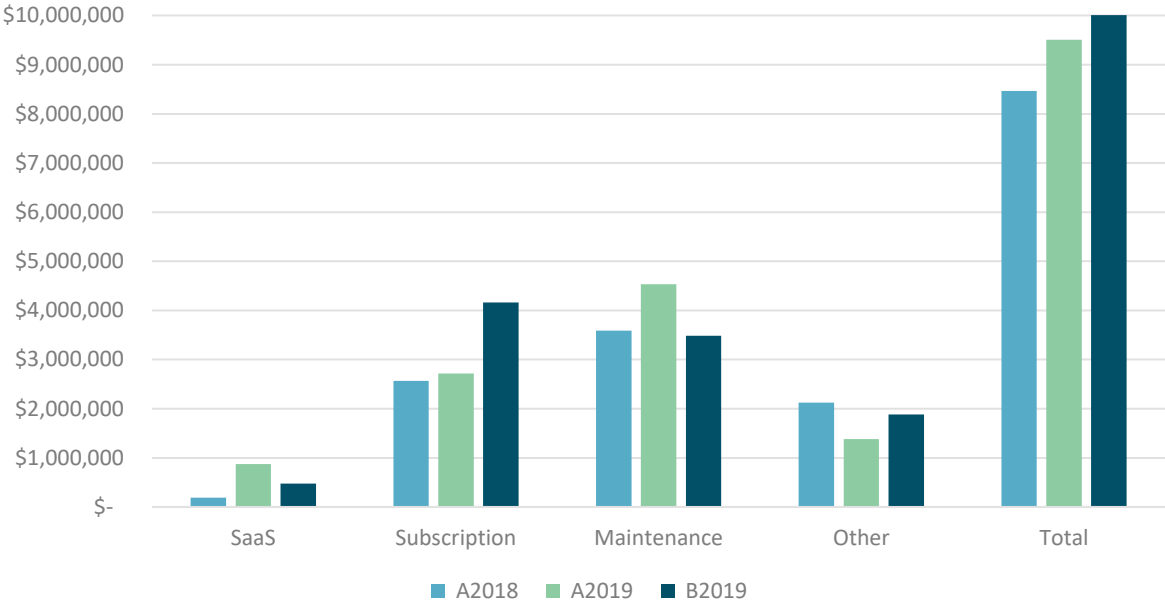


Monthly Trend - Revenue

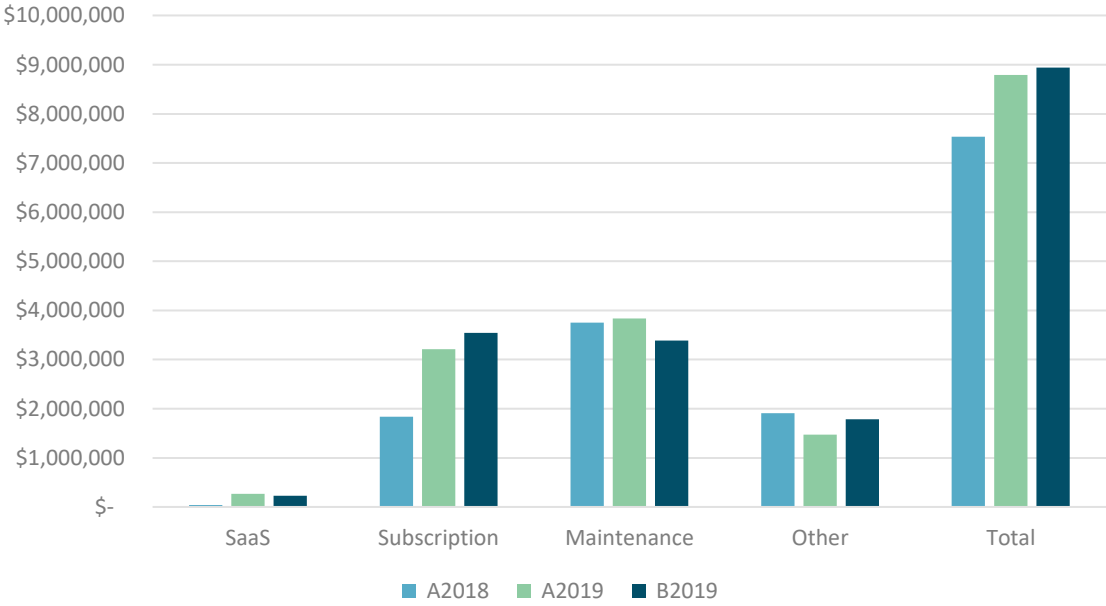


Product Sales Metrics - YTD 2019

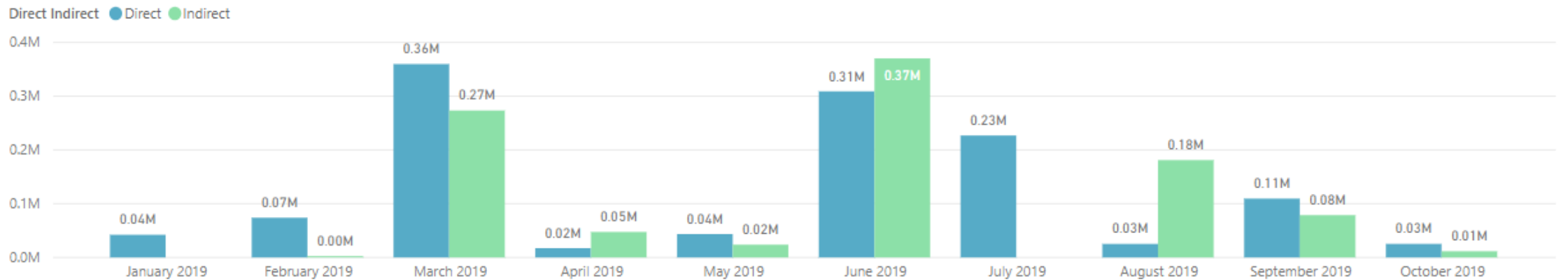
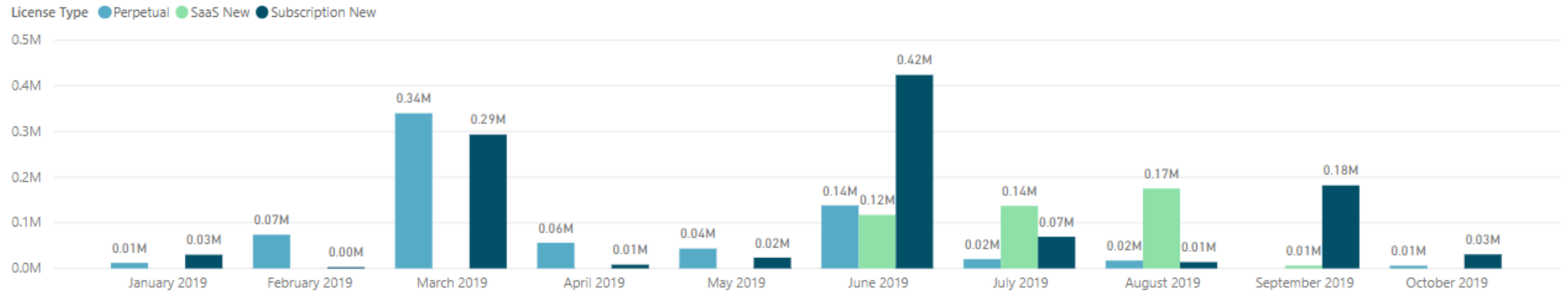
Bookings by Product



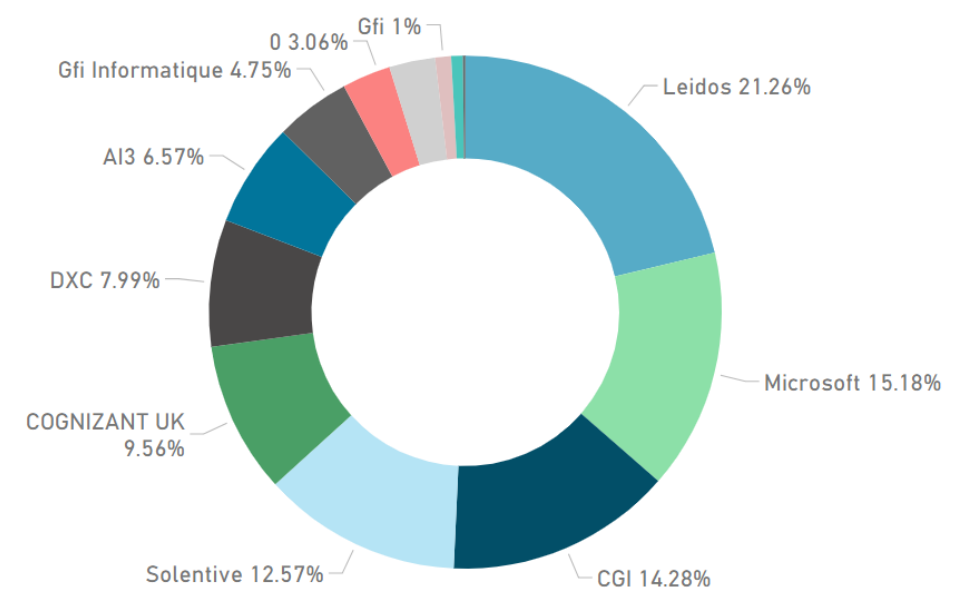
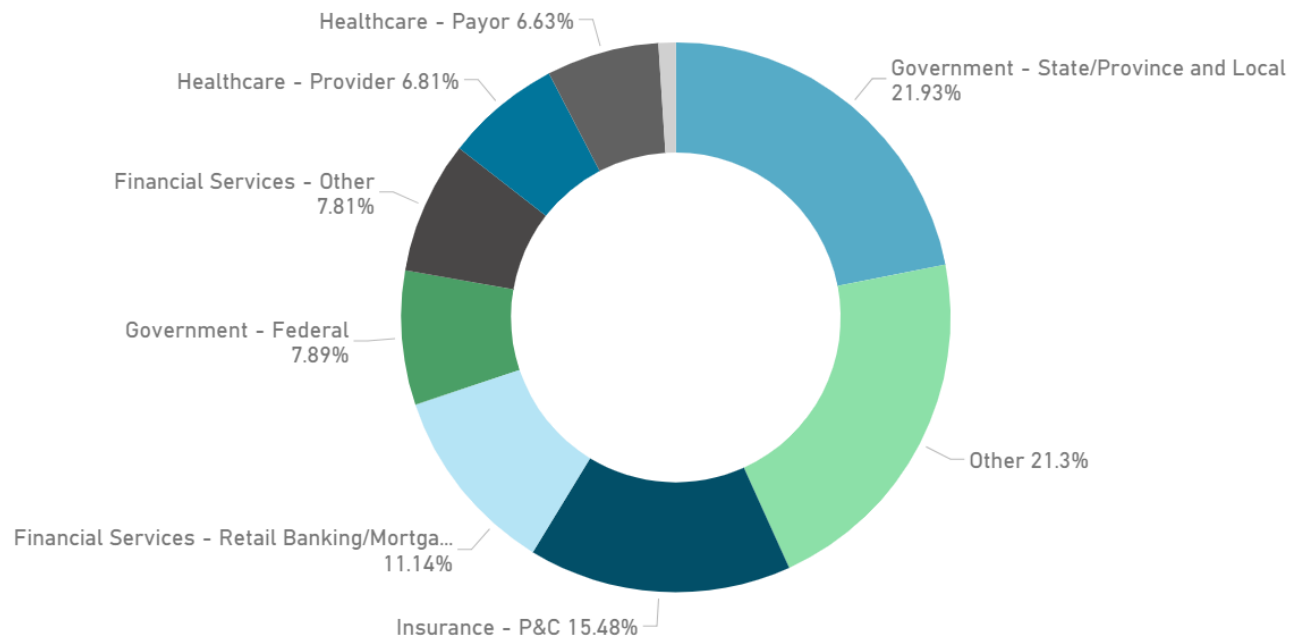
Revenue by Product



Product Sales Metrics – License Type & Channel

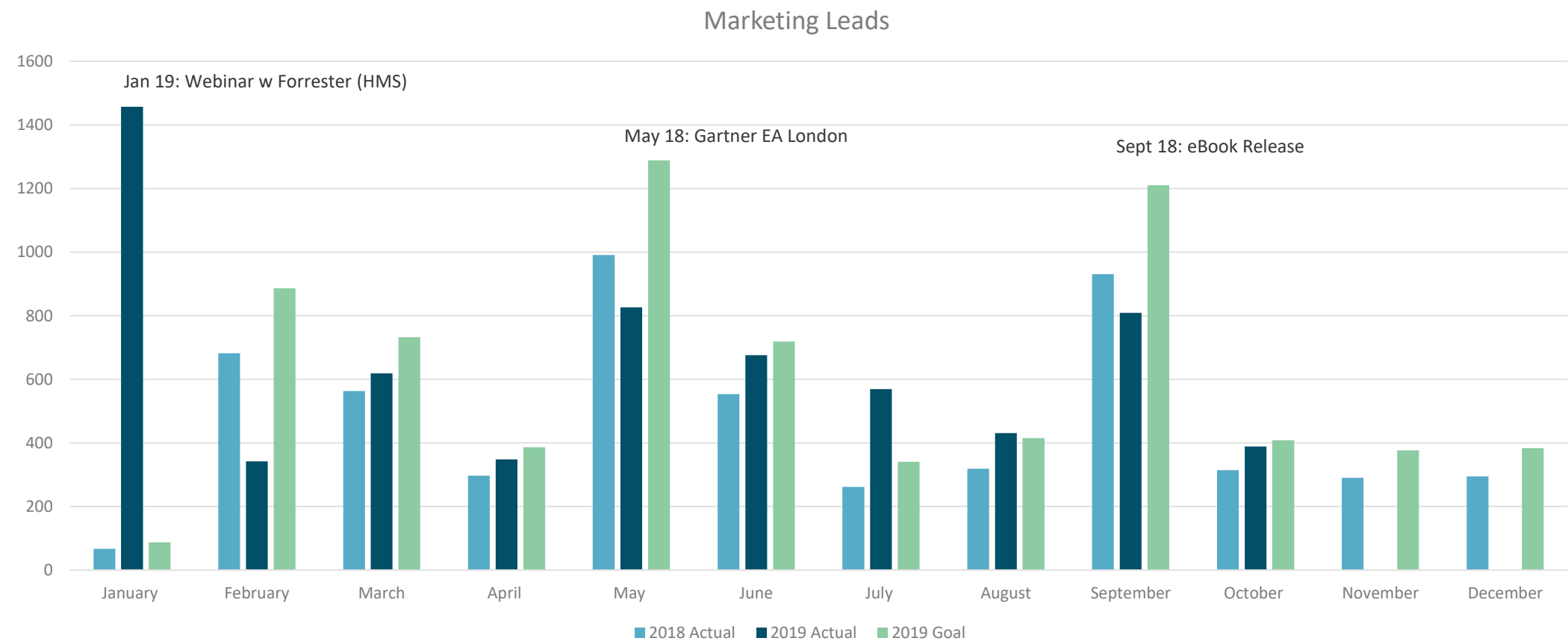


Product Sales Metrics – Vertical and Channel

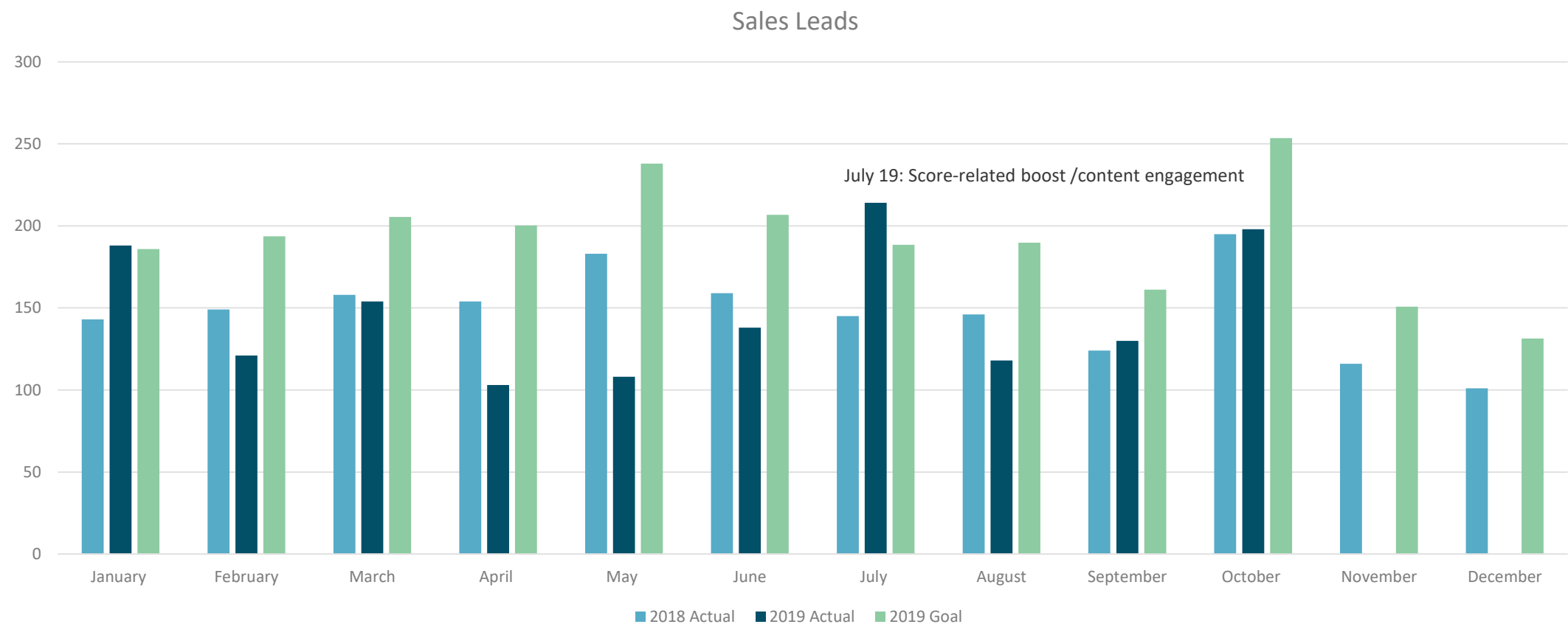


January 2019 – October 2019

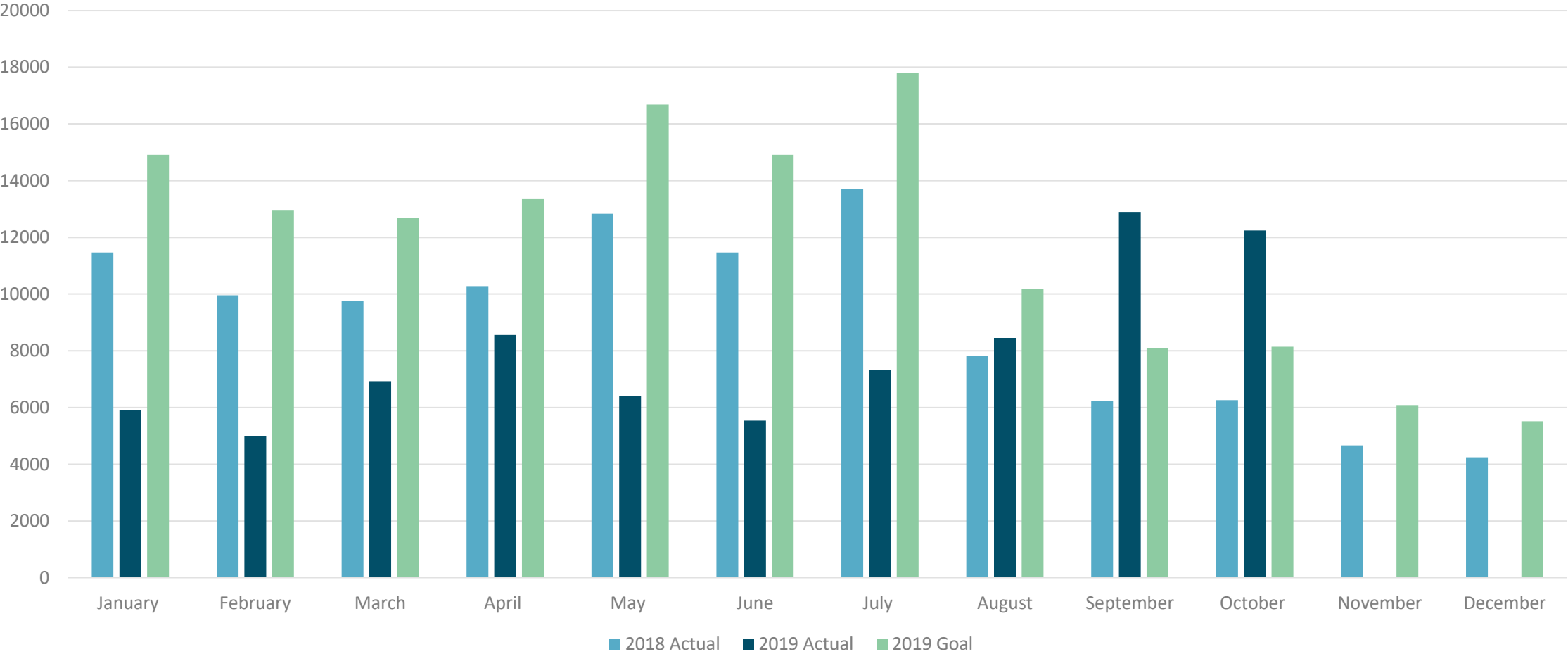
Marketing Leads



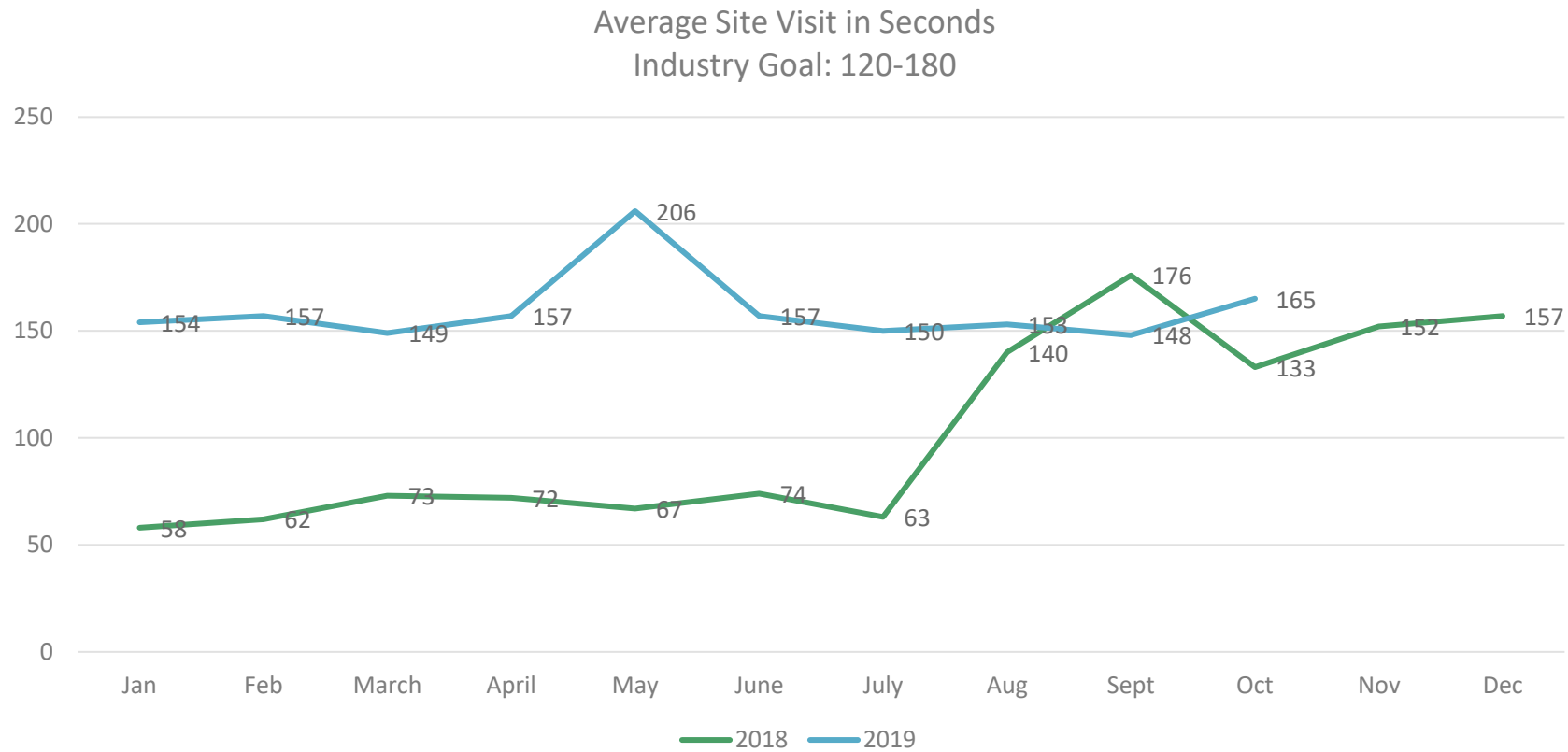
Sales Leads



Website Visitors



Website Visit Duration



- 2019 Average: 159.6
- 2018 Average: 102.3

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Summary P&L through October 2019

	SUMMARY P&L MTD (\$000)					
	MTD		Variance		PY MTD	
	Act	Bud	\$	%	Act	\$ %
Gross Revenue	926	943	(17)	(1.8%)	769	157 20.4%
Net Revenue	926	943	(17)	(1.8%)	769	157 20.4%
Material	—	—	—		—	—
Labor	143	149	5	3.6%	144	1 0.5%
Other COGS	(7)	6	14	219.7%	29	37 125.5%
Total COGS	136	155	19	12.4%	173	38 21.7%
Gross Margin	791	788	2	0.3%	596	195 32.7%
Gross Margin %	85.4%	83.6%		1.8%	77.5%	7.9%
R&D	289	284	(5)	(1.7%)	350	60 17.2%
Sales & Marketing	254	215	(39)	(18.2%)	223	(31) (13.7%)
Administrative	157	158	1	0.5%	125	(33) (26.1%)
Other						
Total OPEX (excl D&A)	700	657	(43)	(6.6%)	697	(3) (0.4%)
Net Income (Loss)	(12)	47	(60)	(126.0%)	(93)	81 (86.8%)
Reported EBITDA	91	131	(41)	(30.9%)	(101)	192 189.7%
EBITDA Margin %	9.8%	13.9%			(13.2%)	
EBITDA Addbacks	28	30	2	7.9%	(2)	(29) 1830.2%
Adj. EBITDA	118	161	(43)	(26.7%)	(103)	221 (215.1%)
Adj. EBITDA %	9.8%	13.9%				
ARR (Monthly Recurring *12)	10,033	9,638	395	4.1%	7,571	2,462 32.5%

	SUMMARY P&L YTD (\$000)					
	YTD		Variance		PY YTD	
	Act	Bud	\$	%	Act	\$ %
	8,799	8,944	(145)	(1.6%)	7,538	1,260 16.7%
	8,789	8,944	(154)	(1.7%)	7,536	1,254 16.6%
	—	—	—		—	—
	1,406	1,460	54	3.7%	1,381	(24) (1.8%)
	39	61	22	35.7%	59	19 33.1%
	1,445	1,521	76	5.0%	1,440	(5) (0.3%)
	7,344	7,422	(78)	(1.1%)	6,096	1,249 20.5%
	83.6%	83.0%		0.6%	80.9%	99.6% 2.7%
	2,941	2,902	(39)	(1.3%)	3,042	101 3.3%
	2,464	2,740	276	10.1%	2,760	295 10.7%
	1,619	1,758	139	7.9%	1,305	(314) (24.1%)
	7,025	7,401	376	5.1%	7,107	82 1.2%
	(12)	(274)	262	95.5%	(992)	979 1
	319	22	298	1380.4%	(1,012)	1,331 131.5%
	3.6%	0.2%			(13.4%)	17.1%
	314	394	80	20.3%	16	
	633	415	298	1380.4%	(995)	1,628 163.6%

Management Discussion

- **Revenue:**
 - Lower subscription revenue from new license sales primarily due to:
 - Lower than expected bookings.
 - Timing of contracts also contributing to the shortfall.
 - Downward pressure on initial subscription deal size versus initial perpetual deal size.
 - New subscription license revenue miss offset by:
 - Strong renewals in both maintenance and subscription; 93% vs budgeted 90%
 - 2-6% price increase on most subscription and maintenance renewals (was not contemplated in budget)
 - Improved billing processes around renewals allowing revenue to be recognized earlier
 - No longer selling perpetual licenses resulting in a miss against the budget
 - Services underperforming in created demand for new projects and driving revenue from existing customer base.
- **Cost of Goods Sold:**
 - Cost associated with international contractor performing services work has been less than anticipated.
 - Travel expense for upcoming trips to NN Group invoiced upfront with consulting services. Will be offset by actual expense incurred in Nov & Dec.
- **Operating Expense**
 - R&D - CTO travel higher than anticipated due to transaction and product machine reorganization.
 - S&M - Travel expenses slightly higher than budget primarily due to timing. Increase in marketing spend on Google AdWords, trade shows and additional technology to boost lead generation.
 - G&A – Increase in expenses due to timing of all-company gathering in November and 2019 real-estate tax assessment that was unbudgeted

Balance Sheet

	31-Dec-18	31-Jan-19	28-Feb-19	31-Mar-19	30-Apr-19	31-May-19	30-Jun-19	31-Jul-19	31-Aug-19	30-Sep-19	31-Oct-19
Current Assets											
Cash and cash equivalents	\$ 979	\$ 1,611	\$ 1,696	\$ 1,480	\$ 1,918	\$ 2,252	\$ 2,032	\$ 1,867	\$ 3,150	\$ 3,221	\$ 3,803
Accounts receivable, net	2,278	1,407	1,112	2,095	1,685	1,317	2,244	2,072	2,532	2,773	1,663
Prepaid expenses and other current assets	121	87	127	158	163	108	81	74	104	80	131
Other current assets	-	-	-	-	-	-	-	-	-	-	-
Total Current Assets	3,377	3,106	2,936	3,733	3,765	3,678	4,357	4,013	5,786	6,074	5,598
Non-Current Assets											
Property, plant & equipment, gross	472	472	472	472	472	472	472	472	472	472	472
Accumulated depreciation	(237)	(237)	(237)	(237)	(237)	(237)	(237)	(237)	(269)	(273)	(277)
Property, plant & equipment, net	235	235	235	235	235	235	235	235	203	199	195
Deferred tax asset	469	469	469	469	469	469	469	469	469	469	469
Other non-current assets	125	125	125	125	125	125	125	125	-	-	-
Total Non-Current Assets	828	828	828	828	828	828	828	828	671	667	663
Total Assets	4,206	3,934	3,764	4,562	4,593	4,506	5,185	4,841	6,457	6,741	6,261
Current Liabilities											
Accounts payable	157	242	171	177	195	115	163	180	207	266	254
Accrued liabilities	333	303	249	362	352	326	467	410	518	502	386
Short-term unearned revenue	5,437	5,236	5,122	5,431	5,457	5,502	6,057	5,745	6,230	6,485	6,121
Other current liabilities	110	110	110	110	110	110	110	110	115	115	114
Total Current Liabilities	6,038	5,891	5,652	6,081	6,115	6,053	6,797	6,445	7,069	7,368	6,875
Total Long-Term Liabilities	-	-	-	-	-	-	-	-	-	-	-
Total Liabilities	6,038	5,891	5,652	6,081	6,115	6,053	6,797	6,445	7,069	7,368	6,875
Commitments and contingencies	-	-	-	-	-	-	-	-	-	-	-
Shareholders' Equity											
Common stock	2,411	2,411	2,411	2,411	2,411	2,411	2,419	2,419	3,617	3,617	3,642
Preferred stock	0	0	0	0	0	0	0	0	0	0	0
Retained earnings	(4,243)	(4,368)	(4,299)	(3,931)	(3,933)	(3,959)	(4,031)	(4,023)	(4,229)	(4,243)	(4,256)
Other equity transactions	-	-	-	-	-	-	-	-	-	-	-
Total Shareholders' Equity	(1,832)	(1,957)	(1,887)	(1,519)	(1,521)	(1,547)	(1,612)	(1,604)	(612)	(626)	(614)
Total Liabilities and Shareholders' Equity	4,206	3,934	3,764	4,562	4,593	4,506	5,185	4,841	6,457	6,741	6,261

Management Discussion

Impact of transaction not yet reflected. Purchase price entries will be made in conjunction with the opening balance sheet work

Cash Flow Statement

	31-Jan-19	28-Feb-19	31-Mar-19	30-Apr-19	31-May-19	30-Jun-19	31-Jul-19	31-Aug-19	30-Sep-19	31-Oct-19	YTD
Cash flow from operations											
Net Income (Loss)	(125)	69	368	(2)	(26)	(72)	8	(206)	(15)	(12)	0
<i>Change in operating assets and liabilities:</i>	-	-	-	-	-	-	-	-	-	-	-
Accounts receivable	870	295	(983)	410	367	(926)	172	(460)	(241)	1,110	(495)
Prepaid expenses and other current assets	34	(40)	(31)	(4)	55	27	7	(30)	24	(51)	41
Accounts payable	85	(71)	7	18	(80)	47	17	27	59	(12)	109
Accrued expenses	(30)	(54)	114	(11)	(26)	142	(57)	108	(16)	(116)	168
Other cash flow from operations	(201)	(114)	309	26	45	555	(312)	489	256	(364)	1,053
Total Cash Flow from Operations	632	85	(216)	437	335	(228)	(165)	(41)	71	558	912
Total Cash Flow from Investing	-	-	-	-	-	-	-	125	-	-	125
Cash flow from financing											
Common stock issued (repurchased)	-	-	-	-	-	7	-	1,198	-	25	1,205
Total Cash Flow from Financing	-	-	-	-	-	7	-	1,198	-	25	1,205
Net change in cash	632	85	(216)	437	335	(220)	(165)	1,283	71	582	2,242
Beginning cash	979	1,611	1,696	1,480	1,918	2,252	2,032	1,867	3,150	3,221	979
Change in cash	632	85	(216)	437	335	(220)	(165)	1,283	71	582	2,242
Ending cash	1,611	1,696	1,480	1,918	2,252	2,032	1,867	3,150	3,221	3,803	3,221

Management Discussion

Impact of transaction not yet reflected. Purchase price entries will be made in conjunction with the opening balance sheet work.

1X Costs

\$ '000

Description	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	2019 Impact
Opening Balance Sheet Audit	\$ -	\$ -	\$ -	\$ 15	\$ -	\$ 15
Asset Valuation Report	-	10	-	10	-	20
Industry Specialist	-	49	28	30	6	113
Beckway Consultants	-	78	-	-	-	78
Purchase of Ethics Hotline Software	-	7	-	-	-	7
Management Liability Runoff Insurance	-	-	-	16	-	16
Total	\$ -	\$ 144	\$ 28	\$ 71	\$ 6	\$ 249

Operating Expense Summary

	MTD (\$000)		Variance		PY MTD (\$000)	Variance		YTD (\$000)		Variance		PY YTD (\$000)	Var	
	Act	Bud	\$	%	Act	\$	%	Act	Bud	\$	%	Act	\$	%
Payroll (Payroll, OT, SS & Taxes, Temp Labor, Share Options)	360	347	(12)	(3.6%)	330	(30)	(9.2%)	3,746	3,789	43	1.1%	3,734	(12)	(0.3%)
Benefits (Medical, Dental, Life, AD&D & 401K)	68	72	4	5.3%	81	13	15.8%	700	724	24	3.4%	794	94	11.9%
Bonus	6	5	(1)	(31.2%)	9	3	31.8%	51	55	4	7.7%	59	9	14.6%
Marketing	65	32	(33)	(101.7%)	25	(40)	(157.3%)	561	540	(22)	(4.0%)	590	29	4.9%
Commissions	25	27	2	6.5%	18	(7)	(39.0%)	395	587	192	32.7%	391	(4)	(0.9%)
Travel and Entertainment	12	27	15	54.4%	25	13	51.8%	182	249	67	26.8%	266	84	31.5%
Rent and Facilities	33	30	(4)	(12.4%)	29	(4)	(15.5%)	295	287	(8)	(2.7%)	276	(19)	(6.7%)
Insurance	6	–	(6)	N/A	–	(6)		66	65	(1)	(2.2%)	51	(16)	(30.7%)
Professional Fees	72	79	8	9.9%	68	(4)	(5.5%)	627	668	41	6.1%	437	(190)	(43.4%)
Utilities, Repairs, Maint. & Security	3	3	(0)	(0.3%)	3	(0)	(6.9%)	30	30	(0)	(0.2%)	29	(1)	(1.8%)
Office Supplies	1	1	0	23.9%	1	0	5.0%	6	9	3	33.9%	9	4	40.0%
IT	31	27	(3)	(12.0%)	77	46	60.2%	264	332	68	20.5%	343	79	22.9%
Bad Debt	–	–			–	-	N/A	–	–			13	13	100.0%
Real Estate Taxes	–	–			–			–	–			–		
Other Expenses	19	8	(12)	(156.3%)	33	13	41.0%	103	68	(35)	(51.3%)	115	12	10.4%
Total Opex	\$ 700	\$ 657	\$ (43)	(6.6%)	\$ 697	\$ (3)	(0.4%)	\$ 7,025	\$ 7,401	\$ 376	5.1%	\$ 7,107	\$ 82	1.2%
Total Opex to Revenue	75.6%	69.7%		(5.9%)	90.6%		15.1%	79.9%	82.7%		2.8%	94.3%		14.4%

Management Discussion

- **Payroll**-YTD variance caused by IT Manager position being outsourced since April and vacancy in SE position for several months
- **Benefits**-YTD variance related to open positions
- **Marketing**-Increased marketing spend in H2 for Google AdWords, trade shows and additional technology to boost lead generation.
- **Commission**-YTD variance in line with bookings being lower than expected
- **Travel**-Limited travel in H1 to conserve cash, some of the favorable variance is due to timing of expense report submissions. In addition travel expense for upcoming trips for NN Group invoiced upfront with consulting services. Will be offset by actual expense incurred in Nov & Dec.
- **Rent**-2019 real estate tax assessment that was not budgeted and timing of deferred rent entries
- **Professional Fees**-Decrease in legal fees in 2019 is creating the favorable variance
- **IT**-YTD favorable variance due to decrease in Azure hosting cost in 2019. Timing of laptop and software purchases is also causing a favorable variance which is expected to decrease by year-end
- **Other Expenses**-Unfavorable variance due to prior period TX sales tax not billed to customers and registered agent fees and state registration charges with CSC that were not budgeted

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Management Governance Report

Board of Directors

- Rik Chomko
- Loren Goodman
- Rob Young
- Paul Bridwell
- Shahram Haghighi

2019 Year End Auditors

- Miller Cooper & Co., Ltd.

Anonymous Hotline

- Navex implementation in process

Internal Control & Authority Matrix

- Complete-adopted 9/25/19

Management Governance Report (Continued)

A)	Requests for waivers or out-of-the-ordinary course approvals under the Internal Control and Corporate Governance Matrix, Code of Ethics or any internal control:	None
B)	Any conflicts of interest or the appearance of any such conflict or potential conflict:	None
C)	Any actual or apparent weakness or inadequacy in the Company's policies of internal controls and financial reporting:	Miller Cooper has identified a lack of segregation of duties. Currently being addressed with addition of Accounting Manager
D)	Any reports or complaints regarding accounting, internal accounting controls or auditing matters.	None

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Full Year P&L Forecast

FULL YEAR FORECAST (Aug YTD actual + remaining budget)							
	FY		Variance		PY	Variance	
	Fcst	Bud	\$	%	Act	\$	%
Gross Revenue	10,859	11,004	(145)	(1.3%)	9,338	1,520	16.3%
Net Revenue	10,849	11,004	(154)	(1.4%)	9,336	1,514	16.2%
Material	–	–	–		–	–	
Labor	1,703	1,757	54	3.1%	1,671	(32)	(1.9%)
Other COGS	52	74	22	29.7%	70	18	26.1%
Total COGS	1,755	1,831	76	4.2%	1,741	(14)	(0.8%)
Gross Margin	9,095	9,173	(78)	(0.9%)	7,595	1,500	19.7%
<i>Gross Margin %</i>	<i>83.8%</i>	<i>83.4%</i>		<i>0.5%</i>	<i>81.4%</i>		<i>2.5%</i>
R&D	3,560	3,521	(39)	(1.1%)	3,692	133	3.6%
Sales & Marketing	3,002	3,278	276	8.4%	3,337	335	10.0%
Administrative	2,005	2,144	139	6.5%	1,700	(306)	(18.0%)
Other	–	–	–		–	–	
Total OPEX (excl D&A)	8,567	8,943	376	4.2%	8,729	162	1.9%
Reported EBITDA	528	230	298	129.2%	(1,134)	1,662	146.6%
<i>EBITDA Margin %</i>	<i>4.9%</i>	<i>2.1%</i>		<i>2.8%</i>	<i>(12.1%)</i>		<i>17.0%</i>
Adjusted EBITDA	1,115	814	300	36.9%	(1,012)	2,126	210.2%
<i>Adjusted EBITDA %</i>	<i>10.3%</i>	<i>7.4%</i>		<i>2.9%</i>	<i>(10.8%)</i>		<i>21.1%</i>
Net Income (Loss)	15	(247)	262	(106.3%)	(977)	992	(101.6%)
<i>Net Income %</i>	<i>0.1%</i>	<i>-2.2%</i>		<i>2.4%</i>	<i>-10.5%</i>		<i>10.6%</i>

Full Year Balance Sheet Forecast

Will be presented after Opening Balance Sheet Audit is completed and entries are booked

Full Year Cash Flow Forecast

Will be presented after Opening Balance Sheet Audit is completed and entries are booked

AR & AP Aging

A/R Aging			
Days	Aug-19	Sep-19	Oct-19
0-30	\$ 1,868	\$ 1,923	\$ 1,284
30-60	\$ 218	\$ 428	\$ 129
60-90	\$ 44	\$ 203	\$ 104
>90	\$ 403	\$ 218	\$ 146
Total Gross AR	\$ 2,532	\$ 2,773	\$ 1,663
Reserves	\$ -	\$ -	\$ -
Total Net AR	\$ 2,532	\$ 2,773	\$ 1,663

AP Aging			
Days	Aug-19	Sep-19	Oct-19
0-30	\$ 104	\$ 187	\$ 193
30-60	\$ 46	\$ 28	\$ -
60-90	\$ -	\$ -	\$ 5
>90	\$ -	\$ -	\$ -
Total	\$ 149	\$ 215	\$ 198

Headcount by Month

