

**inrule**

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Quarterly Operating Plan-September  
2019

12 August 2020

# Quarterly Operating Plan Agenda

- Executive Summary
- Financial Review
- Governance Reporting
- Appendix

# Executive Summary

## Good News / Positives to Business and Plan:

- Revenue up 17% over previous QTD
- 100% subscription renewal rate in Q3; Average YOY deal size is bigger by ~20%.
- Solid new business acquisition:
  - NN Group, IBO, and Microsoft (services)
  - Upsells: Assurecare, WA HBE, Manulife
- No competitive deals lost
- New Sales Engineer hired to help meet demand

All numbers and comparisons to budget are based on internal InRule plan

## Risks / Challenges to the Business and Plan:

- Unfavorable YTD revenue variance of (\$138K) due to slower than expected subscription bookings in the beginning the year; highly likely to continue due to timing of new subscription bookings
- Although successfully converting existing Perpetual pipeline to subscription, this will further emphasize revenue shortfall
- Q3 Slipped deals: Adecco, MFX Insurance, Payoneer (upsell), Hudson (upsell)
- Expected YOY net new deal increase of 30%; YOY Marketing spend went down by 10%.
- Lower Services utilization than expected, partially due to bundled services with new projects
- Jeff Key, SVP of Engineering, is transitioning out of the company. Working on plan for target exit date.






# Executive Summary (Continued)

	Description	Potential Impact	Plan to Address
Risks	▪ Likely EOY revenue miss	▪ Underperform by ~600K against budget	
	▪ Funnel metrics and pipeline not supporting subscription goal	▪ Missed new subscription bookings target	▪ 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	▪ Finalize staffing needs for next six months ▪ Develop recruiting strategy
Opportunities	• Microsoft Service Hub prospect	▪ First internal win at Microsoft ▪ Opportunity to build foundational framework for Microsoft recommendation engine ▪ AI/ML integration	▪ Deliver next milestones per SOW
	▪ Java engine performance testing at new customers	▪ Possible larger enterprise upsells at existing customers	▪ Work with key contacts at customer to "beta" test ▪ Assign engineering resource to make minor enhancements

# September Sales Summary





Wins	Key Losses/Delays	
<ul style="list-style-type: none"><li>• NN Group –Insurance Pricing (\$71k)<ul style="list-style-type: none"><li>• Integration with Machine Learning for dynamic pricing</li></ul></li><li>• International Baccalaureates Organization (\$78k)</li><li>• Upsells: Manulife, WA HBE, Assurecare, Payoneer</li></ul>	<ul style="list-style-type: none"><li>• Adecco (\$90,000)<ul style="list-style-type: none"><li>• Delayed Security Review, Followed by US Architecture team approval</li></ul></li><li>• MFX (\$80,000)<ul style="list-style-type: none"><li>• Java Engine integration complexities</li></ul></li><li>• Hudson<ul style="list-style-type: none"><li>• Sponsor is leaving and new leader is re-evaluating need for additional licensing</li></ul></li></ul>	
Upcoming Pipeline		
Potential Customer	Status	Est. Revenue
FIDELITY INTERNATIONAL	Finalized POC; awaiting procurement	\$154,174.00
AMERICAN AIRLINES	In legal and pricing negotiations	\$125,179.00
ADECCO GROUP	Awaiting architecture review	\$106,800.00
CONDUENT (FORMERLY XEROX SERVICES)	In procurement	\$104,000.00
BUPA BHF	Gathering license requirements	\$100,000.00
CANCER TREATMENT CENTERS OF AMERICA	POC	\$90,000.00
STIHL INC	In legal and pricing negotiations	\$73,548.00
STATE OF TENNESSEE DEPARTMENT OF EDUCATION	In procurement	\$60,000.00
WORLDSTRIDES	Gathering license requirements	\$20,000.00
		\$833,701.00

# 2019 Key Initiatives

Initiative	Status	Recent Progress	Next Steps	Risks
Restructure the product machine organization		<ul style="list-style-type: none"> <li>Operational goals for product have been defined.</li> <li>Created initial draft of top level org positions.</li> </ul>	<ul style="list-style-type: none"> <li>Formalizing activities tasks and relationships</li> <li>Hire CPO</li> </ul>	<ul style="list-style-type: none"> <li>Loren may get pulled to do kickoff and initial project discovery work for Microsoft SOW</li> </ul>
Deliver decision services		<ul style="list-style-type: none"> <li>Implemented security including central authorization</li> <li>Develop testing capability</li> </ul>	<ul style="list-style-type: none"> <li>Develop Runtime API</li> <li>Executed launch plan</li> <li>Final testin and release</li> </ul>	<ul style="list-style-type: none"> <li>Resource reassignment for Java tasks</li> </ul>
Deliver Centralized Authorization capability		<ul style="list-style-type: none"> <li>Finished testing</li> <li>Released last week</li> </ul>	<ul style="list-style-type: none"> <li>N/A</li> </ul>	<ul style="list-style-type: none"> <li>N/A</li> </ul>
Develop embedded authoring services		<ul style="list-style-type: none"> <li>Cleaned up technical debt associated with embedded authoring</li> </ul>	<ul style="list-style-type: none"> <li>Determine look and feel modifications and implement</li> </ul>	<ul style="list-style-type: none"> <li>Ensuring look and feel work is properly scoped</li> <li>Performance</li> </ul>
Develop integrations team strategy and roadmap		<ul style="list-style-type: none"> <li>Agreed to terms for Microsoft partnership</li> </ul>	<ul style="list-style-type: none"> <li>InRule SaaS trial provision</li> <li>Batch processing</li> <li>Market penetration strategy for Salesforce</li> </ul>	<ul style="list-style-type: none"> <li>Elegance of InRule trial provision from AppSource</li> </ul>

 Complete
  On-Schedule
  At Risk
  Behind

# 2019 Key Initiatives (Continued)

Initiative	Status	Recent Progress	Next Steps	Risks
Develop channel strategy		<ul style="list-style-type: none"> <li>• Researched market comp packages for Alliance managers</li> </ul>	<ul style="list-style-type: none"> <li>• Continue to gather existing alliance data and organize in CRM</li> <li>• Define success metrics for channel</li> <li>• Hire full time channel manager</li> </ul>	<ul style="list-style-type: none"> <li>• Finding candidate in timely manner</li> </ul>
Develop sales team strategy		<ul style="list-style-type: none"> <li>• Gathered data for justification for SDR addition</li> <li>• Prepared job description for SDR</li> </ul>	<ul style="list-style-type: none"> <li>• Hire SDR</li> </ul>	<ul style="list-style-type: none"> <li>• Less leads sourced from outbound efforts</li> </ul>
Develop services strategy		<ul style="list-style-type: none"> <li>• Setup tracking process in CRM</li> <li>• Early prototype of Time Entry in segmentation in PowerBI</li> </ul>	<ul style="list-style-type: none"> <li>• Establish backoffice reporting, utilization, and metrics tracking</li> </ul>	<ul style="list-style-type: none"> <li>• Utilization reporting and metrics tracking may be redundant with ERP system functionality</li> </ul>
Develop recruiting strategy to fill key open positions		<ul style="list-style-type: none"> <li>• Sales Engineer-hired, start date September 30th</li> <li>• IT Manager-working with Beckway to fill role</li> <li>• Accounting Manager-hired, start date November 11th</li> </ul>	<ul style="list-style-type: none"> <li>• CPO-Engage with recruiter to fill position</li> <li>• Product Lead-Define roles and responsibilities and engage with a recruiter to fill position</li> <li>• Product Manager-Define roles and responsibilities and engage with a recruiter to fill position</li> <li>• IT Manger-Recruiter to screen candidates</li> </ul>	<ul style="list-style-type: none"> <li>• Further delays in product roadmap</li> </ul>

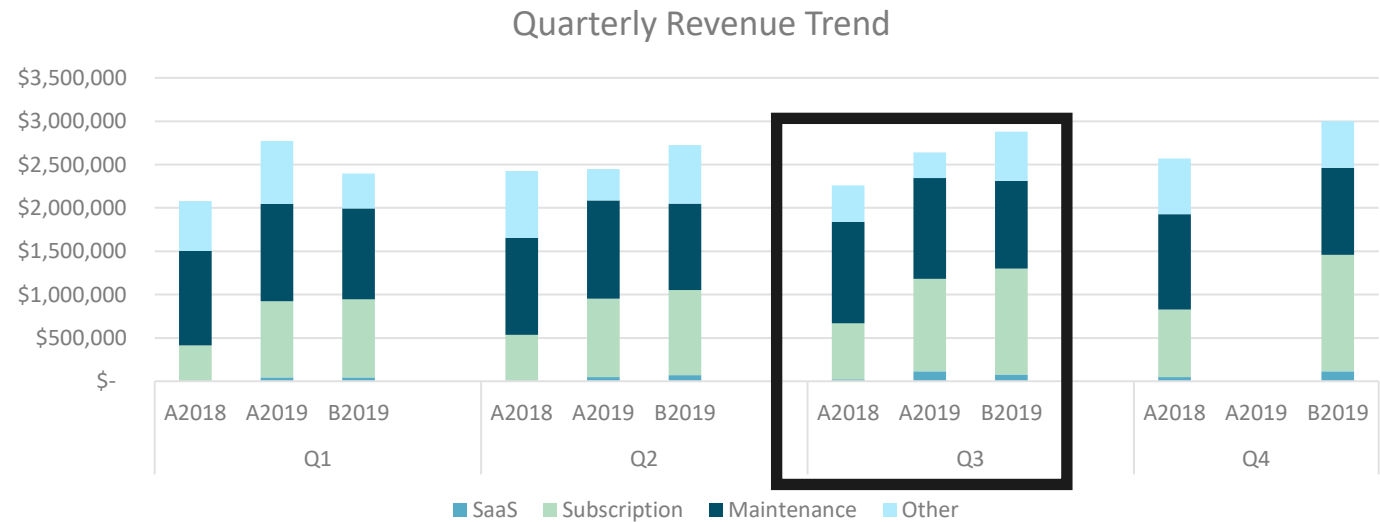
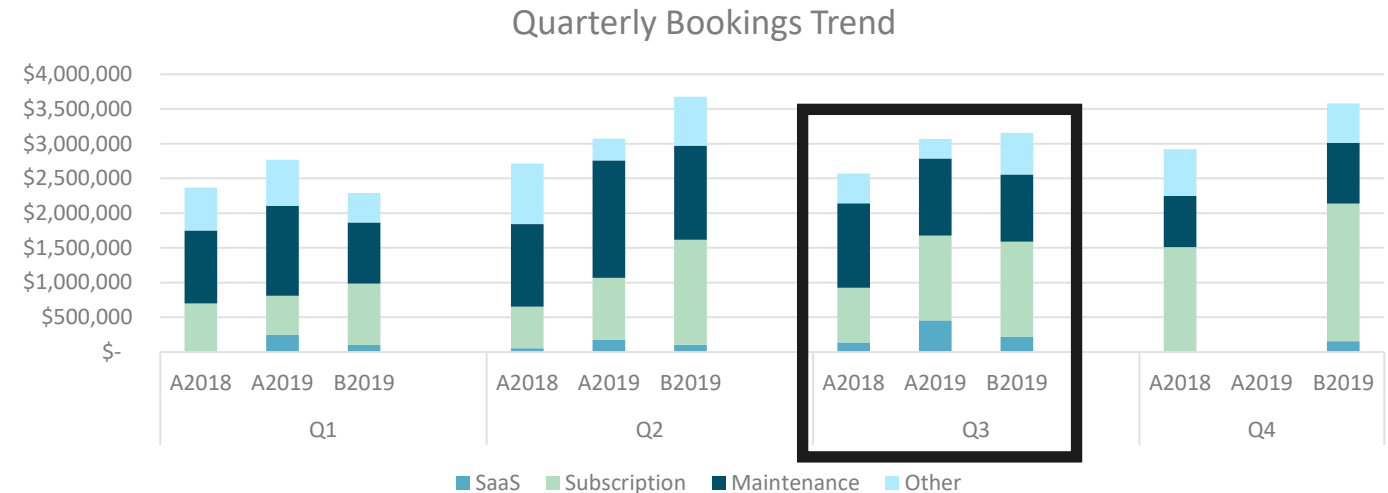
# KPIs

- Monthly Unique Website Visitors
- Trial Downloads Requests
- Sales-Qualified Leads (SQLs)
- Pipeline Activity Conversion Rates
- Average Revenue Per Account (ARPA)
- Customer Acquisition Cost (CAC)
- Annual Recurring Revenue (ARR)
- Number of Support Tickets Created
- Net Promoter Score (NPS)
- Customer Retention Rate
- Churn Rate
- Customer Lifetime Value (LTV)

Frequency varies depending metric

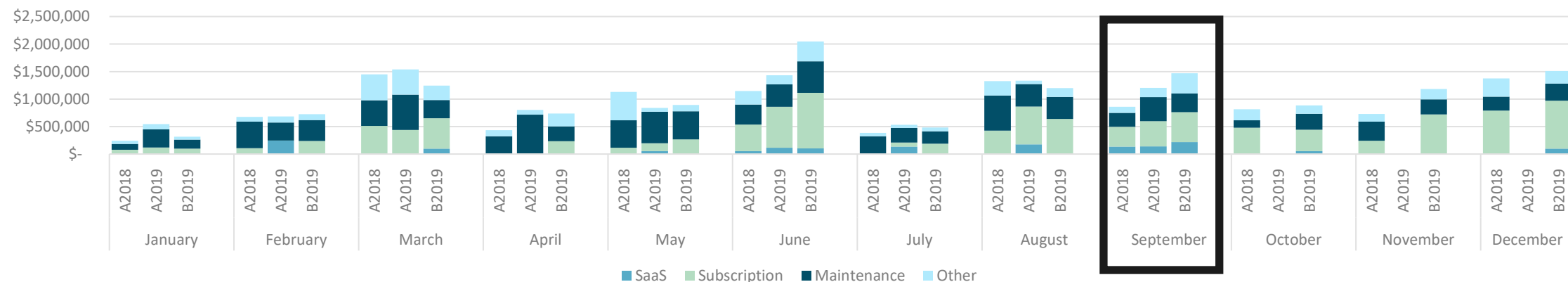


# Bookings & Revenue – Quarterly Trend by Product

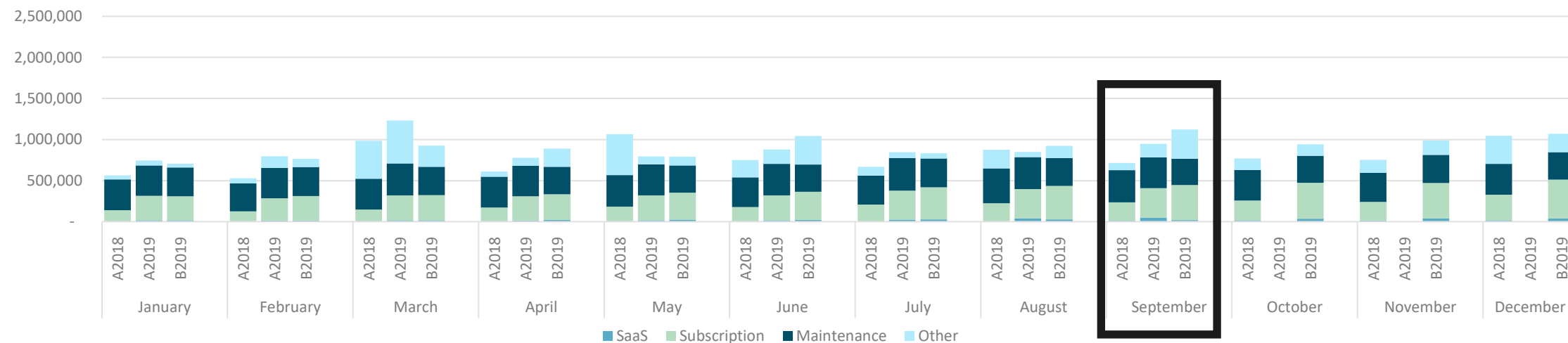


# Bookings & Revenue – Monthly Trend by Product

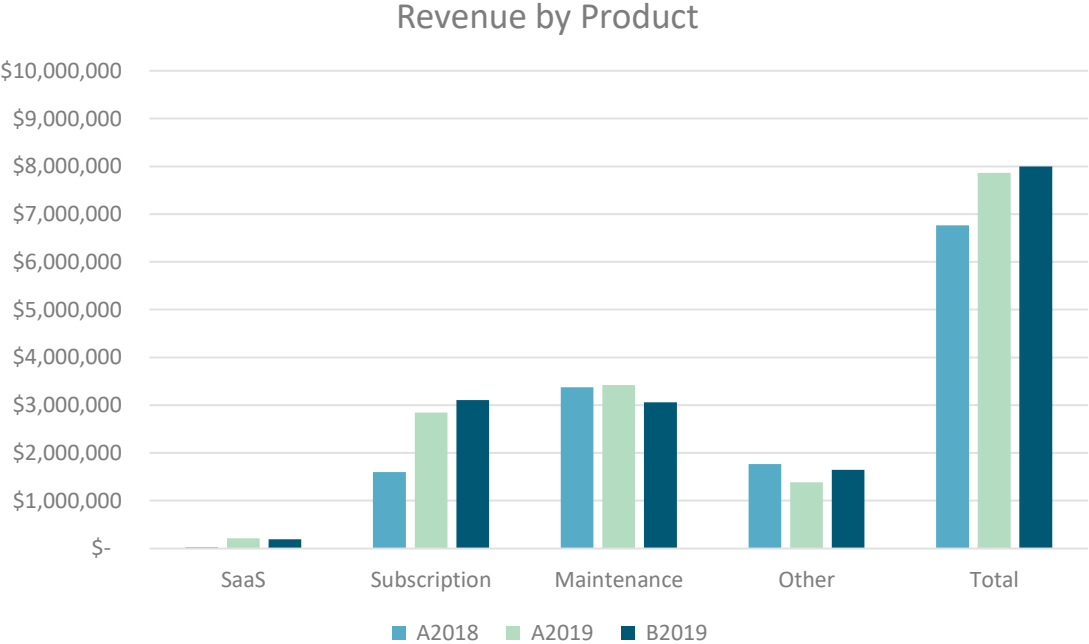
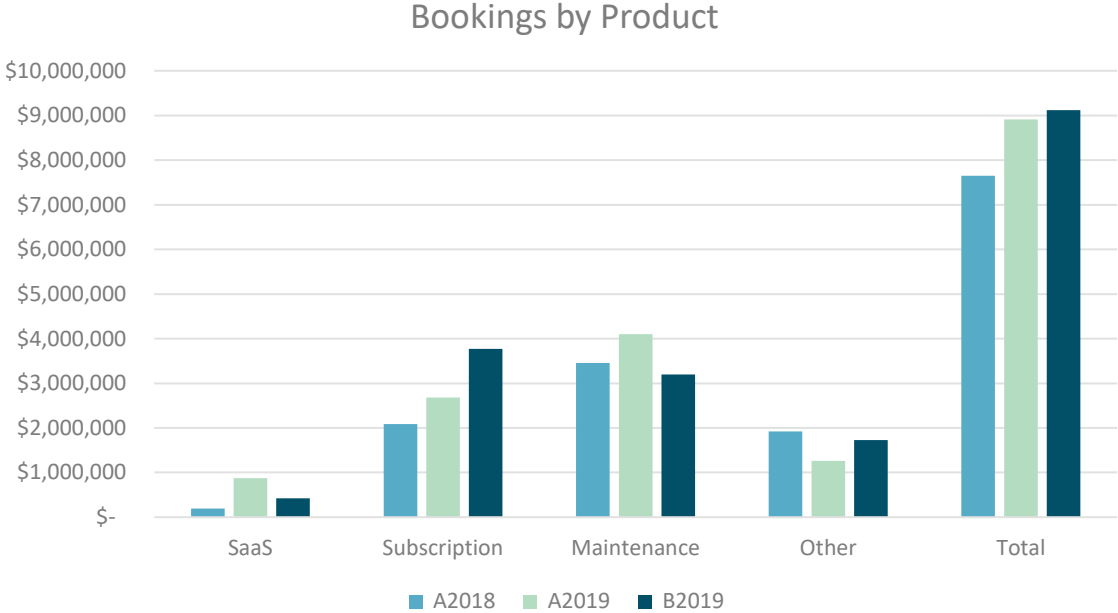
Monthly Trend - Bookings



Monthly Trend - Revenue



# Total Bookings & Revenue - YTD 2019 by Product



# Revenue - YTD 2019 by Product

000's	REVENUE										Var \$	Var%
	Q1		Q2		Q3		YTD 9/30/2019					
	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan				
SaaS/Subscription - New	\$ 507	\$ 510	\$ 465	\$ 565	\$ 577	\$ 759	\$ 1,549	\$ 1,835	\$ (286)	-16%		
SaaS/Subscription - Renewal	418	436	487	488	607	541	1,511	1,465	46	3%		
Maintenance & Support - New	82	72	82	59	77	52	241	183	58	32%		
Maintenance & Support - Renewal	1,041	978	1,051	938	1,086	959	3,178	2,874	304	11%		
Total Recurring Revenue	\$ 2,048	\$ 1,996	\$ 2,086	\$ 2,051	\$ 2,346	\$ 2,311	\$ 6,479	\$ 6,358	\$ 122	2%		
Perpetual	434	209	248	353	166	272	848	834	14	2%		
Consulting	291	193	116	321	129	295	536	810	(274)	-34%		
Total Revenue	\$ 2,773	\$ 2,398	\$ 2,449	\$ 2,724	\$ 2,641	\$ 2,879	\$ 7,863	\$ 8,001	\$ (138)	-2%		

# Bookings - YTD 2019 by Product

000's	BOOKINGS										Var \$	Var%
	Q1		Q1		Q1		YTD 9/30/2019					
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Plan				
SaaS/Subscription - New	\$ 323	\$ 610	\$ 573	\$ 1,040	\$ 583	\$ 810	\$ 1,480	\$ 2,460				
SaaS/Subscription - Renewal	486	375	495	575	1,090	781	2,072	1,732				
Maintenance & Support - New	46	42	62	71	17	54	125	167				
Maintenance & Support - Renewal	1,251	837	1,628	1,283	1,094	912	3,973	3,032				
Total Recurring Bookings	\$ 2,106	\$ 1,864	\$ 2,759	\$ 2,969	\$ 2,785	\$ 2,557	\$ 7,650	\$ 7,391				
Perpetual	434	209	248	353	166	272	848	834				
Consulting	227	214	68	356	119	328	414	897				
Total Bookings	\$ 2,767	\$ 2,287	\$ 3,075	\$ 3,678	\$ 3,070	\$ 3,156	\$ 8,911	\$ 9,121				

# Revenue & Bookings - 2019 Forecast by Product

000's	REVENUE					
	Q4		2019		Var \$	Var%
	Forecast	Plan	Forecast	Plan		
SaaS/Subscription - New	\$ 531	\$ 775	\$ 2,080	\$ 2,610	\$ (530)	-20%
SaaS/Subscription - Renewal	709	685	2,220	2,151	70	3%
Maintenance & Support - New	60	60	301	244	57	24%
Maintenance & Support - Renewal	1,048	943	4,226	3,817	409	11%
Total Recurring Revenue	\$ 2,348	\$ 2,464	\$ 8,828	\$ 8,821	\$ 6	0%
Perpetual	60	267	908	1,100	(192)	-17%
Consulting	120	273	656	1,083	(427)	-39%
Total Revenue	\$ 2,528	\$ 3,003	\$ 10,391	\$ 11,004	\$ (613)	-6%
ARR (December Recurring *12)			9,666	10,167		

	BOOKINGS					
	Q1		2019		Var \$	Var%
	Actual	Actual	Forecast	Plan		
SaaS/Subscription - New	\$ 730	\$ 790	\$ 2,210	\$ 3,250	\$ (1,040)	-32%
SaaS/Subscription - Renewal	1,095	1,348	3,167	3,080	87	3%
Maintenance & Support - New	12	53	137	220	(83)	-38%
Maintenance & Support - Renewal	467	820	4,440	3,852	588	15%
Total Recurring Bookings	\$ 2,304	\$ 3,012	\$ 9,954	\$ 10,402	\$ (448)	-4%
Perpetual	60	267	908	1,100	(192)	-17%
Consulting	120	303	534	1,200	(666)	-56%
Total Bookings	\$ 2,484	\$ 3,581	\$ 11,395	\$ 12,702	\$ (1,307)	-10%

## Management Discussion

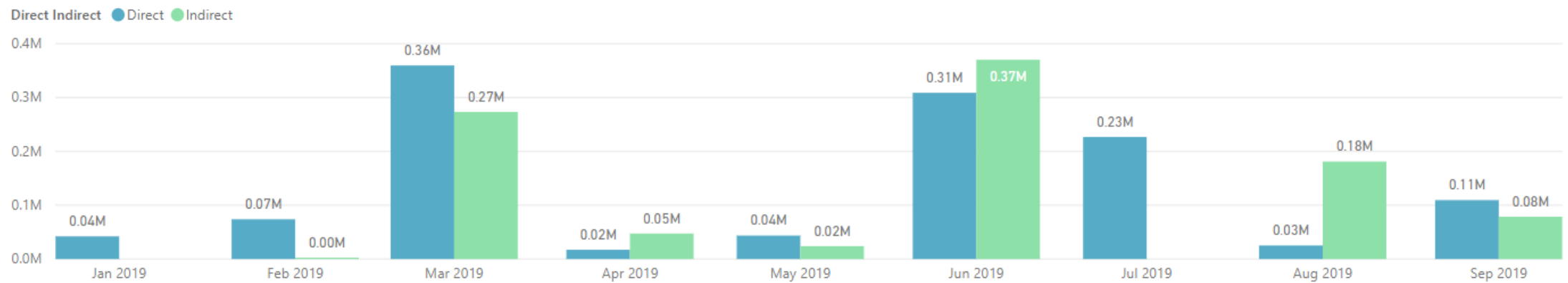
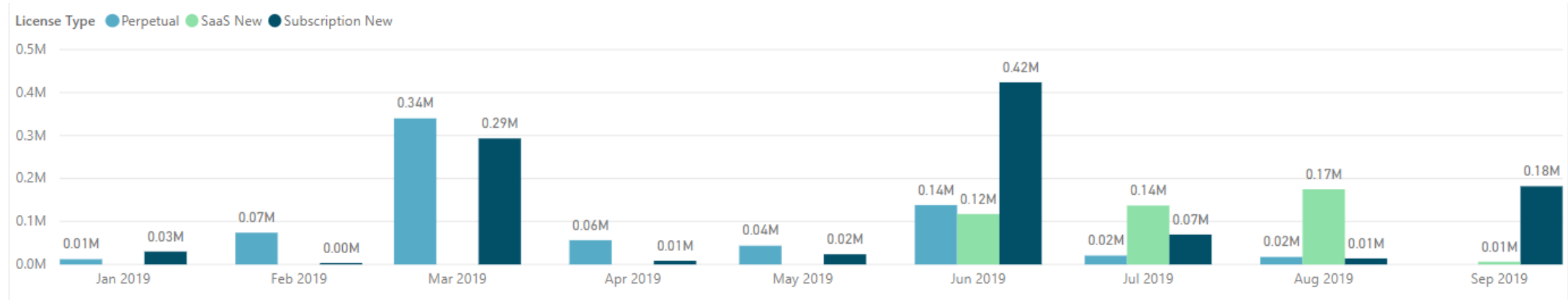
### Recurring Revenue

- Historically focused on booking versus recurring revenue
- Stronger focus on recurring revenue started in H2
- 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

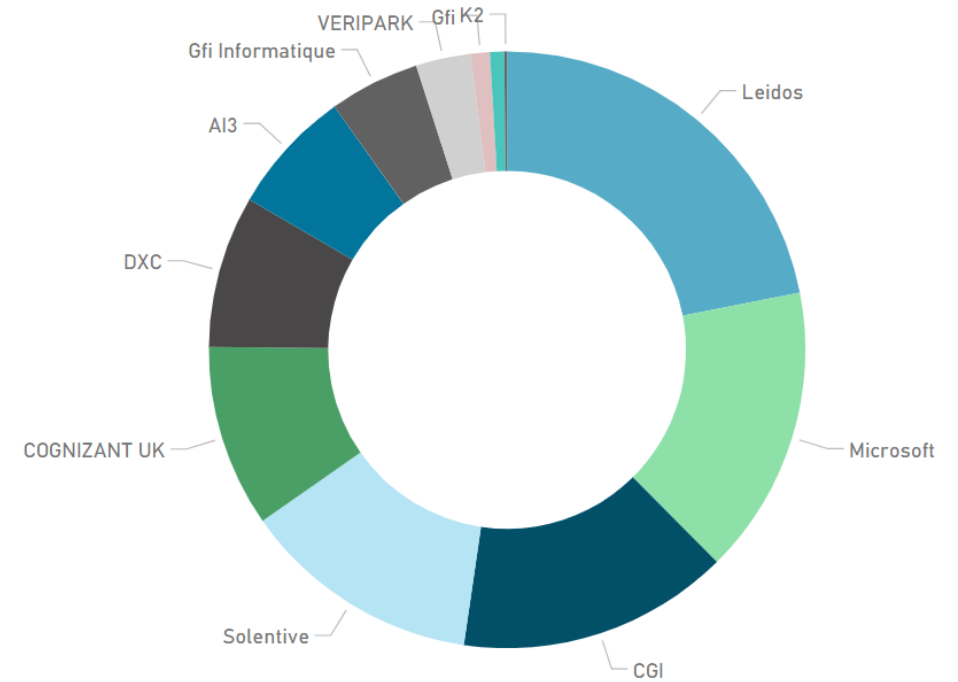
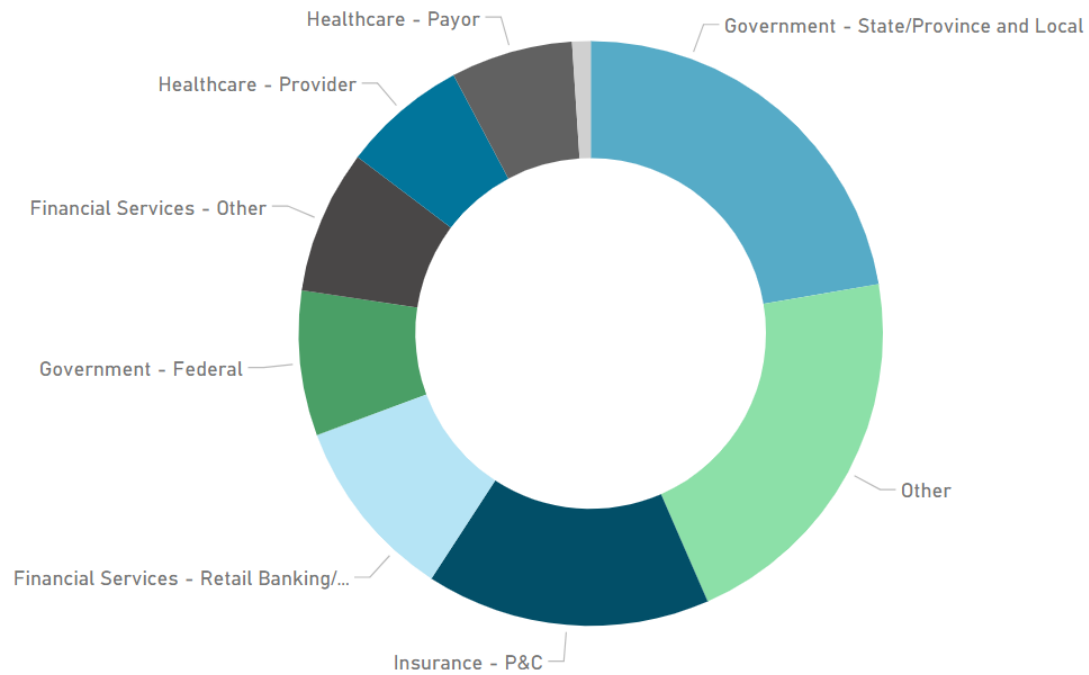
### Other

- Strong Perpetual sales in H1 offset miss in subscription revenue.
- Stopped selling perpetual in H2-will result in a \$200K miss against the budget
- Services is underperforming in creating demand for new projects and driving revenue from existing customer base. Will result in \$425K miss.

# New License Bookings - Product & Channel



# New License Bookings – Vertical and Channel



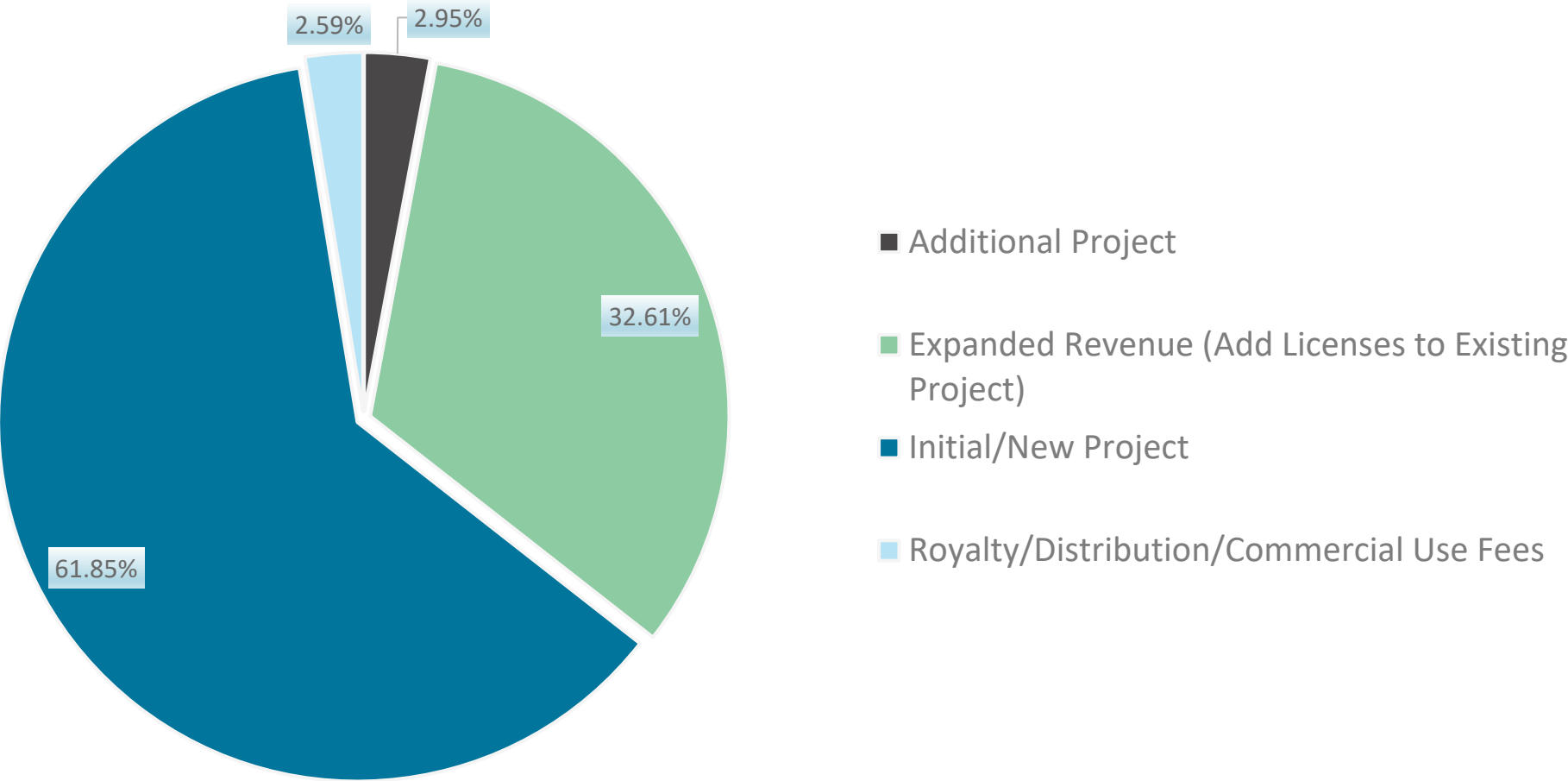
January 2019 – August 2019



# Top Customers by Revenue – Sept 2019

Responsible for Next Touch	Account Name	Account Rating	Annual Revenue	Contract Type	GLA Signed On	Go Live Date
Chris Berg	LOAN DEPOT	Top 10	335000.00	Subscription	11/27/2017	8/23/2018
Chris Berg	CONDUENT (FORMERLY XEROX SERVICES)	Top 10	300000.00	Subscription	11/7/2016	12/14/2017
Mark Lonsway	STATE OF ARIZONA DEPARTMENT OF CHILD SAFETY	Top 10	275000.00	Subscription	4/13/2017	
Loren Goodman	HMS	Top 10	257593.33	Perpetual	5/29/2017	12/14/2017
	LEIDOS BIOMEDICAL RESEARCH	Strategic	175000.00	Subscription	8/29/2019	
Michael Bonner	FIRST AMERICAN CORP.	Top 10	144008.00	Subscription	4/3/2018	10/14/2018
	WASHINGTON HEALTH BENEFIT EXCHANGE	Strategic	137000.00	Subscription	8/2/2019	
Jeff Key	CALIFORNIA DEPARTMENT OF CORRECTIONS AND REHABILITATION	Top 10	135000.00	Subscription	9/11/2018	
Sue Schneider	STATE OF TENNESSEE DEPARTMENT OF EDUCATION	Strategic	135000.00	Subscription	10/21/2018	
	PROVINCE OF BRITISH COLUMBIA - MINISTRY OF ADVANCED EDUCATION	Strategic	130647.00	Subscription	7/17/2019	
Rik Chomko	INCOMM (FORMERLY AMERICAN EXPRESS)	Top 10	126000.00	Perpetual	2/15/2012	8/30/2012
	TOKIO MARINE - HCC	Strategic	117154.00	Subscription	6/26/2019	
	DXC HLS - KANSAS	Growth	109992.50	Subscription	9/14/2016	3/11/2018
Jeff Key	MCAP	Strategic	106719.00	Subscription	9/27/2018	
Dan Reynolds	TEMENOS (FORMERLY AKCELERANT)	Top 10	104680.00	Perpetual	5/12/2009	6/29/2010
Renee Wagner	FLIGHT CENTRE	Strategic	100000.00	Subscription	11/13/2017	10/31/2017

# 2019 New License Bookings



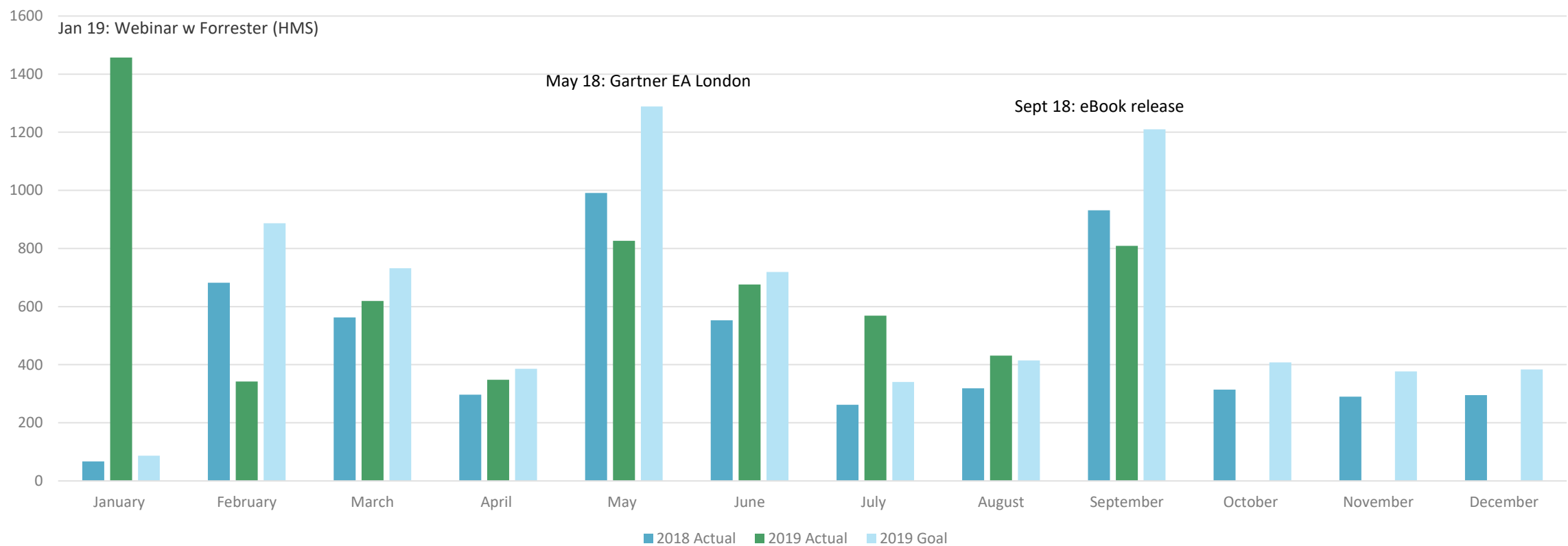
# Quota Attainment by Salesperson

## Year-to Q3

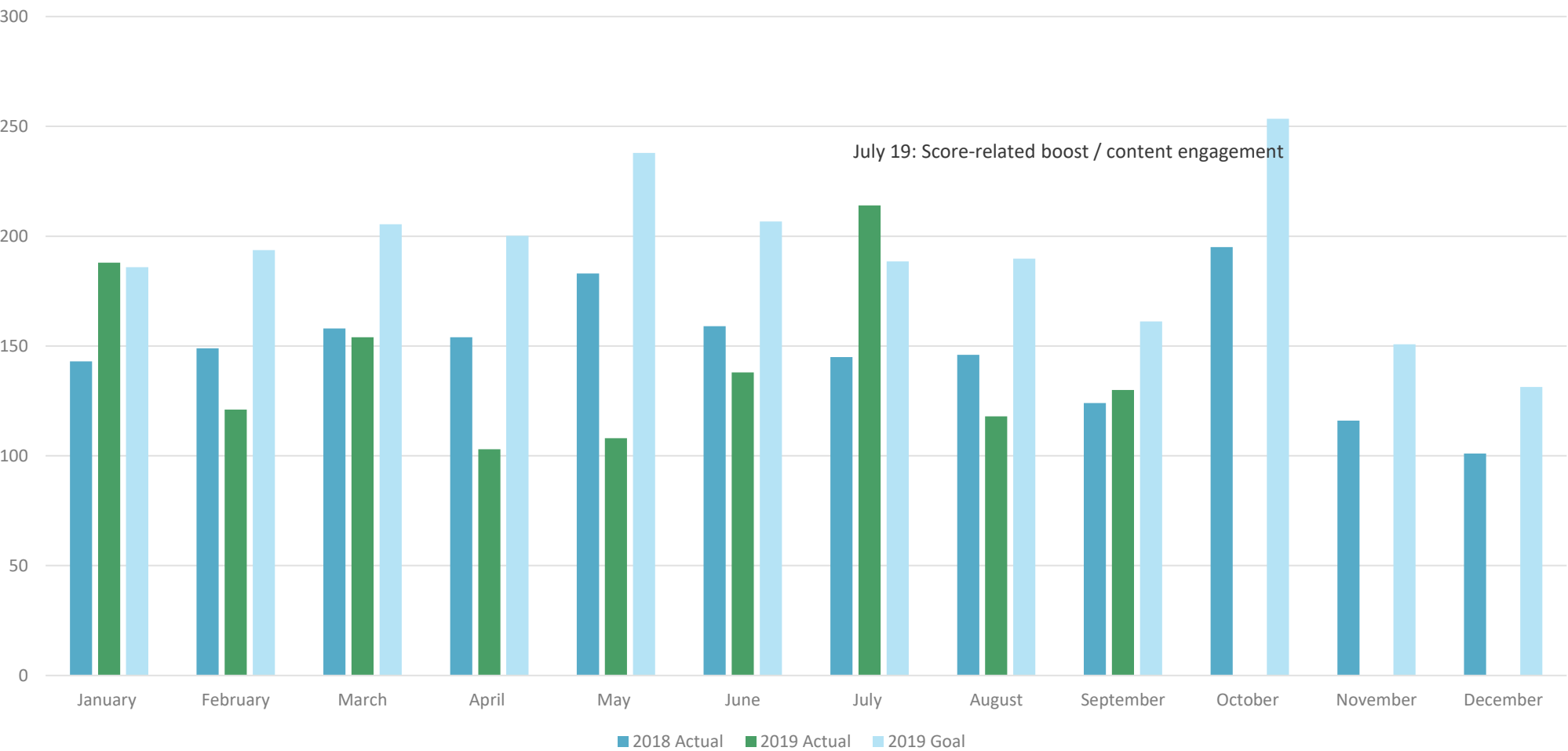
Start Date	Sales Rep	Territory	Subscription	Perpetual	Combined
8/18/2014	Wes Young	Financial Services / East	29%	82%	42%
9/28/2015	Matt Maguire	Public Sector, Healthcare / West	93%	46%	81%
3/1/2014	David Thornton	UK, Northern Europe, Middle East	56%	167%	83%

- Overall pipeline metrics off ~22% YTD
- Wes achieved 105% ARR Quota in 2018
- Assuming Q4 pipeline closes, quota results are:
  - Wes: Sub: 64% Perp: 62% Total: 63%
  - Matt: Sub: 85% Perp: 41% Total: 75%
  - David: Sub: 68% Perp: 126% Total: 82%

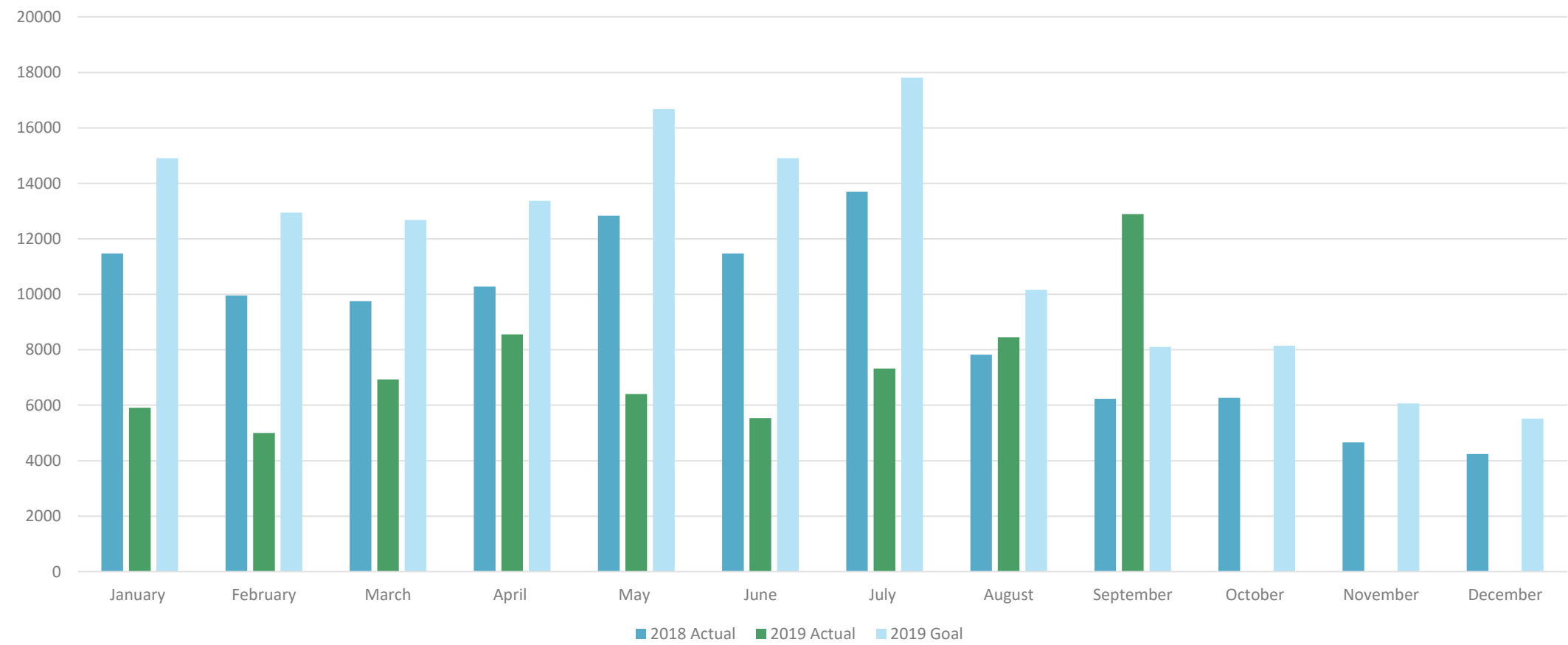
# Marketing Leads



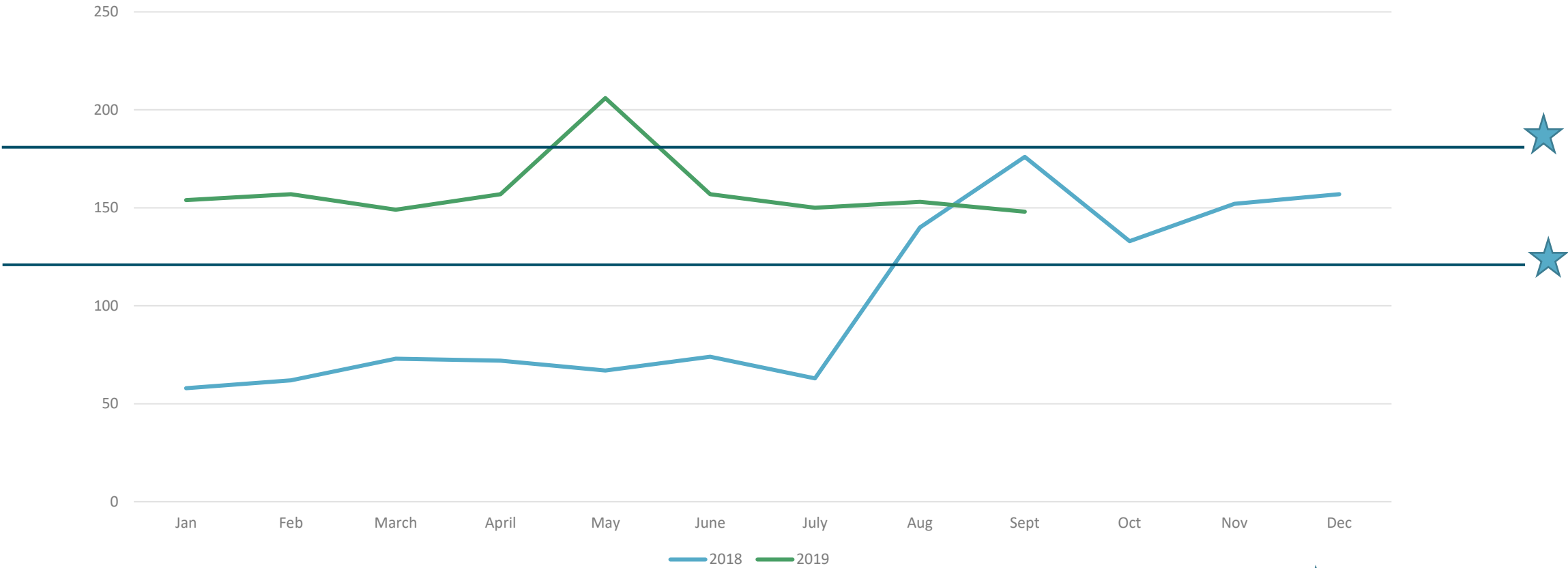
# Sales Leads



# Website Visitors



# Website Visit Duration (Avg. in Seconds)



★ Industry Avg: 120-180 seconds

# Quarterly Operating Plan Agenda

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# Summary P&L through September 2019

	SUMMARY P&L MTD (\$000)					
	MTD		Variance		PY MTD	Variance
	Act	Bud	\$	%	Act	\$ %
<b>Gross Revenue</b>	<b>957</b>	<b>1,122</b>	<b>(166)</b>	<b>(14.8%)</b>	<b>717</b>	<b>240 33.5%</b>
<b>Net Revenue</b>	<b>947</b>	<b>1,122</b>	<b>(175)</b>	<b>(15.6%)</b>	<b>715</b>	<b>233 32.6%</b>
Material	—	—	—		—	
Labor	141	148	7	4.9%	131	(10) (7.4%)
Other COGS	4	6	2	33.3%	12	8 66.4%
<b>Total COGS</b>	<b>145</b>	<b>155</b>	<b>9</b>	<b>6.0%</b>	<b>144</b>	<b>(2) (1.1%)</b>
<b>Gross Margin</b>	<b>802</b>	<b>968</b>	<b>(166)</b>	<b>(17.1%)</b>	<b>571</b>	<b>231 40.5%</b>
<i>Gross Margin %</i>	<i>84.6%</i>	<i>86.2%</i>		<i>(1.6%)</i>	<i>79.9%</i>	<i>4.8%</i>
R&D	307	293	(14)	(4.8%)	286	(21) (7.4%)
Sales & Marketing	245	321	76	23.7%	314	70 22.2%
Administrative	260	255	(6)	(2.2%)	121	(140) (116.1%)
Other						
<b>Total OPEX (excl D&amp;A)</b>	<b>812</b>	<b>868</b>	<b>56</b>	<b>6.5%</b>	<b>721</b>	<b>(91) (12.7%)</b>
<b>Net Income (Loss)</b>	<b>(15)</b>	<b>100</b>	<b>(114)</b>	<b>(114.7%)</b>	<b>(160)</b>	<b>145 (90.8%)</b>
<b>Reported EBITDA</b>	<b>(10)</b>	<b>100</b>	<b>(110)</b>	<b>(109.9%)</b>	<b>(150)</b>	<b>140 93.4%</b>
<i>EBITDA Margin %</i>	<i>(1.0%)</i>	<i>8.9%</i>			<i>(21.0%)</i>	
EBITDA Addbacks	(7)	69	76	110.1%	(1)	6 (410.9%)
<b>Adj. EBITDA</b>	<b>(17)</b>	<b>169</b>	<b>(186)</b>	<b>(110.0%)</b>	<b>(151)</b>	<b>134 (88.8%)</b>
<i>Adj. EBITDA %</i>	<i>(1.0%)</i>	<i>8.9%</i>				
Change in Deferred Revenue	53	N/A			133	
<b>Billing-based adjusted EBITDA</b>	<b>36</b>	<b>N/A</b>			<b>(18)</b>	

	SUMMARY P&L YTD (\$000)					
	YTD		Variance		PY YTD	Variance
	Act	Bud	\$	%	Act	\$ %
<b>Gross Revenue</b>	<b>7,872</b>	<b>8,001</b>	<b>(128)</b>	<b>(1.6%)</b>	<b>6,769</b>	<b>1,103 16.3%</b>
<b>Net Revenue</b>	<b>7,863</b>	<b>8,001</b>	<b>(138)</b>	<b>(1.7%)</b>	<b>6,767</b>	<b>1,096 16.2%</b>
Material	—	—	—		—	
Labor	1,263	1,311	49	3.7%	1,237	(25) (2.0%)
Other COGS	47	55	8	14.9%	30	(17) (58.3%)
<b>Total COGS</b>	<b>1,310</b>	<b>1,212</b>	<b>(98)</b>	<b>(8.1%)</b>	<b>1,267</b>	<b>(43) (3.4%)</b>
<b>Gross Margin</b>	<b>6,553</b>	<b>6,634</b>	<b>(81)</b>	<b>(1.2%)</b>	<b>5,500</b>	<b>1,054 19.2%</b>
<i>Gross Margin %</i>	<i>83.3%</i>	<i>82.9%</i>		<i>0.4%</i>	<i>81.3%</i>	<i>96.1% 2.1%</i>
R&D	2,652	2,618	(34)	(1.3%)	2,693	41 1.5%
Sales & Marketing	2,211	2,526	315	12.5%	2,537	326 12.8%
Administrative	1,462	1,346	(116)	(8.6%)	1,181	(282) (23.9%)
Other						
<b>Total OPEX (excl D&amp;A)</b>	<b>6,325</b>	<b>6,490</b>	<b>165</b>	<b>2.5%</b>	<b>6,410</b>	<b>85 1.3%</b>
<b>Net Income (Loss)</b>	<b>0</b>	<b>560</b>	<b>(560)</b>	<b>100.0%</b>	<b>(952)</b>	<b>952 1</b>
<b>Reported EBITDA</b>	<b>228</b>	<b>—</b>	<b>228</b>	<b>N/A</b>	<b>(910)</b>	<b>1,139 125.1%</b>
<i>EBITDA Margin %</i>	<i>2.9%</i>	<i>0.0%</i>			<i>(13.5%)</i>	<i>16.4%</i>
EBITDA Addbacks	152	69	(83)	(120.3%)	20	
<b>Adj. EBITDA</b>	<b>380</b>	<b>69</b>	<b>228</b>	<b>N/A</b>	<b>(890)</b>	<b>1,271 142.7%</b>
<i>Adj. EBITDA %</i>						
Change in Deferred Revenue	846	N/A			772	
<b>Billing-based adjusted EBITDA</b>	<b>1,226</b>	<b>N/A</b>			<b>(118)</b>	

## Management Discussion

- **Revenue:**
  - Historically focused on booking versus recurring revenue.
  - Stronger focus on recurring revenue started in H2.
  - 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
  - Strong Perpetual sales in H1 offset miss in subscription revenue.
  - Stopped selling perpetual in H2-will result in a \$200K miss against the budget
  - Services underperforming in created demand for new projects and driving revenue from existing customer base. Will result in \$425K miss.
- **Cost of Goods Sold:**
  - Additional expense incurred for International contractor performing services work related to Impark engagement
- **Operating Expense:**
  - R&D - Outside development team, timing of sprints; CTO travel higher than anticipated due to transaction.
  - Sales & Marketing - Commission under budget by \$190K due to lower than budgeted sales; labor cost below budget (\$40K) due to timing of replacement hire; discretionary travel eliminated (45K); marketing slightly under budget due to timing-projected to be slightly over budget for 2019 due to unplanned trade shows and AdWords in Q4
  - G&A – Transaction related/1x costs cause the overage (option expense/PPA costs/consultants/industry expert). Offset by savings in travel, Azure, legal fees and outsourcing the IT manager responsibilities

# Summary P&L - 3<sup>rd</sup> Quarter 2019

	SUMMARY P&L QTD (\$000)					
	QTD		Var		PY QTD	Variance
	Act	Bud	\$	%	Act	\$ %
<b>Gross Revenue</b>	<b>2,650</b>	<b>2,879</b>	<b>(228)</b>	<b>(7.9%)</b>	<b>2,262</b>	<b>388 17.2%</b>
<b>Net Revenue</b>	<b>2,641</b>	<b>2,879</b>	<b>(238)</b>	<b>(8.3%)</b>	<b>2,260</b>	<b>381 16.9%</b>
Material	—	—	—	N/A	—	— N/A
Labor	413	439	(27)	(6.0%)	402	10 2.6%
Other COGS	16	18	(3)	(14.2%)	21	(5) (25.0%)
<b>Total COGS</b>	<b>428</b>	<b>458</b>	<b>(29)</b>	<b>(6.4%)</b>	<b>423</b>	<b>5 1.2%</b>
<b>Gross Margin</b>	<b>2,213</b>	<b>2,421</b>	<b>(209)</b>	<b>(8.6%)</b>	<b>1,836</b>	<b>376 20.5%</b>
<i>Gross Margin %</i>	<i>79.9%</i>	<i>79.9%</i>			<i>79.9%</i>	<i>0.0% 0.0%</i>
R&D	893	889	3	0.4%	926	(34) (3.6%)
Sales & Marketing	749	795	(46)	(5.8%)	821	(72) (8.8%)
Administrative	672	517	155	29.9%	352	320 91.1%
Other	—	—	—	N/A	—	— N/A
<b>Total OPEX (excl D&amp;A)</b>	<b>2,313</b>	<b>2,202</b>	<b>112</b>	<b>5.1%</b>	<b>2,099</b>	<b>215 10.2%</b>
<b>Net Income (Loss)</b>	<b>(213)</b>	<b>216</b>	<b>(428)</b>	<b>198.8%</b>	<b>(295)</b>	<b>82 27.9%</b>
<b>Reported EBITDA</b>	<b>(101)</b>	<b>219</b>	<b>(320)</b>	<b>145.9%</b>	<b>(262)</b>	<b>161 (61.6%)</b>
<i>EBITDA Margin %</i>	<i>(21.0%)</i>	<i>(21.0%)</i>			<i>(21.0%)</i>	
EBITDA Addbacks	115	69	46	66.7%	(2)	117 (4711.1%)
<b>Adj. EBITDA</b>	<b>14</b>	<b>288</b>	<b>(274)</b>	<b>(95.0%)</b>	<b>(265)</b>	<b>279 (105.4%)</b>
<i>Adj. EBITDA %</i>						
Change in Deferred Revenue	226	N/A			299	
<b>Billing-based adjusted EBITDA</b>	<b>240</b>	<b>N/A</b>			<b>34</b>	

## Management Discussion

- **Revenue:**
  - Historically focused on booking versus recurring revenue.
  - Stronger focus on recurring revenue started in H2.
  - 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
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  - Stopped selling perpetual in H2-will result in a \$200K miss against the budget
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- **Cost of Goods Sold:**
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- **Operating Expense:**
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  - Sales & Marketing - Commission under budget by \$190K due to lower than budgeted sales; labor cost below budget (\$40K) due to timing of replacement hire; discretionary travel eliminated (45K); marketing slightly under budget due to timing-projected to be slightly over budget for 2019 due to unplanned trade shows and AdWords in Q4
  - G&A – Transaction related/1x costs cause the overage (option expense/PPA costs/consultants/industry expert). Offset by savings in travel, Azure, legal fees and outsourcing the IT manager responsibilities

# 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
<b>Current Assets</b>										
Cash and cash equivalents	\$ 979	\$ 1,611	\$ 1,696	\$ 1,480	\$ 1,918	\$ 2,252	\$ 2,032	\$ 1,867	\$ 3,150	\$ 3,221
Accounts receivable, net	2,278	1,407	1,112	2,095	1,685	1,317	2,244	2,072	2,532	2,773
Prepaid expenses and other current assets	121	87	127	158	163	108	81	74	104	80
Other current assets	-	-	-	-	-	-	-	-	-	-
<b>Total Current Assets</b>	<b>3,377</b>	<b>3,106</b>	<b>2,936</b>	<b>3,733</b>	<b>3,765</b>	<b>3,678</b>	<b>4,357</b>	<b>4,013</b>	<b>5,786</b>	<b>6,074</b>
<b>Non-Current Assets</b>										
Property, plant & equipment, gross	472	472	472	472	472	472	472	472	472	472
Accumulated depreciation	(237)	(237)	(237)	(237)	(237)	(237)	(237)	(237)	(269)	(273)
Property, plant & equipment, net	235	235	235	235	235	235	235	235	203	199
Deferred tax asset	469	469	469	469	469	469	469	469	469	469
Other non-current assets	125	125	125	125	125	125	125	125	-	-
<b>Total Non-Current Assets</b>	<b>828</b>	<b>828</b>	<b>828</b>	<b>828</b>	<b>828</b>	<b>828</b>	<b>828</b>	<b>828</b>	<b>671</b>	<b>667</b>
<b>Total Assets</b>	<b>4,206</b>	<b>3,934</b>	<b>3,764</b>	<b>4,562</b>	<b>4,593</b>	<b>4,506</b>	<b>5,185</b>	<b>4,841</b>	<b>6,457</b>	<b>6,741</b>
<b>Current Liabilities</b>										
Accounts payable	157	242	171	177	195	115	163	180	207	266
Accrued liabilities	333	303	249	362	352	326	467	410	518	502
Short-term unearned revenue	5,437	5,236	5,122	5,431	5,457	5,502	6,057	5,745	6,230	6,485
Other current liabilities	110	110	110	110	110	110	110	110	115	115
<b>Total Current Liabilities</b>	<b>6,038</b>	<b>5,891</b>	<b>5,652</b>	<b>6,081</b>	<b>6,115</b>	<b>6,053</b>	<b>6,797</b>	<b>6,445</b>	<b>7,069</b>	<b>7,368</b>
<b>Total Long-Term Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Liabilities</b>	<b>6,038</b>	<b>5,891</b>	<b>5,652</b>	<b>6,081</b>	<b>6,115</b>	<b>6,053</b>	<b>6,797</b>	<b>6,445</b>	<b>7,069</b>	<b>7,368</b>
<b>Shareholders' Equity</b>										
Common stock	2,411	2,411	2,411	2,411	2,411	2,411	2,419	2,419	3,617	3,617
Preferred stock	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)
Other equity transactions	-	-	-	-	-	-	-	-	-	-
<b>Total Shareholders' Equity</b>	<b>(1,832)</b>	<b>(1,957)</b>	<b>(1,887)</b>	<b>(1,519)</b>	<b>(1,521)</b>	<b>(1,547)</b>	<b>(1,612)</b>	<b>(1,604)</b>	<b>(612)</b>	<b>(626)</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>4,206</b>	<b>3,934</b>	<b>3,764</b>	<b>4,562</b>	<b>4,593</b>	<b>4,506</b>	<b>5,185</b>	<b>4,841</b>	<b>6,457</b>	<b>6,741</b>

## Management Discussion

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

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

## Management Discussion

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

# Transaction Related and 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	-	20	-	-	-	20
Industry Specialist	-	49	30	30	6	115
Beckway Consultants	-	65	20	-	-	85
Change in Run Rate-Liability Insurance	3	6	6	6	6	26
Purchase of Ethics Hotline Software			7			7
Loan Interest	-		80	43	43	166
<b>Total</b>	<b>\$ 3</b>	<b>\$ 140</b>	<b>\$ 143</b>	<b>\$ 94</b>	<b>\$ 55</b>	<b>\$ 434</b>

## Management Discussion

- Fees for Opening Balance Sheet work with Miller Cooper
- Fees for Purchase Price Allocation work with Valuation Research Corporation
- Consulting Fees from Rob Levy
- Consulting Fees from Beckway Consultants for Core Model and Financial Reporting requirements
- Increase in budgeted run rate for Liability Insurance Policies purchased at close
- Purchase of Navex Software for Anonymous Ethics Hotline
- Interest from Debt used to finance the transaction

# 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)	342	463	121	26.1%	353	10	3.0%	3,386	3,332	(54)	(1.6%)	3,404	18	0.5%		
Benefits (Medical, Dental, Life, AD&D & 401K)	71	72	2	2.2%	81	10	12.4%	632	652	20	3.1%	713	81	11.4%		
Bonus	4	8	4	48.5%	5	1	22.5%	45	50	6	11.3%	50	6	11.6%		
Marketing	47	40	(7)	(18.7%)	33	(15)	(44.4%)	496	507	11	2.2%	565	69	12.1%		
Commissions	61	101	40	39.7%	94	32	34.6%	370	560	190	33.9%	373	4	0.9%		
Travel and Entertainment	16	29	13	46.2%	23	8	32.9%	170	222	52	23.4%	241	71	29.4%		
Rent and Facilities	27	28	1	4.6%	29	2	5.4%	262	257	(4)	(1.6%)	248	(14)	(5.7%)		
Insurance	6	–	(6)	N/A	0	(6)		61	65	4	6.8%	51	(10)	(19.2%)		
Professional Fees	187	56	(131)	(232.6%)	62	(125)	(202.1%)	555	452	(104)	(23.0%)	369	(186)	(50.4%)		
Utilities, Repairs, Maint. & Security	4	4	(0)	(1.2%)	3	(0)	(4.4%)	27	27	(0)	(0.2%)	27	(0)	(1.3%)		
Office Supplies	1	1	(0)	(25.5%)	1	(0)	(77.4%)	5	8	3	35.1%	9	4	42.8%		
IT	30	56	25	45.5%	21	(9)	(41.9%)	233	297	64	21.5%	266	32	12.1%		
Bad Debt	–	–			6	6	100.0%	–	–			13	13	100.0%		
Real Estate Taxes	–	–			–			–	–			–				
Other Expenses	16	10	(6)	(61.0%)	11	(5)	(49.3%)	84	60	(23)	(38.2%)	82	(2)	(1.9%)		
Total Opex	\$ 812	\$ 868	\$ 56	6.5%	\$ 721	\$ (91)	(12.7%)	\$ 6,325	\$ 6,490	\$ 165	2.5%	\$ 6,410	\$ 85	1.3%		
Total Opex to Revenue	85.7%	77.3%		(8.4%)	100.8%		15.1%	80.4%	81.1%		0.7%	105.9%		25.5%		

# Quarterly Operating Plan Agenda

- Executive Summary
- Financial Review
- Governance Reporting
- Appendix

# 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 contract complete. Go-live scheduled for 12/31/19.

## Internal Control & Authority Matrix

- Complete



## 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. We will address upon hiring of Accounting Manager
D)	Any reports or complaints regarding accounting, internal accounting controls or auditing matters.	None

# Quarterly Operating Plan Agenda

- Executive Summary
- Financial Review
- Governance Reporting
- Appendix

# Full Year P&L Forecast

	FULL YEAR FORECAST (Aug YTD actual + remaining budget)						
	FY		Variance		PY	Variance	
	Fcst	Bud	\$	%	Act	\$	%
<b>Gross Revenue</b>	10,875	11,004	(128)	(1.2%)	9,338	1,537	16.5%
<b>Net Revenue</b>	<b>10,866</b>	<b>11,004</b>	<b>(138)</b>	<b>(1.3%)</b>	<b>9,336</b>	<b>1,530</b>	<b>16.4%</b>
Material	—	—	—		—	—	
Labor	1,707	1,756	49	2.8%	1,671	(37)	(2.2%)
Other COGS	66	74	8	11.1%	70	5	6.6%
<b>Total COGS</b>	<b>1,773</b>	<b>1,830</b>	<b>57</b>	<b>3.1%</b>	<b>1,741</b>	<b>(32)</b>	<b>(1.8%)</b>
<b>Gross Margin</b>	<b>9,093</b>	<b>9,174</b>	<b>(81)</b>	<b>(0.9%)</b>	<b>7,595</b>	<b>1,498</b>	<b>19.7%</b>
<i>Gross Margin %</i>	<i>83.7%</i>	<i>83.4%</i>		<i>0.3%</i>	<i>81.4%</i>		<i>2.3%</i>
R&D	3,508	3,474	(34)	(1.0%)	3,692	184	5.0%
Sales & Marketing	2,951	3,266	315	9.6%	3,337	386	11.6%
Administrative	1,928	1,812	(116)	(6.4%)	1,700	(228)	(13.4%)
Other	—	—	—		—	—	
<b>Total OPEX (excl D&amp;A)</b>	<b>8,386</b>	<b>8,551</b>	<b>165</b>	<b>1.9%</b>	<b>8,729</b>	<b>342</b>	<b>3.9%</b>
<b>Reported EBITDA</b>	<b>707</b>	<b>622</b>	<b>84</b>	<b>13.6%</b>	<b>(1,134)</b>	<b>1,841</b>	<b>162.3%</b>
<i>EBITDA Margin %</i>	<i>6.5%</i>	<i>5.7%</i>		<i>0.8%</i>	<i>(12.1%)</i>		<i>18.7%</i>
<b>Adjusted EBITDA</b>	<b>919</b>	<b>752</b>	<b>167</b>	<b>22.2%</b>	<b>(1,073)</b>	<b>1,991</b>	<b>185.6%</b>
<i>Adjusted EBITDA %</i>	<i>8.5%</i>	<i>6.8%</i>		<i>1.6%</i>	<i>(11.5%)</i>		<i>19.9%</i>
<b>Net Income (Loss)</b>	<b>763</b>	<b>348</b>	<b>416</b>	<b>119.6%</b>	<b>(1,090)</b>	<b>1,853</b>	<b>(170.1%)</b>
<i>Net Income %</i>	<i>7.0%</i>	<i>3.2%</i>		<i>3.9%</i>	<i>-11.7%</i>		<i>18.7%</i>

# Monthly P&L

\$'000	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	FY	FY	Var		PY	Var	
	Act	Act	Act	Act	Act	Act	Act	Act	Act	Fcst	Fcst	Fcst	Fcst	Bud	\$	%	Act	\$	%
Gross Revenue	745	796	1,231	778	793	878	845	848	957	943	990	1,070	10,875	11,004	(128)	-1%	9,338	1,537	16.5%
Discounts	-	-	-	-	-	-	-	-	(9)	-	-	-	(9)	-	(9)		(3)	(7)	271.4%
Returns	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-	-	N/A
Rebates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-	-	N/A
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-	-	N/A
Adj. to Gross Reven	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-	-	N/A
Net Revenue	745	796	1,231	778	793	878	845	848	947	943	990	1,070	10,866	11,004	(138)	-1%	9,336	1,530	16.4%
Material	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-	-	N/A
Labor	138	147	142	141	144	137	142	129	141	149	143	153	1,707	1,756	(49)	-3%	1,671	37	2.2%
Other COGS	4	2	7	4	4	9	4	7	4	6	6	6	66	74	(8)	-11%	70	(5)	-6.6%
Total COGS	143	149	149	145	148	147	146	137	145	155	149	160	1,773	1,830	(57)	-3%	1,741	32	1.8%
Gross Margin	602	648	1,082	633	645	731	699	711	802	788	841	911	9,093	9,174	(81)	-1%	7,595	1,498	19.7%
Gross Margin %	80.8%	81.3%	87.9%	81.4%	81.3%	83.3%	82.7%	83.9%	84.6%	83.6%	84.9%	85.1%	83.7%	83.4%			81.4%		
R&D	313	277	283	298	295	293	292	293	307	284	287	285	3,508	3,474	34	1%	3,692	(184)	-5.0%
Sales & Marketing	243	186	259	198	251	326	223	281	245	215	245	280	2,951	3,266	(315)	-10%	3,337	(386)	-11.6%
Administrative	162	106	160	128	101	133	142	269	260	128	119	219	1,928	1,812	116	6%	1,700	228	13.4%
Other Opex	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	N/A	-	-	N/A
Total Opex	718	568	702	624	647	752	658	844	812	627	651	783	8,386	8,551	(165)	-2%	8,729	(342)	-3.9%
EBITDA	(116)	79	380	9	(2)	(21)	41	(132)	(10)	161	190	128	707	622	84	14%	(1,134)	1,841	-162.3%
EBITDA %	-15.5%	9.9%	30.8%	1.1%	-0.3%	-2.4%	4.9%	-15.6%	-1.0%	17.1%	19.2%	11.9%	6.5%	5.7%	0.8%	15%	-12.1%	18.7%	-153.6%
Adj. EBITDA	(119)	72	421	2	(9)	(1)	47	(16)	(17)	161	190	188	919	752	167	22%	(1,073)	1,991	-185.6%
Adj. EBITDA %	-16.0%	9.1%	34.2%	0.3%	-1.1%	-0.1%	5.5%	-1.9%	-1.8%	17.1%	19.2%	17.5%	8.5%	6.8%	1.6%	23.8%	-11.5%	19.9%	-173.6%
Net Income (Loss)	(125)	69	368	(2)	(26)	(72)	8	(206)	(15)	157	190	33	763	348	416	120%	(1,090)	1,853	-170.1%

# AR & AP Aging

A/R Aging			
Days	Jul-19	Aug-19	Sep-19
0-30	\$ 1,352	\$ 1,868	\$ 1,923
30-60	\$ 318	\$ 218	\$ 428
60-90	\$ 263	\$ 44	\$ 203
>90	\$ 139	\$ 403	\$ 218
Total Gross AR	\$ 2,072	\$ 2,532	\$ 2,773
Reserves	\$ -	\$ -	\$ -
Total Net AR	\$ 2,072	\$ 2,532	\$ 2,773

AP Aging			
Days	Jul-19	Aug-19	Sep-19
0-30	\$ 144	\$ 104	\$ 187
30-60	\$ -	\$ 46	\$ 28
60-90	\$ -	\$ -	\$ -
>90	\$ -	\$ -	\$ -
Total	\$ 144	\$ 149	\$ 215

# Headcount by Month

