

Form 5500 Department of the Treasury Internal Revenue Service Department of Labor Employee Benefits Security Administration Pension Benefit Guaranty Corporation	Annual Return/Report of Employee Benefit Plan This form is required to be filed for employee benefit plans under sections 104 and 4065 of the Employee Retirement Income Security Act of 1974 (ERISA) and sections 6057(b) and 6058(a) of the Internal Revenue Code (the Code). ▶ Complete all entries in accordance with the instructions to the Form 5500.	OMB Nos. 1210-0110 1210-0089 2022 This Form is Open to Public Inspection
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Part I	Annual Report Identification Information
For calendar plan year 2022 or fiscal plan year beginning 01/01/2022 and ending 12/31/2022	
A This return/report is for:	☐ a multiemployer plan ☐ a multiple-employer plan (Filers checking this box must attach a list of participating employer information in accordance with the form instructions.) ☒ a single-employer plan ☐ a DFE (specify) _____
B This return/report is:	☐ the first return/report ☐ the final return/report ☐ an amended return/report ☐ a short plan year return/report (less than 12 months)
C If the plan is a collectively-bargained plan, check here.	☐
D Check box if filing under:	☒ Form 5558 ☐ automatic extension ☐ the DFVC program ☐ special extension (enter description)
E If this is a retroactively adopted plan permitted by SECURE Act section 201, check here.	☐

Part II	Basic Plan Information —enter all requested information
1a Name of plan CANOPY TAX 401(K) PLAN	1b Three-digit plan number (PN) ▶ 001
	1c Effective date of plan 08/30/2018
2a Plan sponsor's name (employer, if for a single-employer plan) Mailing address (include room, apt., suite no. and street, or P.O. Box) City or town, state or province, country, and ZIP or foreign postal code (if foreign, see instructions) CANOPY TAX, INC. 380 DATA DR. SUITE 310 DRAPER, UT 84020	2b Employer Identification Number (EIN) 46-5164530 2c Plan Sponsor's telephone number 801-543-9468 2d Business code (see instructions) 541600

Caution: A penalty for the late or incomplete filing of this return/report will be assessed unless reasonable cause is established.

Under penalties of perjury and other penalties set forth in the instructions, I declare that I have examined this return/report, including accompanying schedules, statements and attachments, as well as the electronic version of this return/report, and to the best of my knowledge and belief, it is true, correct, and complete.

SIGN HERE	Filed with authorized/valid electronic signature.	10/12/2023	CHRISTINE RIMER
	Signature of plan administrator	Date	Enter name of individual signing as plan administrator
SIGN HERE			
	Signature of employer/plan sponsor	Date	Enter name of individual signing as employer or plan sponsor
SIGN HERE			
	Signature of DFE	Date	Enter name of individual signing as DFE

For Paperwork Reduction Act Notice, see the Instructions for Form 5500.

Form 5500 (2022)
v. 220413

3a Plan administrator's name and address ☐ Same as Plan Sponsor GUIDELINE, INC. 1412 CHAPIN AVENUE BURLINGAME, CA 94010	3b Administrator's EIN 47-4474775 3c Administrator's telephone number 888-228-3491
4 If the name and/or EIN of the plan sponsor or the plan name has changed since the last return/report filed for this plan, enter the plan sponsor's name, EIN, the plan name and the plan number from the last return/report: a Sponsor's name c Plan Name	4b EIN 4d PN
5 Total number of participants at the beginning of the plan year	5 236
6 Number of participants as of the end of the plan year unless otherwise stated (welfare plans complete only lines 6a(1) , 6a(2) , 6b , 6c , and 6d). a(1) Total number of active participants at the beginning of the plan year a(2) Total number of active participants at the end of the plan year b Retired or separated participants receiving benefits c Other retired or separated participants entitled to future benefits..... d Subtotal. Add lines 6a(2) , 6b , and 6c e Deceased participants whose beneficiaries are receiving or are entitled to receive benefits. f Total. Add lines 6d and 6e g Number of participants with account balances as of the end of the plan year (only defined contribution plans complete this item)..... h Number of participants who terminated employment during the plan year with accrued benefits that were less than 100% vested.....	6a(1) 123 6a(2) 152 6b 0 6c 139 6d 291 6e 0 6f 291 6g 287 6h 0
7 Enter the total number of employers obligated to contribute to the plan (only multiemployer plans complete this item)	7
8a If the plan provides pension benefits, enter the applicable pension feature codes from the List of Plan Characteristics Codes in the instructions: 2E 2F 2G 2J 2K 2S 2T 3D b If the plan provides welfare benefits, enter the applicable welfare feature codes from the List of Plan Characteristics Codes in the instructions:	
9a Plan funding arrangement (check all that apply) (1) ☐ Insurance (2) ☐ Code section 412(e)(3) insurance contracts (3) ☒ Trust (4) ☐ General assets of the sponsor	9b Plan benefit arrangement (check all that apply) (1) ☐ Insurance (2) ☐ Code section 412(e)(3) insurance contracts (3) ☒ Trust (4) ☐ General assets of the sponsor
10 Check all applicable boxes in 10a and 10b to indicate which schedules are attached, and, where indicated, enter the number attached. (See instructions)	
a Pension Schedules (1) ☒ R (Retirement Plan Information) (2) ☐ MB (Multiemployer Defined Benefit Plan and Certain Money Purchase Plan Actuarial Information) - signed by the plan actuary (3) ☐ SB (Single-Employer Defined Benefit Plan Actuarial Information) - signed by the plan actuary	b General Schedules (1) ☒ H (Financial Information) (2) ☐ I (Financial Information – Small Plan) (3) ☐ A (Insurance Information) (4) ☒ C (Service Provider Information) (5) ☐ D (DFE/Participating Plan Information) (6) ☐ G (Financial Transaction Schedules)

Part III Form M-1 Compliance Information (to be completed by welfare benefit plans)

11a If the plan provides welfare benefits, was the plan subject to the Form M-1 filing requirements during the plan year? (See instructions and 29 CFR 2520.101-2.) ☐ Yes ☐ No

If "Yes" is checked, complete lines 11b and 11c.

11b Is the plan currently in compliance with the Form M-1 filing requirements? (See instructions and 29 CFR 2520.101-2.) ☐ Yes ☐ No

11c Enter the Receipt Confirmation Code for the 2022 Form M-1 annual report. If the plan was not required to file the 2022 Form M-1 annual report, enter the Receipt Confirmation Code for the most recent Form M-1 that was required to be filed under the Form M-1 filing requirements. (Failure to enter a valid Receipt Confirmation Code will subject the Form 5500 filing to rejection as incomplete.)

Receipt Confirmation Code _____

SCHEDULE C (Form 5500) Department of the Treasury Internal Revenue Service Department of Labor Employee Benefits Security Administration Pension Benefit Guaranty Corporation	Service Provider Information This schedule is required to be filed under section 104 of the Employee Retirement Income Security Act of 1974 (ERISA). ▶ File as an attachment to Form 5500.	OMB No. 1210-0110
		2022
		This Form is Open to Public Inspection.

For calendar plan year 2022 or fiscal plan year beginning 01/01/2022 and ending 12/31/2022		
A Name of plan CANOPY TAX 401(K) PLAN	B Three-digit plan number (PN) ▶	001
C Plan sponsor's name as shown on line 2a of Form 5500 CANOPY TAX, INC.	D Employer Identification Number (EIN) 46-5164530	

Part I	Service Provider Information (see instructions)
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You must complete this Part, in accordance with the instructions, to report the information required for **each person** who received, directly or indirectly, \$5,000 or more in total compensation (i.e., money or anything else of monetary value) in connection with services rendered to the plan or the person's position with the plan during the plan year. If a person received **only** eligible indirect compensation for which the plan received the required disclosures, you are required to answer line 1 but are not required to include that person when completing the remainder of this Part.

1 Information on Persons Receiving Only Eligible Indirect Compensation

- a Check "Yes" or "No" to indicate whether you are excluding a person from the remainder of this Part because they received only eligible indirect compensation for which the plan received the required disclosures (see instructions for definitions and conditions).. ☐ Yes ☒ No
- b If you answered line 1a "Yes," enter the name and EIN or address of each person providing the required disclosures for the service providers who received only eligible indirect compensation. Complete as many entries as needed (see instructions).

(b) Enter name and EIN or address of person who provided you disclosures on eligible indirect compensation
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2. Information on Other Service Providers Receiving Direct or Indirect Compensation. Except for those persons for whom you answered "Yes" to line 1a above, complete as many entries as needed to list each person receiving, directly or indirectly, \$5,000 or more in total compensation (i.e., money or anything else of value) in connection with services rendered to the plan or their position with the plan during the plan year. (See instructions).

(a) Enter name and EIN or address (see instructions)

GUIDELINE, INC.

47-4474775

(b) Service Code(s)	(c) Relationship to employer, employee organization, or person known to be a party-in-interest	(d) Enter direct compensation paid by the plan. If none, enter -0-.	(e) Did service provider receive indirect compensation? (sources other than plan or plan sponsor)	(f) Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures?	(g) Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-.	(h) Did the service provider give you a formula instead of an amount or estimated amount?
14 15 16 26 27 31 37 38 50 64 65 72	RECORDKEEPER	6315	Yes ☐ No ☒	Yes ☐ No ☐		Yes ☐ No ☐

(a) Enter name and EIN or address (see instructions)

(b) Service Code(s)	(c) Relationship to employer, employee organization, or person known to be a party-in-interest	(d) Enter direct compensation paid by the plan. If none, enter -0-.	(e) Did service provider receive indirect compensation? (sources other than plan or plan sponsor)	(f) Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures?	(g) Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-.	(h) Did the service provider give you a formula instead of an amount or estimated amount?
			Yes ☐ No ☐	Yes ☐ No ☐		Yes ☐ No ☐

(a) Enter name and EIN or address (see instructions)

(b) Service Code(s)	(c) Relationship to employer, employee organization, or person known to be a party-in-interest	(d) Enter direct compensation paid by the plan. If none, enter -0-.	(e) Did service provider receive indirect compensation? (sources other than plan or plan sponsor)	(f) Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures?	(g) Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-.	(h) Did the service provider give you a formula instead of an amount or estimated amount?
			Yes ☐ No ☐	Yes ☐ No ☐		Yes ☐ No ☐

Part I Service Provider Information (continued)

3. If you reported on line 2 receipt of indirect compensation, other than eligible indirect compensation, by a service provider, and the service provider is a fiduciary or provides contract administrator, consulting, custodial, investment advisory, investment management, broker, or recordkeeping services, answer the following questions for (a) each source from whom the service provider received \$1,000 or more in indirect compensation and (b) each source for whom the service provider gave you a formula used to determine the indirect compensation instead of an amount or estimated amount of the indirect compensation. Complete as many entries as needed to report the required information for each source.

(a) Enter service provider name as it appears on line 2	(b) Service Codes (see instructions)	(c) Enter amount of indirect compensation
(d) Enter name and EIN (address) of source of indirect compensation	(e) Describe the indirect compensation, including any formula used to determine the service provider's eligibility for or the amount of the indirect compensation.	
(a) Enter service provider name as it appears on line 2	(b) Service Codes (see instructions)	(c) Enter amount of indirect compensation
(d) Enter name and EIN (address) of source of indirect compensation	(e) Describe the indirect compensation, including any formula used to determine the service provider's eligibility for or the amount of the indirect compensation.	
(a) Enter service provider name as it appears on line 2	(b) Service Codes (see instructions)	(c) Enter amount of indirect compensation
(d) Enter name and EIN (address) of source of indirect compensation	(e) Describe the indirect compensation, including any formula used to determine the service provider's eligibility for or the amount of the indirect compensation.	

Part II Service Providers Who Fail or Refuse to Provide Information

4 Provide, to the extent possible, the following information for each service provider who failed or refused to provide the information necessary to complete this Schedule.

(a) Enter name and EIN or address of service provider (see instructions)	(b) Nature of Service Code(s)	(c) Describe the information that the service provider failed or refused to provide
(a) Enter name and EIN or address of service provider (see instructions)	(b) Nature of Service Code(s)	(c) Describe the information that the service provider failed or refused to provide
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(a) Enter name and EIN or address of service provider (see instructions)	(b) Nature of Service Code(s)	(c) Describe the information that the service provider failed or refused to provide
(a) Enter name and EIN or address of service provider (see instructions)	(b) Nature of Service Code(s)	(c) Describe the information that the service provider failed or refused to provide

Part III Termination Information on Accountants and Enrolled Actuaries (see instructions)
(complete as many entries as needed)

a Name:	b EIN:
c Position:	
d Address:	e Telephone:

Explanation:

a Name:	b EIN:
c Position:	
d Address:	e Telephone:

Explanation:

a Name:	b EIN:
c Position:	
d Address:	e Telephone:

Explanation:

a Name:	b EIN:
c Position:	
d Address:	e Telephone:

Explanation:

a Name:	b EIN:
c Position:	
d Address:	e Telephone:

Explanation:

SCHEDULE H (Form 5500) Department of the Treasury Internal Revenue Service Department of Labor Employee Benefits Security Administration Pension Benefit Guaranty Corporation	Financial Information This schedule is required to be filed under section 104 of the Employee Retirement Income Security Act of 1974 (ERISA), and section 6058(a) of the Internal Revenue Code (the Code). ► File as an attachment to Form 5500.	OMB No. 1210-0110 2022 This Form is Open to Public Inspection
For calendar plan year 2022 or fiscal plan year beginning <u>01/01/2022</u> and ending <u>12/31/2022</u>		
A Name of plan <u>CANOPY TAX 401(K) PLAN</u>	B Three-digit plan number (PN) ►	<u>001</u>
C Plan sponsor's name as shown on line 2a of Form 5500 <u>CANOPY TAX, INC.</u>	D Employer Identification Number (EIN) <u>46-5164530</u>	

Part I	Asset and Liability Statement		
1 Current value of plan assets and liabilities at the beginning and end of the plan year. Combine the value of plan assets held in more than one trust. Report the value of the plan's interest in a commingled fund containing the assets of more than one plan on a line-by-line basis unless the value is reportable on lines 1c(9) through 1c(14). Do not enter the value of that portion of an insurance contract which guarantees, during this plan year, to pay a specific dollar benefit at a future date. Round off amounts to the nearest dollar. MTIAs, CCTs, PSAs, and 103-12 IEs do not complete lines 1b(1), 1b(2), 1c(8), 1g, 1h, and 1i. CCTs, PSAs, and 103-12 IEs also do not complete lines 1d and 1e. See instructions.			
Assets		(a) Beginning of Year	(b) End of Year
a Total noninterest-bearing cash.....	1a	9135	18772
b Receivables (less allowance for doubtful accounts):			
(1) Employer contributions.....	1b(1)		
(2) Participant contributions.....	1b(2)		
(3) Other.....	1b(3)		
c General investments:			
(1) Interest-bearing cash (include money market accounts & certificates of deposit).....	1c(1)	1	726
(2) U.S. Government securities	1c(2)		
(3) Corporate debt instruments (other than employer securities):			
(A) Preferred	1c(3)(A)		
(B) All other	1c(3)(B)		
(4) Corporate stocks (other than employer securities):			
(A) Preferred	1c(4)(A)		
(B) Common.....	1c(4)(B)		
(5) Partnership/joint venture interests	1c(5)		
(6) Real estate (other than employer real property)	1c(6)		
(7) Loans (other than to participants).....	1c(7)		
(8) Participant loans.....	1c(8)	3441	5641
(9) Value of interest in common/collective trusts.....	1c(9)		
(10) Value of interest in pooled separate accounts	1c(10)		
(11) Value of interest in master trust investment accounts.....	1c(11)		
(12) Value of interest in 103-12 investment entities	1c(12)		
(13) Value of interest in registered investment companies (e.g., mutual funds).....	1c(13)	1864892	2819158
(14) Value of funds held in insurance company general account (unallocated contracts).....	1c(14)		
(15) Other	1c(15)		

1d Employer-related investments:		(a) Beginning of Year	(b) End of Year
(1) Employer securities	1d(1)		
(2) Employer real property	1d(2)		
e Buildings and other property used in plan operation	1e		
f Total assets (add all amounts in lines 1a through 1e)	1f	1877469	2844297

Liabilities

g Benefit claims payable	1g		
h Operating payables	1h		
i Acquisition indebtedness	1i		
j Other liabilities	1j		
k Total liabilities (add all amounts in lines 1g through 1j)	1k	0	0

Net Assets

l Net assets (subtract line 1k from line 1f)	1l	1877469	2844297
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Part II Income and Expense Statement

2 Plan income, expenses, and changes in net assets for the year. Include all income and expenses of the plan, including any trust(s) or separately maintained fund(s) and any payments/receipts to/from insurance carriers. Round off amounts to the nearest dollar. MTIAs, CCTs, PSAs, and 103-12 IEs do not complete lines 2a, 2b(1)(E), 2e, 2f, and 2g.

Income

		(a) Amount	(b) Total
a Contributions:			
(1) Received or receivable in cash from: (A) Employers	2a(1)(A)	377078	
(B) Participants	2a(1)(B)	730628	
(C) Others (including rollovers)	2a(1)(C)	404604	
(2) Noncash contributions	2a(2)		
(3) Total contributions. Add lines 2a(1)(A) , (B) , (C) , and line 2a(2)	2a(3)		1512310
b Earnings on investments:			
(1) Interest:			
(A) Interest-bearing cash (including money market accounts and certificates of deposit)	2b(1)(A)		
(B) U.S. Government securities	2b(1)(B)		
(C) Corporate debt instruments	2b(1)(C)		
(D) Loans (other than to participants)	2b(1)(D)		
(E) Participant loans	2b(1)(E)	115	
(F) Other	2b(1)(F)		
(G) Total interest. Add lines 2b(1)(A) through (F)	2b(1)(G)		115
(2) Dividends: (A) Preferred stock	2b(2)(A)		
(B) Common stock	2b(2)(B)		
(C) Registered investment company shares (e.g. mutual funds)	2b(2)(C)	54595	
(D) Total dividends. Add lines 2b(2)(A) , (B) , and (C)	2b(2)(D)		54595
(3) Rents	2b(3)		
(4) Net gain (loss) on sale of assets: (A) Aggregate proceeds	2b(4)(A)		
(B) Aggregate carrying amount (see instructions)	2b(4)(B)		
(C) Subtract line 2b(4)(B) from line 2b(4)(A) and enter result	2b(4)(C)		
(5) Unrealized appreciation (depreciation) of assets: (A) Real estate	2b(5)(A)		
(B) Other	2b(5)(B)		
(C) Total unrealized appreciation of assets. Add lines 2b(5)(A) and (B)	2b(5)(C)		

		(a) Amount	(b) Total
(6) Net investment gain (loss) from common/collective trusts	2b(6)		
(7) Net investment gain (loss) from pooled separate accounts	2b(7)		
(8) Net investment gain (loss) from master trust investment accounts	2b(8)		
(9) Net investment gain (loss) from 103-12 investment entities.....	2b(9)		
(10) Net investment gain (loss) from registered investment companies (e.g., mutual funds)	2b(10)		-447915
c Other income	2c		3880
d Total income. Add all income amounts in column (b) and enter total	2d		1122985
Expenses			
e Benefit payment and payments to provide benefits:			
(1) Directly to participants or beneficiaries, including direct rollovers	2e(1)	149782	
(2) To insurance carriers for the provision of benefits	2e(2)		
(3) Other	2e(3)		
(4) Total benefit payments. Add lines 2e(1) through (3)	2e(4)		149782
f Corrective distributions (see instructions)	2f		60
g Certain deemed distributions of participant loans (see instructions)	2g		0
h Interest expense	2h		
i Administrative expenses: (1) Professional fees	2i(1)		
(2) Contract administrator fees	2i(2)	31	
(3) Investment advisory and management fees	2i(3)	6284	
(4) Other	2i(4)	0	
(5) Total administrative expenses. Add lines 2i(1) through (4)	2i(5)		6315
j Total expenses. Add all expense amounts in column (b) and enter total	2j		156157
Net Income and Reconciliation			
k Net income (loss). Subtract line 2j from line 2d	2k		966828
l Transfers of assets:			
(1) To this plan	2l(1)		
(2) From this plan	2l(2)		

Part III Accountant's Opinion

3 Complete lines 3a through 3c if the opinion of an independent qualified public accountant is attached to this Form 5500. Complete line 3d if an opinion is not attached.

a The attached opinion of an independent qualified public accountant for this plan is (see instructions):

(1) ☒ Unmodified (2) ☐ Qualified (3) ☐ Disclaimer (4) ☐ Adverse

b Check the appropriate box(es) to indicate whether the IQPA performed an ERISA section 103(a)(3)(C) audit. Check both boxes (1) and (2) if the audit was performed pursuant to both 29 CFR 2520.103-8 and 29 CFR 2520.103-12(d). Check box (3) if pursuant to neither.

(1) ☒ DOL Regulation 2520.103-8 (2) ☐ DOL Regulation 2520.103-12(d) (3) ☐ neither DOL Regulation 2520.103-8 nor DOL Regulation 2520.103-12(d).

c Enter the name and EIN of the accountant (or accounting firm) below:

(1) Name: **TANNER LLC**

(2) EIN: **20-2253063**

d The opinion of an independent qualified public accountant is **not attached** because:

(1) ☐ This form is filed for a CCT, PSA, or MTIA. (2) ☐ It will be attached to the next Form 5500 pursuant to 29 CFR 2520.104-50.

Part IV Compliance Questions

4 CCTs and PSAs do not complete Part IV. MTIAs, 103-12 IEs, and GIAs do not complete lines 4a, 4e, 4f, 4g, 4h, 4k, 4m, 4n, or 5. 103-12 IEs also do not complete lines 4j and 4l. MTIAs also do not complete line 4l.

During the plan year:

a Was there a failure to transmit to the plan any participant contributions within the time period described in 29 CFR 2510.3-102? Continue to answer "Yes" for any prior year failures until fully corrected. (See instructions and DOL's Voluntary Fiduciary Correction Program.)

	Yes	No	Amount
4a		X	0

	Yes	No	Amount
b Were any loans by the plan or fixed income obligations due the plan in default as of the close of the plan year or classified during the year as uncollectible? Disregard participant loans secured by participant's account balance. (Attach Schedule G (Form 5500) Part I if "Yes" is checked.)		X	
4b		X	
c Were any leases to which the plan was a party in default or classified during the year as uncollectible? (Attach Schedule G (Form 5500) Part II if "Yes" is checked.)		X	
4c		X	
d Were there any nonexempt transactions with any party-in-interest? (Do not include transactions reported on line 4a. Attach Schedule G (Form 5500) Part III if "Yes" is checked.)		X	0
4d		X	0
e Was this plan covered by a fidelity bond?	X		1000000
4e	X		1000000
f Did the plan have a loss, whether or not reimbursed by the plan's fidelity bond, that was caused by fraud or dishonesty?		X	0
4f		X	0
g Did the plan hold any assets whose current value was neither readily determinable on an established market nor set by an independent third party appraiser?		X	
4g		X	
h Did the plan receive any noncash contributions whose value was neither readily determinable on an established market nor set by an independent third party appraiser?		X	
4h		X	
i Did the plan have assets held for investment? (Attach schedule(s) of assets if "Yes" is checked, and see instructions for format requirements.)	X		
4i	X		
j Were any plan transactions or series of transactions in excess of 5% of the current value of plan assets? (Attach schedule of transactions if "Yes" is checked and see instructions for format requirements.)		X	
4j		X	
k Were all the plan assets either distributed to participants or beneficiaries, transferred to another plan, or brought under the control of the PBGC?		X	
4k		X	
l Has the plan failed to provide any benefit when due under the plan?		X	0
4l		X	0
m If this is an individual account plan, was there a blackout period? (See instructions and 29 CFR 2520.101-3.)		X	
4m		X	
n If 4m was answered "Yes," check the "Yes" box if you either provided the required notice or one of the exceptions to providing the notice applied under 29 CFR 2520.101-3.			
4n			

5a Has a resolution to terminate the plan been adopted during the plan year or any prior plan year? ☐ Yes ☒ No
If "Yes," enter the amount of any plan assets that reverted to the employer this year _____.

5b If, during this plan year, any assets or liabilities were transferred from this plan to another plan(s), identify the plan(s) to which assets or liabilities were transferred. (See instructions.)

5b(1) Name of plan(s)	5b(2) EIN(s)	5b(3) PN(s)

5c Was the plan a defined benefit plan covered under the PBGC insurance program at any time during this plan year? (See ERISA section 4021 and instructions.) ☐ Yes ☐ No ☐ Not determined
If "Yes" is checked, enter the My PAA confirmation number from the PBGC premium filing for this plan year _____.

SCHEDULE R (Form 5500) Department of the Treasury Internal Revenue Service Department of Labor Employee Benefits Security Administration Pension Benefit Guaranty Corporation	Retirement Plan Information This schedule is required to be filed under sections 104 and 4065 of the Employee Retirement Income Security Act of 1974 (ERISA) and section 6058(a) of the Internal Revenue Code (the Code). ► File as an attachment to Form 5500.	OMB No. 1210-0110 2022 This Form is Open to Public Inspection.
For calendar plan year 2022 or fiscal plan year beginning 01/01/2022 and ending 12/31/2022		
A Name of plan CANOPY TAX 401(K) PLAN		B Three-digit plan number (PN) 001
C Plan sponsor's name as shown on line 2a of Form 5500 CANOPY TAX, INC.		D Employer Identification Number (EIN) 46-5164530
Part I	Distributions	
All references to distributions relate only to payments of benefits during the plan year.		
1 Total value of distributions paid in property other than in cash or the forms of property specified in the instructions.....		1 0
2 Enter the EIN(s) of payor(s) who paid benefits on behalf of the plan to participants or beneficiaries during the year (if more than two, enter EINs of the two payors who paid the greatest dollar amounts of benefits): EIN(s): 04-3581074		
Profit-sharing plans, ESOPs, and stock bonus plans, skip line 3.		
3 Number of participants (living or deceased) whose benefits were distributed in a single sum, during the plan year.....		3
Part II	Funding Information (If the plan is not subject to the minimum funding requirements of section 412 of the Internal Revenue Code or ERISA section 302, skip this Part.)	
4 Is the plan administrator making an election under Code section 412(d)(2) or ERISA section 302(d)(2)? ☐ Yes ☐ No ☐ N/A If the plan is a defined benefit plan, go to line 8.		
5 If a waiver of the minimum funding standard for a prior year is being amortized in this plan year, see instructions and enter the date of the ruling letter granting the waiver. Date: Month _____ Day _____ Year _____ If you completed line 5, complete lines 3, 9, and 10 of Schedule MB and do not complete the remainder of this schedule.		
6 a Enter the minimum required contribution for this plan year (include any prior year accumulated funding deficiency not waived).....		6a
b Enter the amount contributed by the employer to the plan for this plan year.....		6b
c Subtract the amount in line 6b from the amount in line 6a. Enter the result (enter a minus sign to the left of a negative amount).....		6c
If you completed line 6c, skip lines 8 and 9.		
7 Will the minimum funding amount reported on line 6c be met by the funding deadline? ☐ Yes ☐ No ☐ N/A		
8 If a change in actuarial cost method was made for this plan year pursuant to a revenue procedure or other authority providing automatic approval for the change or a class ruling letter, does the plan sponsor or plan administrator agree with the change? ☐ Yes ☐ No ☐ N/A		
Part III	Amendments	
9 If this is a defined benefit pension plan, were any amendments adopted during this plan year that increased or decreased the value of benefits? If yes, check the appropriate box. If no, check the "No" box..... ☐ Increase ☐ Decrease ☐ Both ☐ No		
Part IV	ESOPs (see instructions). If this is not a plan described under section 409(a) or 4975(e)(7) of the Internal Revenue Code, skip this Part.	
10 Were unallocated employer securities or proceeds from the sale of unallocated securities used to repay any exempt loan?..... ☐ Yes ☐ No		
11 a Does the ESOP hold any preferred stock?..... ☐ Yes ☐ No		
b If the ESOP has an outstanding exempt loan with the employer as lender, is such loan part of a "back-to-back" loan? (See instructions for definition of "back-to-back" loan.)..... ☐ Yes ☐ No		
12 Does the ESOP hold any stock that is not readily tradable on an established securities market?..... ☐ Yes ☐ No		
For Paperwork Reduction Act Notice, see the Instructions for Form 5500.		
Schedule R (Form 5500) 2022 v. 220413		

Part V Additional Information for Multiemployer Defined Benefit Pension Plans

13 Enter the following information for each employer that (1) contributed more than 5% of total contributions to the plan during the plan year or (2) was one of the top-ten highest contributors (measured in dollars). See instructions. *Complete as many entries as needed to report all applicable employers.*

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

14	Enter the number of deferred vested and retired participants (inactive participants), as of the beginning of the plan year, whose contributing employer is no longer making contributions to the plan for:		
	a The current plan year. Check the box to indicate the counting method used to determine the number of inactive participants: ☐ last contributing employer ☐ alternative ☐ reasonable approximation (see instructions for required attachment).....	14a	
	b The plan year immediately preceding the current plan year. ☐ Check the box if the number reported is a change from what was previously reported (see instructions for required attachment)	14b	
	c The second preceding plan year. ☐ Check the box if the number reported is a change from what was previously reported (see instructions for required attachment)	14c	
15	Enter the ratio of the number of participants under the plan on whose behalf no employer had an obligation to make an employer contribution during the current plan year to:		
	a The corresponding number for the plan year immediately preceding the current plan year.....	15a	
	b The corresponding number for the second preceding plan year.....	15b	
16	Information with respect to any employers who withdrew from the plan during the preceding plan year:		
	a Enter the number of employers who withdrew during the preceding plan year	16a	
	b If line 16a is greater than 0, enter the aggregate amount of withdrawal liability assessed or estimated to be assessed against such withdrawn employers.....	16b	
17	If assets and liabilities from another plan have been transferred to or merged with this plan during the plan year, check box and see instructions regarding supplemental information to be included as an attachment ☐		

Part VI	Additional Information for Single-Employer and Multiemployer Defined Benefit Pension Plans
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18	If any liabilities to participants or their beneficiaries under the plan as of the end of the plan year consist (in whole or in part) of liabilities to such participants and beneficiaries under two or more pension plans as of immediately before such plan year, check box and see instructions regarding supplemental information to be included as an attachment ☐
19	If the total number of participants is 1,000 or more, complete lines (a) through (c) a Enter the percentage of plan assets held as: Stock: _____% Investment-Grade Debt: _____% High-Yield Debt: _____% Real Estate: _____% Other: _____% b Provide the average duration of the combined investment-grade and high-yield debt: ☐ 0-3 years ☐ 3-6 years ☐ 6-9 years ☐ 9-12 years ☐ 12-15 years ☐ 15-18 years ☐ 18-21 years ☐ 21 years or more c What duration measure was used to calculate line 19(b)? ☐ Effective duration ☐ Macaulay duration ☐ Modified duration ☐ Other (specify): _____
20	PBGC missed contribution reporting requirements. If this is a multiemployer plan or a single-employer plan that is not covered by PBGC, skip line 20. a Is the amount of unpaid minimum required contributions for all years from Schedule SB (Form 5500) line 40 greater than zero? ☐ Yes ☐ No b If line 20a is "Yes," has PBGC been notified as required by ERISA sections 4043(c)(5) and/or 303(k)(4)? Check the applicable box: ☐ Yes. ☐ No. Reporting was waived under 29 CFR 4043.25(c)(2) because contributions equal to or exceeding the unpaid minimum required contribution were made by the 30th day after the due date. ☐ No. The 30-day period referenced in 29 CFR 4043.25(c)(2) has not yet ended, and the sponsor intends to make a contribution equal to or exceeding the unpaid minimum required contribution by the 30th day after the due date. ☐ No. Other. Provide explanation _____

Right Answers, Right Here.



TANNER

Accountants & Advisors

canopy

Canopy Tax, Inc.

Financial Statements

As of December 31, 2022 and 2021 and For the Years Then Ended

Together with Independent Auditors' Report



TANNER

Independent Auditors' Report

**To the Board of Directors of
Canopy Tax, Inc.**

Opinion

We have audited the accompanying financial statements of Canopy Tax, Inc. (the Company), which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of operations, stockholders' equity (deficit), and cash flows for the years then ended, and the related notes to financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Canopy Tax, Inc. as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Tanner LLC

June 22, 2023

Balance Sheets

As of December 31,

<u>Assets</u>	<u>2022</u>	<u>2021</u>
Current assets:		
Cash and cash equivalents	\$ 5,590,690	\$ 39,318,401
Marketable securities (fair value of \$22,069,248 and \$0, respectively)	22,147,508	-
Accounts receivable, net of allowance for doubtful accounts of \$28,057 and \$35,859, respectively	100,783	22,588
Current portion of costs capitalized to obtain revenue contracts	460,441	353,938
Prepaid expenses and other current assets	468,752	338,511
Total current assets	28,768,174	40,033,438
Property and equipment, net	360,732	239,305
Right-of-use asset	109,818	468,491
Costs capitalized to obtain revenue contracts, net of current portion	890,479	316,179
Deposits	33,700	33,700
Total assets	\$ 30,162,903	\$ 41,091,113
<u>Liabilities and Stockholders' Equity (Deficit)</u>		
Current liabilities:		
Accounts payable	\$ 119,941	\$ 210,747
Accrued expenses	1,096,225	811,802
Current portion of operating lease liability	119,312	388,679
Deferred revenue	4,249,202	3,211,839
Current portion of long-term debt	800,000	-
Total current liabilities	6,384,680	4,623,067
Long-term debt, net of current portion	3,200,000	4,000,000
Operating lease liability, net of current portion	-	119,301
Total liabilities	9,584,680	8,742,368
Commitments and contingencies		
Stockholders' equity (deficit):		
Preferred stock, \$0.0001 par value: 29,241,266 shares authorized; 28,643,932 and 27,036,479 shares outstanding, respectively	2,865	2,704
Common stock, \$0.0001 par value: 40,000,000 shares authorized; 420,704 and 286,332 shares outstanding, respectively	42	29
Additional paid-in capital	128,287,561	122,642,433
Accumulated deficit	(107,712,245)	(90,296,421)
Total stockholders' equity	20,578,223	32,348,745
Total liabilities and stockholders' equity	\$ 30,162,903	\$ 41,091,113

Statements of Operations

		<i>For the Years Ended December 31,</i>	
		2022	2021
Revenues		\$ 9,096,053	\$ 6,363,534
Cost of revenues		2,709,552	2,008,156
Gross profit		6,386,501	4,355,378
Operating expenses:			
Research and development		10,033,109	7,338,676
General and administrative		4,796,809	3,990,174
Sales and marketing		9,192,530	6,651,798
Total operating expenses		24,022,448	17,980,648
Loss from operations		(17,635,947)	(13,625,270)
Other income (expense):			
Gain on forgiveness of debt		-	3,491,316
Net gain on lease termination		-	1,494,682
Interest income		424,424	2,286
Interest expense		(227,095)	(357,390)
Gain (loss) on sale of property and equipment		8,991	(782,191)
Other income		16,042	-
Total other income, net		222,362	3,848,703
Loss before provision for income taxes		(17,413,585)	(9,776,567)
Provision for income taxes		2,239	1,040
Net loss		\$ (17,415,824)	\$ (9,777,607)

Statements of Stockholders' Equity (Deficit)

For the Years Ended December 31,

	Preferred Stock		Common Stock		Additional	Accumulated	Total
	Shares	Amount	Shares	Amount	Paid-in Capital	Deficit	Stockholders' Equity (Deficit)
Balance, December 31, 2020	268,190	\$ 27	105,850	\$ 11	\$ 70,513,129	\$ (80,518,814)	\$ (10,005,647)
Issuance of Series AA preferred stock	9,371,415	937	-	-	13,485,841	-	13,486,778
Conversion of notes payable for Series AA preferred stock	7,918,681	792	-	-	8,546,277	-	8,547,069
Repurchase of common stock	-	-	(89,055)	(9)	(50,882)	-	(50,891)
Recapitalization of all preferred stock to common stock	(268,202)	(27)	268,202	27	-	-	-
Issuance of Series BB preferred stock	9,746,395	975	-	-	30,315,284	-	30,316,259
Issuance costs from Series AA and BB preferred stock	-	-	-	-	(366,684)	-	(366,684)
Issuance of common stock	-	-	1,335	-	15,300	-	15,300
Cancellation and repurchase of vested stock options	-	-	-	-	(483,373)	-	(483,373)
Stock option expense	-	-	-	-	667,541	-	667,541
Net loss	-	-	-	-	-	(9,777,607)	(9,777,607)
Balance, December 31, 2021	27,036,479	2,704	286,332	29	122,642,433	(90,296,421)	32,348,745
Issuance of Series BB preferred stock	1,607,453	161	-	-	4,997,791	-	4,997,952
Issuance of common stock	-	-	134,372	13	93,742	-	93,755
Cancellation and repurchase of vested stock options	-	-	-	-	(498,596)	-	(498,596)
Stock option expense	-	-	-	-	1,052,191	-	1,052,191
Net loss	-	-	-	-	-	(17,415,824)	(17,415,824)
Balance, December 31, 2022	28,643,932	\$ 2,865	420,704	\$ 42	\$ 128,287,561	\$ (107,712,245)	\$ 20,578,223

Statements of Cash Flows

	For the Years Ended December 31,	
	2022	2021
Cash flows from operating activities:		
Net loss	\$ (17,415,824)	\$ (9,777,607)
Adjustments to reconcile net loss to net cash and cash equivalents used in operating activities:		
Depreciation and amortization	145,800	188,085
Forgiveness of debt	-	(3,491,316)
Net gain on lease termination	-	(1,494,682)
(Gain) loss on sale of property and equipment	(8,991)	782,191
Change in accrued interest on marketable securities	(99,019)	-
Amortization of right-of-use asset	358,673	691,729
Amortization of costs capitalized to obtain revenue contracts	341,974	218,212
Stock option expense	1,052,191	667,541
Bad debt expense	110,423	74,889
Changes in operating assets and liabilities:		
Accounts receivable	(188,618)	13,682
Prepaid expenses and other assets, and deposits	(31,222)	14,332
Accounts payable and accrued expenses	193,617	284,620
Deferred revenue	1,037,363	1,105,456
Costs capitalized to obtain revenue contracts	(1,022,777)	(609,286)
Operating lease liability	(388,668)	(666,208)
Net cash and cash equivalents used in operating activities	(15,915,078)	(11,998,362)
Cash flows from investing activities:		
Purchases of property and equipment	(272,347)	(244,231)
Purchases of marketable securities	(98,182,418)	-
Proceeds from sales of marketable securities	76,034,910	-
Proceeds from sales of property and equipment	14,111	3,035
Net cash and cash equivalents used in investing activities	(22,405,744)	(241,196)
Cash flows from financing activities:		
Proceeds from issuance of preferred stock	4,997,952	43,803,037
Proceeds from issuance of common stock	93,755	15,300
Repurchase of common stock	-	(50,891)
Payment of issuance costs from preferred stock	-	(366,684)
Proceeds from PPP debt	-	1,961,875
Cancellation and repurchase of stock options	(498,596)	(483,373)
Net cash and cash equivalents provided by financing activities	4,593,111	44,879,264
Net change in cash and cash equivalents	(33,727,711)	32,639,706
Cash and cash equivalents as of beginning of the year	39,318,401	6,678,695
Cash and cash equivalents as of end of the year	\$ 5,590,690	\$ 39,318,401

Statements of Cash Flows - Continued

For the Years Ended December 31,

	2022	2021
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 227,095	\$ 357,390
Cash paid for taxes	2,139	100
Supplemental schedule of non-cash investing and financing activities:		
Acquisition of right-of-use asset by entering into operating lease agreement	\$ -	\$ 705,345
Conversion of convertible debt and accrued interest into preferred stock	\$ -	\$ 8,547,069

1. Description of Organization and Summary of Significant Accounting Policies

Organization

Canopy Tax, Inc. (the Company) was organized and incorporated on March 14, 2014 as a Delaware corporation. The Company is a provider of cloud-based practice management and tax resolution software, sold primarily to accounting firms.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (US GAAP) requires management to make estimates and assumptions that affect reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Key management estimates include allowances for doubtful accounts receivable, useful lives and impairment of property and equipment, valuation allowances for net deferred income tax assets, the period of benefit for amortizing deferred contract costs incurred to acquire revenue contracts, fair values of stock options and warrants, and initial values of right-of-use assets and operating lease liabilities.

Concentrations of Credit Risk

The Company maintains its cash and cash equivalents in bank deposit accounts and brokerage accounts which balances, at times, exceed federally insured limits. To date, the Company has not experienced a loss or lack of access to its cash and cash equivalents; however, no assurance can be provided that access to the Company's invested cash and cash equivalents will not be impacted by adverse conditions in the financial markets. As of December 31, 2022, most of the Company's cash was deposited with one financial institution and exceeded the federally insured limits.

In the normal course of business, the Company generally does not provide credit terms to its customers. Accounts receivable balances consist of contractual renewals on its software where payment has not yet been received for the renewal period of services. A major customer is considered to be one that comprises 10% or more of the Company's total accounts receivable or revenues. There were no such concentrations as of and for the years ended December 31, 2022 and 2021.

Major vendors are defined as those vendors to which expenditures made by the Company are 10% or more of the Company's total cost of revenues. There were no vendors which accounted for 10% or more of the Company's total cost of revenues for the years ended December 31, 2022 and 2021.

Accounts Receivable

The Company records its accounts receivable at sales value and establishes specific allowances for those customer accounts identified with collection problems due to insolvency or other issues. The Company's accounts receivable are considered past due when payment has not been received by the agreed upon due date. The amounts of the specific allowances are estimated by management based on various assumptions including the customers' financial position, age of the customers' receivables, and changes in payment schedules and histories, as well as economic trends. Account balances are charged off against the allowance for doubtful accounts receivable when the likelihood of recovery is remote. Recoveries of receivables previously charged off are recorded when payment is received.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities to the Company of three months or less to be cash equivalents. As of December 31, 2022 and 2021, these cash equivalents consisted of money market funds.

Marketable Securities

Marketable securities may be classified as held-to-maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. If management does not intend to hold marketable securities to maturity, they are classified as available-for-sale and carried at fair value with adjustments to fair value included in the statements of operations. Accrued interest on held-to maturity securities is included in prepaid expenses and other current assets on the balance sheet and totaled \$99,019 and \$0 as of December 31, 2022 and 2021, respectively.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method over the estimated economic useful lives of the assets as follows:

Computer equipment	3 years
Leasehold improvements	2 years
Furniture and fixtures	3-6 years

Impairment of Long-Lived Assets

The Company reviews its property and equipment for impairment whenever events or changes in circumstances indicate that the carrying values of the assets may be impaired. If it is determined that the estimated undiscounted future net cash flows are not sufficient to recover the carrying values of the assets, an impairment loss is recognized for the difference between the carrying values and the fair values of the assets. Management does not consider any of the Company's long-lived assets to be impaired as of December 31, 2022 and 2021.

Lease Commitments

The Company leases its facilities under an operating lease. The Company assesses whether an arrangement qualifies as a lease (i.e., conveys the right to control the use of an identified asset for a period of time in exchange for consideration) at inception and only reassesses its determination if the terms and conditions of the arrangement are changed.

For all arrangements where it is determined that a lease exists, the related right-of-use assets and lease liabilities are recorded within the balance sheet as either operating or finance leases. At inception or modification, the Company calculates the present value of lease payments using the implicit rate determined from the contract or the Company's incremental borrowing rate applicable to the lease, which is determined by estimating what it would cost the Company to borrow a collateralized amount equal to the total lease payments over the lease term based on the contractual terms of the lease and the location of the leased asset.

The present value is adjusted for prepaid lease payments, lease incentives, and initial direct costs (e.g. commissions). The Company's leases may require fixed rental payments, variable lease payments based on usage or sales and fixed non-lease costs relating to the leased asset. Variable lease payments are generally not included in the measurement of the right-of-use assets and lease liabilities. Leases with an initial term of 12 months or less are not recorded on the balance sheet. Lease expense is recognized for these leases on a straight-line basis over the lease term. Fixed non-lease costs, for example common-area maintenance costs, taxes, insurance, and maintenance, are included in the measurement of the right-of-use asset and lease liability as the Company does not separate lease and non-lease components.

For lease agreements that contain tenant improvement allowances the Company evaluates the following criteria to determine if it is the accounting owner of the tenant improvements constructed using the tenant improvement allowance:

- whether the lease stipulates how and on what a tenant improvement allowance may be spent;
- whether the landlord or the Company retains title to the improvements;
- the uniqueness of the improvements;
- the expected economic life of the tenant improvements relative to the length of the lease;
- who constructs or directs the construction of the improvements, and
- whether the landlord or the Company is obligated to fund cost overruns.

The determination of who owns the tenant improvements, for accounting purposes, is subject to significant judgment. In making that determination, the Company considers all of the above factors. No one factor, however, necessarily establishes its determination. When it is determined that the Company is the accounting owner, it records the tenant improvements as an asset that is depreciated over the shorter of the lease term or useful life and a reduction to the fixed lease payments in measuring the right-of-use asset and operating lease liability. The Company has determined it is not the accounting owner of tenant improvements under its current lease agreement.

Revenue Recognition

The Company recognizes revenue on a monthly basis from two main sources: (1) cloud-based subscriptions to access the Company's practice management and tax resolution platform with the monthly subscription price based on the number of users or client data input into the software; (2) payment processing and other miscellaneous client charges, referred to as other. Revenues are recognized as the services are provided to customers in an amount that reflects the consideration expected to be received by the Company in exchange for those services.

The Company recognizes revenue as products and services are provided to customers. The amount of revenue recognized reflects the consideration that the Company expects to be entitled to receive in exchange for these products or services. To achieve the core principle of ASC 606, *Revenue from Contracts with Customers*, the Company applies the following five steps:

1) Identify the contract with a customer

The Company considers the terms and conditions of the contracts and the Company's customary business practices in identifying contracts. The Company has determined a contract with a customer exist when the contract is approved, each party's rights regarding the services have been identified and transferred, payment terms for the services have been identified, and it has been determined the customer has the ability and intent to pay and the contract has commercial substance. Judgment is required in determining the customer's ability and intent 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 is obtained as deemed necessary.

2) Identify the performance obligations in the contract

Performance obligations promised in a contract are identified based on the products and services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the product or service either on its own or together with other resources that are readily available from third parties or from the Company, and are distinct in the context of the contract, whereby the transfer of the products or services is separately identifiable from other promises in the contract.

3) Determine the transaction price

The transaction price is determined based on the consideration the Company expects to be entitled in exchange for performing services for the customer. Variable consideration is included in the transaction price if, based on management's judgment, it is probable that no significant future reversal of cumulative revenue under the contract will occur. In instances where the timing of revenue recognition differs from the timing of invoicing, the Company has determined its contracts generally do not include a significant financing component.

The primary purpose of invoicing terms is to provide customers with simplified and predictable ways of purchasing our products and services, not to receive financing from customers or to provide customers with financing. Examples include invoicing at the beginning of a subscription term with revenue recognized ratably over the contract period.

4) Allocate 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 a relative standalone selling price.

5) Recognize 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, in an amount that reflects the consideration expected to be received in exchange for those products or services.

Subscription Revenue

Subscription revenue consists of revenue from subscriptions to access the Company's cloud-based practice management software with related customer support. Customers' monthly or annual subscription fee is determined based on the number of licenses, the number of contacts, and/or the number of products purchased. These arrangements do not provide the customer with the right to take possession of the software operating on the cloud platform at any time. Instead, customers are granted continuous access to the Company's cloud platform over the contractual period. Revenue is recognized each month as access to the software is provided to the customer.

Subscription contracts generally contain service level commitments, which entitle customers to receive service credits and, in certain cases, refunds, if services do not meet certain levels. These service credits and refunds represent variable consideration. The Company has historically not experienced any significant incidents affecting the defined levels of reliability and performance as required by subscription contracts and accordingly, no estimated refunds have been considered in the allocation of the transaction price.

Other

Revenues from other sources relate to various services provided to customers often on a one-time basis and are not significant to the Company's overall revenue. Revenue is recognized for other revenues at the time control is transferred to the customer.

Various economic factors affect revenues and cash flows including the economic strength within the United States, which can have a significant impact on revenues and cash flows. Other factors that affect revenues and cash flows include small and medium sized accounting firm capital spending, unemployment rates, consumer sentiment, and general economic strength within the markets that the Company operates.

Revenues consist of the following for the years ended December 31:

	2022	2021
Subscriptions	\$ 8,536,242	\$ 6,059,540
Other	559,811	303,994
	<u>\$ 9,096,053</u>	<u>\$ 6,363,534</u>

Costs Capitalized to Obtain Revenue Contracts

Costs capitalized to obtain revenue contracts consist of the costs that are directly associated with acquiring subscription contracts with customers. These costs consist of sales commissions and related payroll taxes paid to the Company's sales force upon the inception of a contract. US GAAP requires the capitalization of these incremental contract acquisition costs and subsequent amortization over the expected benefit period, which has been determined to approximate the average customer life of 48 months. Amortization of capitalized costs to obtain revenue contracts is included in sales and marketing expense in the accompanying statements of operations.

Cost of Revenues

Cost of subscription revenues primarily consists of expenses related to delivering our service and providing support, including the costs of data center capacity, services, and employee-related costs such as salaries and benefits. Cost of other revenues primarily consists of salaries and benefits paid to the employees who deliver such services and third-party service charges.

Advertising

Advertising costs are expensed as incurred. Advertising expenses for the years ended December 31, 2022 and 2021 totaled \$3,019,688 and \$2,645,782 respectively.

Stock-Based Compensation

Stock-based compensation related to grants of employee stock options to employees, consultants, and directors is measured at fair value on the date of grant. Stock options are measured at fair value based on the Black-Scholes option pricing model. The related expense is recorded in the statements of operations over the requisite service period, which in no case exceeds the vesting period. For stock options with performance-based conditions, the expense is recognized once it becomes probable the performance conditions will be met.

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the tax bases of assets and liabilities. Deferred taxes represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred income tax assets are reviewed periodically for recoverability, and valuation allowances are provided when it is more likely than not that some or all of the deferred income tax assets may not be realized (see Note 9).

The Company believes that it has appropriate support for the income tax positions taken and to be taken on its tax returns and that its accruals for tax liabilities are adequate for all open tax years based on an assessment of many factors including experience and interpretations of tax laws applied to the facts of each matter. The Company files income tax returns in the United States federal jurisdiction and certain state jurisdictions.

Adoption of New Accounting Standards

In August 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2020-06 (ASU 2020-06), *Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*, as part of its overall simplification initiative to reduce costs and complexity of applying accounting standards while maintaining or improving the usefulness of the information provided to users of financial statements. Among other changes, the new guidance removes from US GAAP separation models for convertible debt that require the convertible debt to be separated into a debt and equity component, unless the conversion feature is required to be bifurcated and accounted for as a derivative or the debt is issued at a substantial premium. As a result, after adopting the guidance, entities will no longer separately present such embedded conversion features in equity and will instead account for the convertible debt wholly as debt. ASU 2020-06 effective for financial statements issued for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years, with early adoption permitted, but no earlier than fiscal years beginning after December 15, 2020.

The Company early adopted ASU 2020-06 on January 1, 2021 using the modified retrospective approach. The adoption of ASU 2020-06 resulted in the Company not recording non-cash interest expense related to a beneficial conversion feature upon conversion of debt to preferred stock.

Subsequent Events

Management has evaluated events and transactions for potential recognition or disclosure through June 22, 2023, which is the date the financial statements were available to be issued.

2. Liquidity

In August 2014, the Financial Accounting Standards Board issued ASU No. 2014-15, *Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* (ASU 2014-15). ASU 2014-15 requires management to evaluate, at each interim and annual reporting period, whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued and provide related disclosures. The Company has incurred significant net losses since inception that have accumulated to \$107,712,245. As of December 31, 2022, the Company has positive working capital \$22,383,494 and used net cash of \$15,915,078 in operating activities for the year ended December 31, 2022. The Company determined the accumulated net losses and use of cash in operating activities resulted from significant product development, sales, and marketing efforts. As of December 31, 2022, the Company had cash, cash equivalents and investments of \$27,738,198 and as of June 22, 2023 had cash, cash equivalents and marketable securities of \$19,231,308. Management believes its cash and cash equivalents available as of June 22, 2023 will provide the necessary liquidity to continue as a going concern through at least June 22, 2024.

3. Marketable Securities

Marketable securities as of December 31, 2022 include various types of debt securities classified as held-to-maturity, as the Company has the intent and ability to hold them to maturity.

The following table summarizes investments in marketable securities as of December 31, 2022:

December 31, 2022					
Type	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Allowance for Credit Losses	Fair Market Values
US treasury securities	\$ 1,751,792	\$ -	\$ (4,137)	\$ -	\$ 1,747,655
Corporate bonds	11,970,164	-	(66,263)	-	11,903,901
Foreign financial institution securities	5,883,665	-	-	-	5,883,665
Asset backed securities	1,742,402	-	(5,087)	-	1,737,315
Foregin government securities	799,485	-	(2,773)	-	796,712
Total	\$ 22,147,508	\$ -	\$ (78,260)	\$ -	\$ 22,069,248

All investments held by the Company as of December 31, 2021 were considered cash equivalents.

4. Property and Equipment

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

	2022	2021
Computer equipment	\$ 517,264	\$ 351,969
Furniture and fixtures	59,744	59,744
Leasehold improvements	10,304	10,304
	587,312	422,017
Less accumulated depreciation and amortization	(226,580)	(182,712)
	\$ 360,732	\$ 239,305

Depreciation and amortization expense for property and equipment for the years ended December 31, 2022 and 2021 totaled \$145,800 and \$188,085 respectively.

5. Notes Payable

On February 25, 2022, the Company amended and restated their credit extension agreement with a financial institution originally issued on August 14, 2015, providing the Company with the ability to draw an aggregate total of \$14,000,000 bearing interest at the greater of 3.75% or prime plus .50%. and collateralized by all assets of the Company (8% as of December 31, 2022). Interest payments begin the month following the draw. Principal payments begin July 1, 2023 in thirty equal monthly installments. All unpaid principal and interest are due and payable in full on the maturity date of December 1, 2025. The Company has issued warrants to this financial institution to acquire 37,786 shares of common stock and 35,090 shares of preferred stock (see Note 7). Advances under this credit agreement are available as follows:

Tranche one: \$7,000,000 (\$3,000,000 available as of February 25, 2022).

Tranche two availability: \$3,000,000 with minimum draw of \$500,000. Available as performance milestones are achieved.

Revolving line: \$4,000,000 available with a maturity date of February 25, 2025.

As of December 31, 2022 and 2021, the balance under this agreement was \$4,000,000 drawn on tranche one. The current portion of \$800,000 is due by December 31, 2023. Management believes it is in compliance with the covenants of the note payable.

On April 23, 2020, the Company received \$3,470,472 in Paycheck Protection Program (PPP) loan proceeds under the CARES Act. During 2020, the Company repaid \$1,941,031 on the PPP loan. On June 10, 2021, the Company's application for forgiveness was approved by the Small Business Administration (SBA) for the full amount of the original loan plus accrued interest of \$20,844. Resulting in a total gain of \$3,491,316. Upon forgiveness of the full original PPP loan amount, the Company received a refund of the repaid payment that was made in 2020. As the Company has been released from the loan obligation, a gain was recognized for the full original amount in the accompanying statement of operations for the year ended December 31, 2021.

6. Convertible Notes

On November 13, 2019, the Company entered into unsecured convertible promissory note agreements with existing stockholders and borrowed approximately \$8,000,000. The notes were converted into Series AA preferred stock during 2021. The contingent beneficial conversion feature that the notes contained was triggered with a conversion rate of 75% of the Series B preferred stock issuance price, resulting in a pre-reverse stock split number of shares of 791,868,076 shares of Series AA preferred stock being issued upon conversion.

7. Equity Transactions

The Company's authorized capital stock consists of 40,000,000 shares of common stock and 29,241,266 shares of preferred stock as of December 31, 2022. Prior to the Series BB preferred stock capital raise, Series Seed, A, B, and B-1 preferred stock were converted to common stock. The preferred stock is issued in various individual series (Series Preferred). Information by Series Preferred stock class as of December 31, 2022 is as follows:

	Authorized Shares	Outstanding Shares
Series AA	17,325,174	17,290,084
Series BB	11,916,092	11,353,848
	29,241,266	28,643,932

Reverse Stock Split

On November 19, 2021, the Company effected a 100 for 1 reverse stock split for all classes of shares. The par value and the authorized shares of the common and preferred stock were not adjusted as a result of the reverse stock split.

Dividends

In any calendar year, the holders of outstanding shares of common stock and preferred stock are entitled to receive dividends, when, as and if declared by the board, out of any assets at the time legally available therefore, in proportion to the greatest whole number of shares of common stock which would be held by each such holder if all shares of preferred stock were converted at the then-effective conversion rate.

Series BB preferred shareholders are entitled to dividends at the rate per annum of 6.0% of the original issue price only when, as, and if declared by the Board of Directors. Dividends are non-compounding and accrue from day to day, whether or not declared, and shall be cumulative. The Company is restricted from declaring, paying, or setting aside any dividends on shares of any other class or series of capital stock of the Company (other than dividends on shares of common stock payable in common stock) unless the holders of the Series BB shall first receive the unpaid cumulative dividends. As of December 31, 2022, the Board of Directors has not declared any dividends. The unpaid and undeclared cumulative dividends approximate \$2,282,151 as of December 31, 2022 and will be recorded as a liability once declared by the Board of Directors.

Conversion

Shares of Series Preferred stock are convertible, at the option of the holder, at any time into the number of fully-paid, non-assessable shares of common stock determined by dividing the original issue price for the given series by the conversion price for that series. The conversion prices of the Series Preferred stock as of December 31, 2022 are as follows:

	Conversion Price
Series AA	\$ 1.43914
Series BB	3.11051

Each share of Series Preferred stock is automatically converted into fully-paid, non-assessable shares of common stock at the then effective conversion rate for such share: (1) immediately upon the closing of a qualified public offering, or (2) upon the receipt by the Company of a written request for such conversion from the holders of a majority of the Series Preferred stock then outstanding (voting together as a single class and on an as-converted basis).

Redemption

The Series Preferred stock is not redeemable.

Down Round Protection Provisions

The certificate of incorporation provides that if the Company sells common stock at a price that is lower than the current conversion price of the Series AA and BB preferred stock, then the conversion price will be adjusted to equal the selling price of the common stock. This feature is frequently referred to as “down-round protection.” The Company has determined this embedded conversion option is more akin to equity and has not recorded a liability for the instrument as of December 31, 2022 and 2021.

Stockholder Rights

As long as at least 4,322,521 of Series AA shares and 2,979,023 Series BB shares (as adjusted for recapitalizations) of preferred stock remain outstanding, holders of preferred stock have protective provisions that require holders of a majority of the preferred stock then outstanding (voting together as a single class and on an as-converted basis) consent for specific actions including the following: (1) authorize, designate, create or issue any new class or series of equity security that have preferences or privileges with respect to voting, dividends, redemption or payments upon liquidation senior to or on a parity with a series of preferred stock, or increase the authorized or designated number of shares of any such new class or series of security; (2) declare or pay any distribution with respect to the preferred stock or common stock; (3) consummate a liquidation event or recapitalization; (4) increase or decrease the total number of authorized shares of preferred stock or common stock; (5) amend, alter or repeal any provision of the bylaws; (6) increase or decrease the authorized number of directors of the Company or alter the manner in which members of the board are selected; (7) cause or permit the Company to sell, issue, sponsor, create or distribute any digital tokens, cryptocurrency or other blockchain-based assets. (8) amend these rights; or (9) consent, agree or commit to any of the foregoing without first obtaining the required approval.

Voting

Series Preferred stockholders are entitled to the number of votes equal to the number of shares of common stock into which the Series Preferred stock is convertible. Common stockholders are entitled to one vote for every share held.

Liquidation

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company, each holder of preferred stock then outstanding is entitled to be paid, in that order, before any distribution or payment is made upon any common stock, an amount per share equal to the then-existing conversion prices, plus any accrued, declared and unpaid dividends.

Series BB Preferred Stock Offering

During the year ended December 31, 2021, the Company completed a Series BB preferred stock offering that included the issuance of Series BB preferred stock for cash. This transaction is summarized in the following paragraphs.

- **Series BB Offering** – During the years ended December 31, 2022 and 2021, the Company issued 1,607,453 and 9,746,395 shares of Series BB preferred stock, respectively. The shares were issued for \$4,997,952 and \$30,149,849 in 2022 and 2021, respectively, net of issuance costs of \$2,048 and \$166,410, respectively.
- **Secondary Offering (Executive Cancelled Options)** – Subsequent to the Series BB offering that closed in 2021, the Company purchased 221,109 and 214,358 vested options from executives at a 5% discount to the Series BB price in 2022 and 2021, respectively. This resulted in \$396,886 and \$234,718 of additional stock compensation expense in 2022 and 2021, respectively.

Stock Options

The Company authorized for issuance to employees, consultants and directors 5,544,399 common shares through its amended 2014 Equity Incentive Plan (the Plan). The Plan allows employees, consultants and directors that have met certain criteria to participate. Under the Plan, participants are granted the option to purchase stock at a price equivalent to the fair market value of the stock at the grant date. Participants are not required to pay for the options prior to the exercise of their options. As of December 31, 2022, the Company had 1,524,105 options available for grant under the Plan. Options generally vest over a period of 4 years, with 25% vesting after the first year of service and ratably thereafter and are exercisable up to a maximum period of 10 years from the date of grant. Options may also contain performance conditions that must be achieved in order to vest. For stock options with performance conditions, the expense is recognized once it becomes probable the performance condition will be met.

The fair value of stock options is determined on the grant date using the Black-Scholes option-pricing model, which requires the Company to make the following assumptions: (1) The risk-free interest rate is based on U.S. Treasury interest rates. (2) The dividend yield on the Company's common stock is assumed to be zero since the Company does not pay dividends and has no current plans to do so in the future. (3) Currently, there is no active market for the Company's common shares. Therefore, the Company used the historical volatility of similar public companies, which are representative of the Company's industry, to calculate the expected volatility. (4) The expected life of the options is based on the average of the contractual term and vesting term of the options, due to the fact that historical exercise experience or post-vesting termination experience is not readily available.

The following summarizes the Company's common stock option activity:

	Number of Options	Weighted Average Exercise Price Per Share
Outstanding, December 31, 2020	101,149	\$ 37.20
Granted	3,716,846	0.70
Exercised	(1,335)	11.32
Forfeited	(233,068)	15.46
Expired	(8,344)	90.40
Outstanding, December 31, 2021	3,575,248	8.32
Granted	1,160,336	1.16
Exercised	(133,831)	0.70
Forfeited	(717,304)	0.98
Expired	(9,710)	5.92
Outstanding, December 31, 2022	3,874,739	1.48
Exercisable, December 31, 2022	1,001,562	\$ 2.81

The Company paid option holders \$498,596 and \$483,373 to cancel 221,109 and 214,358 options during the years ended December 31, 2022 and 2021, respectively. These cancellations are included in forfeitures in the previous table. This resulted in additional stock-based compensation of \$396,886 and \$234,718 for the years ended December 31, 2022, and 2021, respectively.

The fair value of each option grant is estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions for the year ended December 31:

	2022	2021
Weighted average fair value of stock options	\$ 0.51	\$ 0.29
Expected dividend rate	-	-
Expected stock price volatility	42%	48%
Risk-free interest rate	1.98% - 4.08%	.86% - .90%
Expected life of options	6.06 years	6.65 years

Information regarding options outstanding and exercisable is as follows as of December 31:

	2022	2021
Number outstanding	3,874,739	3,575,248
Weighted average remaining contractual life (years)	7.00	7.95
Weighted average exercise price	\$ 1.48	\$ 1.50
Number exercisable	1,001,562	220,880
Weighted average remaining contractual life (years)	8.13	7.95
Weighted average exercise price	\$ 2.81	\$ 8.32

Stock-based compensation expense recognized under the Plan for the years ended December 31, 2022 and 2021 was \$655,305 and \$432,823, respectively. As of December 31, 2022 and 2021, there was \$1,198,567 and \$1,487,336 of unrecognized stock-based compensation expense that vests over time and will be recognized over the weighted average period of 7.00 and 7.95 years, respectively. The aggregate intrinsic value of all outstanding and exercisable options as of December 31, 2022 and 2021 was \$1,247,726 and \$1,497,574, respectively.

Warrants

As of December 31, 2022 and 2021, the Company had warrants outstanding and fully vested to purchase a total of 37,786 and 3,250 shares, respectively, of common stock with a weighted average exercise price of \$3.20 and \$3.42, respectively, and a remaining life of 10.72 and 7.03 years, respectively.

As of December 31, 2022 and 2021, the Company had one warrant outstanding and fully vested to purchase 35,090 shares of Series AA preferred stock at an exercise price of \$1.44 per share that expires on April 7, 2031.

8. Commitments and Contingencies

Operating Lease

In April 2021, the Company early terminated their prior lease. As a result of the termination, the Company recognized a net gain of \$1,494,682. On April 15, 2021 the Company entered into a new lease for the Company's headquarters. As of December 31, 2022 and 2021, the Company had a right-of-use asset of \$109,818 and \$468,491, respectively, and an operating lease liability of \$119,312 and \$507,980, respectively. In January 2023, the Company extended the existing lease term by 9 months. The total rent for the extended period is \$272,349.

The Company determined its incremental borrowing rate at lease inception of 7.00% was the most accurate discount rate to use in calculating the right-of-use asset and operating lease liability as the rate implicit in the lease was not known.

Future minimum lease payments under the lease as of December 31, 2022 are shown below:

<u>Years Ending December 31,</u>		
2023	\$	120,901
Less imputed interest		<u>(1,589)</u>
Total lease liability	\$	<u>119,312</u>

Rental expense under operating leases was \$383,177 and \$988,195 for the years ended December 31, 2022 and 2021, respectively, and is included in general and administrative in the accompanying statements of operations net of sublease income.

Under the prior lease, the Company had multiple sublease agreements as the sublessor. Rental income under the sublease agreements was \$0 and \$451,980 for the years ended December 31, 2022, and 2021, respectively, and is netted with rental expense in general and administrative expenses in the accompanying statements of operations.

9. Income Taxes

The provision for income taxes differs from the amount computed at federal statutory rates as follows as of December 31:

	<u>2022</u>	<u>2021</u>
Federal income tax benefit as statutory rates	\$ (3,656,609)	\$ (2,053,079)
Change in valuation allowance	4,678,619	2,685,763
Change in effective tax rate	6,317	1,752,157
State income tax benefit at statutory rates	(466,264)	(249,937)
Forgiveness of paycheck protection program loan	-	(728,799)
Other	<u>(559,824)</u>	<u>(1,405,065)</u>
	\$ 2,239	\$ 1,040

Significant components of the Company's deferred income tax assets (liabilities) are as follows as of December 31:

	2022	2021
Net operating loss carryforwards	\$ 24,696,450	\$ 22,198,634
R&D tax credit carryforwards	731,847	731,373
Stock compensation	160,558	3,856
Bad debt allowance	6,622	8,126
Sales returns allowance	5,731	3,039
Deferred revenue	5,264	50
Depreciation and amortization	2,152,731	4,701
Accrued bonus	52,329	9,770
Lease liability	28,162	115,110
Charitable contributions	7,326	2,537
Right-of-use asset	(25,921)	(106,161)
Deferred commissions	(364,243)	(192,798)
Valuation allowance	(27,456,856)	(22,778,237)
	\$ -	\$ -

As of December 31, 2022 and 2021, the Company had net federal and state operating loss (NOL) carryforwards available to offset future taxable income, if any, of approximately \$187,100,000 and \$167,100,000, respectively. Approximately \$29,600,000 of the NOL is subject to expiration beginning with the 2030 tax year. The remaining NOL is carried forward indefinitely. As of December 31, 2022 and 2021, the Company also has research and development tax credits of \$781,333 that are available to offset future tax liabilities. These credits are subject to expiration beginning with the 2028 tax year.

The utilization of the NOL carryforwards is subject to annual limitations under Section 382 of the Internal Revenue Code. Section 382 imposes limitations on a corporation's ability to utilize its NOL carryforwards if it experiences an "ownership change." In general terms, an ownership change results from transactions increasing the ownership of certain stockholders in the stock of a corporation by more than 50% over a three-year period.

Deferred income taxes reflect the tax effect of temporary differences between the bases of assets and liabilities for financial reporting and tax reporting purposes. The Company establishes a valuation allowance if it is more likely than not these assets will not be realized. Annually, the valuation allowance is reviewed and adjusted based on management's assessments of realizability. Management has evaluated the available evidence about future taxable income and other possible sources of realization of deferred income tax assets. Management has determined that a full valuation allowance as of December 31, 2022 and 2021 is appropriate.

The effective income tax rate is substantially less than the statutory rate principally due to the valuation allowance provided against the net deferred income tax assets. The provision for income taxes results from the Company's minimum statutory tax obligation.

The Company has concluded that there are no significant uncertain tax positions requiring disclosure, and there are no material amounts of unrecognized tax benefits.

Right Answers, Right Here.



TANNER

Accountants & Advisors

canopy

Canopy Tax, Inc.

Financial Statements

As of December 31, 2022 and 2021 and For the Years Then Ended

Together with Independent Auditors' Report



TANNER

Independent Auditors' Report

**To the Board of Directors of
Canopy Tax, Inc.**

Opinion

We have audited the accompanying financial statements of Canopy Tax, Inc. (the Company), which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of operations, stockholders' equity (deficit), and cash flows for the years then ended, and the related notes to financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Canopy Tax, Inc. as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Tanner LLC

June 22, 2023

Balance Sheets

As of December 31,

<u>Assets</u>	<u>2022</u>	<u>2021</u>
Current assets:		
Cash and cash equivalents	\$ 5,590,690	\$ 39,318,401
Marketable securities (fair value of \$22,069,248 and \$0, respectively)	22,147,508	-
Accounts receivable, net of allowance for doubtful accounts of \$28,057 and \$35,859, respectively	100,783	22,588
Current portion of costs capitalized to obtain revenue contracts	460,441	353,938
Prepaid expenses and other current assets	468,752	338,511
Total current assets	28,768,174	40,033,438
Property and equipment, net	360,732	239,305
Right-of-use asset	109,818	468,491
Costs capitalized to obtain revenue contracts, net of current portion	890,479	316,179
Deposits	33,700	33,700
Total assets	\$ 30,162,903	\$ 41,091,113
<u>Liabilities and Stockholders' Equity (Deficit)</u>		
Current liabilities:		
Accounts payable	\$ 119,941	\$ 210,747
Accrued expenses	1,096,225	811,802
Current portion of operating lease liability	119,312	388,679
Deferred revenue	4,249,202	3,211,839
Current portion of long-term debt	800,000	-
Total current liabilities	6,384,680	4,623,067
Long-term debt, net of current portion	3,200,000	4,000,000
Operating lease liability, net of current portion	-	119,301
Total liabilities	9,584,680	8,742,368
Commitments and contingencies		
Stockholders' equity (deficit):		
Preferred stock, \$0.0001 par value: 29,241,266 shares authorized; 28,643,932 and 27,036,479 shares outstanding, respectively	2,865	2,704
Common stock, \$0.0001 par value: 40,000,000 shares authorized; 420,704 and 286,332 shares outstanding, respectively	42	29
Additional paid-in capital	128,287,561	122,642,433
Accumulated deficit	(107,712,245)	(90,296,421)
Total stockholders' equity	20,578,223	32,348,745
Total liabilities and stockholders' equity	\$ 30,162,903	\$ 41,091,113

Statements of Operations

	For the Years Ended December 31,	
	2022	2021
Revenues	\$ 9,096,053	\$ 6,363,534
Cost of revenues	2,709,552	2,008,156
Gross profit	6,386,501	4,355,378
Operating expenses:		
Research and development	10,033,109	7,338,676
General and administrative	4,796,809	3,990,174
Sales and marketing	9,192,530	6,651,798
Total operating expenses	24,022,448	17,980,648
Loss from operations	(17,635,947)	(13,625,270)
Other income (expense):		
Gain on forgiveness of debt	-	3,491,316
Net gain on lease termination	-	1,494,682
Interest income	424,424	2,286
Interest expense	(227,095)	(357,390)
Gain (loss) on sale of property and equipment	8,991	(782,191)
Other income	16,042	-
Total other income, net	222,362	3,848,703
Loss before provision for income taxes	(17,413,585)	(9,776,567)
Provision for income taxes	2,239	1,040
Net loss	\$ (17,415,824)	\$ (9,777,607)

Statements of Stockholders' Equity (Deficit)

For the Years Ended December 31,

	Preferred Stock		Common Stock		Additional	Accumulated	Total
	Shares	Amount	Shares	Amount	Paid-in Capital	Deficit	Stockholders' Equity (Deficit)
Balance, December 31, 2020	268,190	\$ 27	105,850	\$ 11	\$ 70,513,129	\$ (80,518,814)	\$ (10,005,647)
Issuance of Series AA preferred stock	9,371,415	937	-	-	13,485,841	-	13,486,778
Conversion of notes payable for Series AA preferred stock	7,918,681	792	-	-	8,546,277	-	8,547,069
Repurchase of common stock	-	-	(89,055)	(9)	(50,882)	-	(50,891)
Recapitalization of all preferred stock to common stock	(268,202)	(27)	268,202	27	-	-	-
Issuance of Series BB preferred stock	9,746,395	975	-	-	30,315,284	-	30,316,259
Issuance costs from Series AA and BB preferred stock	-	-	-	-	(366,684)	-	(366,684)
Issuance of common stock	-	-	1,335	-	15,300	-	15,300
Cancellation and repurchase of vested stock options	-	-	-	-	(483,373)	-	(483,373)
Stock option expense	-	-	-	-	667,541	-	667,541
Net loss	-	-	-	-	-	(9,777,607)	(9,777,607)
Balance, December 31, 2021	27,036,479	2,704	286,332	29	122,642,433	(90,296,421)	32,348,745
Issuance of Series BB preferred stock	1,607,453	161	-	-	4,997,791	-	4,997,952
Issuance of common stock	-	-	134,372	13	93,742	-	93,755
Cancellation and repurchase of vested stock options	-	-	-	-	(498,596)	-	(498,596)
Stock option expense	-	-	-	-	1,052,191	-	1,052,191
Net loss	-	-	-	-	-	(17,415,824)	(17,415,824)
Balance, December 31, 2022	28,643,932	\$ 2,865	420,704	\$ 42	\$ 128,287,561	\$ (107,712,245)	\$ 20,578,223

See accompanying notes to financial statements.

Statements of Cash Flows

	For the Years Ended December 31,	
	2022	2021
Cash flows from operating activities:		
Net loss	\$ (17,415,824)	\$ (9,777,607)
Adjustments to reconcile net loss to net cash and cash equivalents used in operating activities:		
Depreciation and amortization	145,800	188,085
Forgiveness of debt	-	(3,491,316)
Net gain on lease termination	-	(1,494,682)
(Gain) loss on sale of property and equipment	(8,991)	782,191
Change in accrued interest on marketable securities	(99,019)	-
Amortization of right-of-use asset	358,673	691,729
Amortization of costs capitalized to obtain revenue contracts	341,974	218,212
Stock option expense	1,052,191	667,541
Bad debt expense	110,423	74,889
Changes in operating assets and liabilities:		
Accounts receivable	(188,618)	13,682
Prepaid expenses and other assets, and deposits	(31,222)	14,332
Accounts payable and accrued expenses	193,617	284,620
Deferred revenue	1,037,363	1,105,456
Costs capitalized to obtain revenue contracts	(1,022,777)	(609,286)
Operating lease liability	(388,668)	(666,208)
Net cash and cash equivalents used in operating activities	(15,915,078)	(11,998,362)
Cash flows from investing activities:		
Purchases of property and equipment	(272,347)	(244,231)
Purchases of marketable securities	(98,182,418)	-
Proceeds from sales of marketable securities	76,034,910	-
Proceeds from sales of property and equipment	14,111	3,035
Net cash and cash equivalents used in investing activities	(22,405,744)	(241,196)
Cash flows from financing activities:		
Proceeds from issuance of preferred stock	4,997,952	43,803,037
Proceeds from issuance of common stock	93,755	15,300
Repurchase of common stock	-	(50,891)
Payment of issuance costs from preferred stock	-	(366,684)
Proceeds from PPP debt	-	1,961,875
Cancellation and repurchase of stock options	(498,596)	(483,373)
Net cash and cash equivalents provided by financing activities	4,593,111	44,879,264
Net change in cash and cash equivalents	(33,727,711)	32,639,706
Cash and cash equivalents as of beginning of the year	39,318,401	6,678,695
Cash and cash equivalents as of end of the year	\$ 5,590,690	\$ 39,318,401

Statements of Cash Flows - Continued

For the Years Ended December 31,

	2022	2021
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 227,095	\$ 357,390
Cash paid for taxes	2,139	100
Supplemental schedule of non-cash investing and financing activities:		
Acquisition of right-of-use asset by entering into operating lease agreement	\$ -	\$ 705,345
Conversion of convertible debt and accrued interest into preferred stock	\$ -	\$ 8,547,069

1. Description of Organization and Summary of Significant Accounting Policies

Organization

Canopy Tax, Inc. (the Company) was organized and incorporated on March 14, 2014 as a Delaware corporation. The Company is a provider of cloud-based practice management and tax resolution software, sold primarily to accounting firms.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (US GAAP) requires management to make estimates and assumptions that affect reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Key management estimates include allowances for doubtful accounts receivable, useful lives and impairment of property and equipment, valuation allowances for net deferred income tax assets, the period of benefit for amortizing deferred contract costs incurred to acquire revenue contracts, fair values of stock options and warrants, and initial values of right-of-use assets and operating lease liabilities.

Concentrations of Credit Risk

The Company maintains its cash and cash equivalents in bank deposit accounts and brokerage accounts which balances, at times, exceed federally insured limits. To date, the Company has not experienced a loss or lack of access to its cash and cash equivalents; however, no assurance can be provided that access to the Company's invested cash and cash equivalents will not be impacted by adverse conditions in the financial markets. As of December 31, 2022, most of the Company's cash was deposited with one financial institution and exceeded the federally insured limits.

In the normal course of business, the Company generally does not provide credit terms to its customers. Accounts receivable balances consist of contractual renewals on its software where payment has not yet been received for the renewal period of services. A major customer is considered to be one that comprises 10% or more of the Company's total accounts receivable or revenues. There were no such concentrations as of and for the years ended December 31, 2022 and 2021.

Major vendors are defined as those vendors to which expenditures made by the Company are 10% or more of the Company's total cost of revenues. There were no vendors which accounted for 10% or more of the Company's total cost of revenues for the years ended December 31, 2022 and 2021.

Accounts Receivable

The Company records its accounts receivable at sales value and establishes specific allowances for those customer accounts identified with collection problems due to insolvency or other issues. The Company's accounts receivable are considered past due when payment has not been received by the agreed upon due date. The amounts of the specific allowances are estimated by management based on various assumptions including the customers' financial position, age of the customers' receivables, and changes in payment schedules and histories, as well as economic trends. Account balances are charged off against the allowance for doubtful accounts receivable when the likelihood of recovery is remote. Recoveries of receivables previously charged off are recorded when payment is received.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities to the Company of three months or less to be cash equivalents. As of December 31, 2022 and 2021, these cash equivalents consisted of money market funds.

Marketable Securities

Marketable securities may be classified as held-to-maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. If management does not intend to hold marketable securities to maturity, they are classified as available-for-sale and carried at fair value with adjustments to fair value included in the statements of operations. Accrued interest on held-to maturity securities is included in prepaid expenses and other current assets on the balance sheet and totaled \$99,019 and \$0 as of December 31, 2022 and 2021, respectively.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method over the estimated economic useful lives of the assets as follows:

Computer equipment	3 years
Leasehold improvements	2 years
Furniture and fixtures	3-6 years

Impairment of Long-Lived Assets

The Company reviews its property and equipment for impairment whenever events or changes in circumstances indicate that the carrying values of the assets may be impaired. If it is determined that the estimated undiscounted future net cash flows are not sufficient to recover the carrying values of the assets, an impairment loss is recognized for the difference between the carrying values and the fair values of the assets. Management does not consider any of the Company's long-lived assets to be impaired as of December 31, 2022 and 2021.

Lease Commitments

The Company leases its facilities under an operating lease. The Company assesses whether an arrangement qualifies as a lease (i.e., conveys the right to control the use of an identified asset for a period of time in exchange for consideration) at inception and only reassesses its determination if the terms and conditions of the arrangement are changed.

For all arrangements where it is determined that a lease exists, the related right-of-use assets and lease liabilities are recorded within the balance sheet as either operating or finance leases. At inception or modification, the Company calculates the present value of lease payments using the implicit rate determined from the contract or the Company's incremental borrowing rate applicable to the lease, which is determined by estimating what it would cost the Company to borrow a collateralized amount equal to the total lease payments over the lease term based on the contractual terms of the lease and the location of the leased asset.

The present value is adjusted for prepaid lease payments, lease incentives, and initial direct costs (e.g. commissions). The Company's leases may require fixed rental payments, variable lease payments based on usage or sales and fixed non-lease costs relating to the leased asset. Variable lease payments are generally not included in the measurement of the right-of-use assets and lease liabilities. Leases with an initial term of 12 months or less are not recorded on the balance sheet. Lease expense is recognized for these leases on a straight-line basis over the lease term. Fixed non-lease costs, for example common-area maintenance costs, taxes, insurance, and maintenance, are included in the measurement of the right-of-use asset and lease liability as the Company does not separate lease and non-lease components.

For lease agreements that contain tenant improvement allowances the Company evaluates the following criteria to determine if it is the accounting owner of the tenant improvements constructed using the tenant improvement allowance:

- whether the lease stipulates how and on what a tenant improvement allowance may be spent;
- whether the landlord or the Company retains title to the improvements;
- the uniqueness of the improvements;
- the expected economic life of the tenant improvements relative to the length of the lease;
- who constructs or directs the construction of the improvements, and
- whether the landlord or the Company is obligated to fund cost overruns.

The determination of who owns the tenant improvements, for accounting purposes, is subject to significant judgment. In making that determination, the Company considers all of the above factors. No one factor, however, necessarily establishes its determination. When it is determined that the Company is the accounting owner, it records the tenant improvements as an asset that is depreciated over the shorter of the lease term or useful life and a reduction to the fixed lease payments in measuring the right-of-use asset and operating lease liability. The Company has determined it is not the accounting owner of tenant improvements under its current lease agreement.

Revenue Recognition

The Company recognizes revenue on a monthly basis from two main sources: (1) cloud-based subscriptions to access the Company's practice management and tax resolution platform with the monthly subscription price based on the number of users or client data input into the software; (2) payment processing and other miscellaneous client charges, referred to as other. Revenues are recognized as the services are provided to customers in an amount that reflects the consideration expected to be received by the Company in exchange for those services.

The Company recognizes revenue as products and services are provided to customers. The amount of revenue recognized reflects the consideration that the Company expects to be entitled to receive in exchange for these products or services. To achieve the core principle of ASC 606, *Revenue from Contracts with Customers*, the Company applies the following five steps:

1) Identify the contract with a customer

The Company considers the terms and conditions of the contracts and the Company's customary business practices in identifying contracts. The Company has determined a contract with a customer exist when the contract is approved, each party's rights regarding the services have been identified and transferred, payment terms for the services have been identified, and it has been determined the customer has the ability and intent to pay and the contract has commercial substance. Judgment is required in determining the customer's ability and intent 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 is obtained as deemed necessary.

2) Identify the performance obligations in the contract

Performance obligations promised in a contract are identified based on the products and services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the product or service either on its own or together with other resources that are readily available from third parties or from the Company, and are distinct in the context of the contract, whereby the transfer of the products or services is separately identifiable from other promises in the contract.

3) Determine the transaction price

The transaction price is determined based on the consideration the Company expects to be entitled in exchange for performing services for the customer. Variable consideration is included in the transaction price if, based on management's judgment, it is probable that no significant future reversal of cumulative revenue under the contract will occur. In instances where the timing of revenue recognition differs from the timing of invoicing, the Company has determined its contracts generally do not include a significant financing component.

The primary purpose of invoicing terms is to provide customers with simplified and predictable ways of purchasing our products and services, not to receive financing from customers or to provide customers with financing. Examples include invoicing at the beginning of a subscription term with revenue recognized ratably over the contract period.

4) Allocate 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 a relative standalone selling price.

5) Recognize 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, in an amount that reflects the consideration expected to be received in exchange for those products or services.

Subscription Revenue

Subscription revenue consists of revenue from subscriptions to access the Company's cloud-based practice management software with related customer support. Customers' monthly or annual subscription fee is determined based on the number of licenses, the number of contacts, and/or the number of products purchased. These arrangements do not provide the customer with the right to take possession of the software operating on the cloud platform at any time. Instead, customers are granted continuous access to the Company's cloud platform over the contractual period. Revenue is recognized each month as access to the software is provided to the customer.

Subscription contracts generally contain service level commitments, which entitle customers to receive service credits and, in certain cases, refunds, if services do not meet certain levels. These service credits and refunds represent variable consideration. The Company has historically not experienced any significant incidents affecting the defined levels of reliability and performance as required by subscription contracts and accordingly, no estimated refunds have been considered in the allocation of the transaction price.

Other

Revenues from other sources relate to various services provided to customers often on a one-time basis and are not significant to the Company's overall revenue. Revenue is recognized for other revenues at the time control is transferred to the customer.

Various economic factors affect revenues and cash flows including the economic strength within the United States, which can have a significant impact on revenues and cash flows. Other factors that affect revenues and cash flows include small and medium sized accounting firm capital spending, unemployment rates, consumer sentiment, and general economic strength within the markets that the Company operates.

Revenues consist of the following for the years ended December 31:

	2022	2021
Subscriptions	\$ 8,536,242	\$ 6,059,540
Other	559,811	303,994
	<u>\$ 9,096,053</u>	<u>\$ 6,363,534</u>

Costs Capitalized to Obtain Revenue Contracts

Costs capitalized to obtain revenue contracts consist of the costs that are directly associated with acquiring subscription contracts with customers. These costs consist of sales commissions and related payroll taxes paid to the Company's sales force upon the inception of a contract. US GAAP requires the capitalization of these incremental contract acquisition costs and subsequent amortization over the expected benefit period, which has been determined to approximate the average customer life of 48 months. Amortization of capitalized costs to obtain revenue contracts is included in sales and marketing expense in the accompanying statements of operations.

Cost of Revenues

Cost of subscription revenues primarily consists of expenses related to delivering our service and providing support, including the costs of data center capacity, services, and employee-related costs such as salaries and benefits. Cost of other revenues primarily consists of salaries and benefits paid to the employees who deliver such services and third-party service charges.

Advertising

Advertising costs are expensed as incurred. Advertising expenses for the years ended December 31, 2022 and 2021 totaled \$3,019,688 and \$2,645,782 respectively.

Stock-Based Compensation

Stock-based compensation related to grants of employee stock options to employees, consultants, and directors is measured at fair value on the date of grant. Stock options are measured at fair value based on the Black-Scholes option pricing model. The related expense is recorded in the statements of operations over the requisite service period, which in no case exceeds the vesting period. For stock options with performance-based conditions, the expense is recognized once it becomes probable the performance conditions will be met.

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the tax bases of assets and liabilities. Deferred taxes represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred income tax assets are reviewed periodically for recoverability, and valuation allowances are provided when it is more likely than not that some or all of the deferred income tax assets may not be realized (see Note 9).

The Company believes that it has appropriate support for the income tax positions taken and to be taken on its tax returns and that its accruals for tax liabilities are adequate for all open tax years based on an assessment of many factors including experience and interpretations of tax laws applied to the facts of each matter. The Company files income tax returns in the United States federal jurisdiction and certain state jurisdictions.

Adoption of New Accounting Standards

In August 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2020-06 (ASU 2020-06), *Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*, as part of its overall simplification initiative to reduce costs and complexity of applying accounting standards while maintaining or improving the usefulness of the information provided to users of financial statements. Among other changes, the new guidance removes from US GAAP separation models for convertible debt that require the convertible debt to be separated into a debt and equity component, unless the conversion feature is required to be bifurcated and accounted for as a derivative or the debt is issued at a substantial premium. As a result, after adopting the guidance, entities will no longer separately present such embedded conversion features in equity and will instead account for the convertible debt wholly as debt. ASU 2020-06 effective for financial statements issued for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years, with early adoption permitted, but no earlier than fiscal years beginning after December 15, 2020.

The Company early adopted ASU 2020-06 on January 1, 2021 using the modified retrospective approach. The adoption of ASU 2020-06 resulted in the Company not recording non-cash interest expense related to a beneficial conversion feature upon conversion of debt to preferred stock.

Subsequent Events

Management has evaluated events and transactions for potential recognition or disclosure through June 22, 2023, which is the date the financial statements were available to be issued.

2. Liquidity

In August 2014, the Financial Accounting Standards Board issued ASU No. 2014-15, *Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* (ASU 2014-15). ASU 2014-15 requires management to evaluate, at each interim and annual reporting period, whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued and provide related disclosures. The Company has incurred significant net losses since inception that have accumulated to \$107,712,245. As of December 31, 2022, the Company has positive working capital \$22,383,494 and used net cash of \$15,915,078 in operating activities for the year ended December 31, 2022. The Company determined the accumulated net losses and use of cash in operating activities resulted from significant product development, sales, and marketing efforts. As of December 31, 2022, the Company had cash, cash equivalents and investments of \$27,738,198 and as of June 22, 2023 had cash, cash equivalents and marketable securities of \$19,231,308. Management believes its cash and cash equivalents available as of June 22, 2023 will provide the necessary liquidity to continue as a going concern through at least June 22, 2024.

3. Marketable Securities

Marketable securities as of December 31, 2022 include various types of debt securities classified as held-to-maturity, as the Company has the intent and ability to hold them to maturity.

The following table summarizes investments in marketable securities as of December 31, 2022:

December 31, 2022					
Type	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Allowance for Credit Losses	Fair Market Values
US treasury securities	\$ 1,751,792	\$ -	\$ (4,137)	\$ -	\$ 1,747,655
Corporate bonds	11,970,164	-	(66,263)	-	11,903,901
Foreign financial institution securities	5,883,665	-	-	-	5,883,665
Asset backed securities	1,742,402	-	(5,087)	-	1,737,315
Foregin government securities	799,485	-	(2,773)	-	796,712
Total	\$ 22,147,508	\$ -	\$ (78,260)	\$ -	\$ 22,069,248

All investments held by the Company as of December 31, 2021 were considered cash equivalents.

4. Property and Equipment

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

	2022	2021
Computer equipment	\$ 517,264	\$ 351,969
Furniture and fixtures	59,744	59,744
Leasehold improvements	10,304	10,304
	587,312	422,017
Less accumulated depreciation and amortization	(226,580)	(182,712)
	\$ 360,732	\$ 239,305

Depreciation and amortization expense for property and equipment for the years ended December 31, 2022 and 2021 totaled \$145,800 and \$188,085 respectively.

5. Notes Payable

On February 25, 2022, the Company amended and restated their credit extension agreement with a financial institution originally issued on August 14, 2015, providing the Company with the ability to draw an aggregate total of \$14,000,000 bearing interest at the greater of 3.75% or prime plus .50%. and collateralized by all assets of the Company (8% as of December 31, 2022). Interest payments begin the month following the draw. Principal payments begin July 1, 2023 in thirty equal monthly installments. All unpaid principal and interest are due and payable in full on the maturity date of December 1, 2025. The Company has issued warrants to this financial institution to acquire 37,786 shares of common stock and 35,090 shares of preferred stock (see Note 7). Advances under this credit agreement are available as follows:

Tranche one: \$7,000,000 (\$3,000,000 available as of February 25, 2022).

Tranche two availability: \$3,000,000 with minimum draw of \$500,000. Available as performance milestones are achieved.

Revolving line: \$4,000,000 available with a maturity date of February 25, 2025.

As of December 31, 2022 and 2021, the balance under this agreement was \$4,000,000 drawn on tranche one. The current portion of \$800,000 is due by December 31, 2023. Management believes it is in compliance with the covenants of the note payable.

On April 23, 2020, the Company received \$3,470,472 in Paycheck Protection Program (PPP) loan proceeds under the CARES Act. During 2020, the Company repaid \$1,941,031 on the PPP loan. On June 10, 2021, the Company's application for forgiveness was approved by the Small Business Administration (SBA) for the full amount of the original loan plus accrued interest of \$20,844. Resulting in a total gain of \$3,491,316. Upon forgiveness of the full original PPP loan amount, the Company received a refund of the repaid payment that was made in 2020. As the Company has been released from the loan obligation, a gain was recognized for the full original amount in the accompanying statement of operations for the year ended December 31, 2021.

6. Convertible Notes

On November 13, 2019, the Company entered into unsecured convertible promissory note agreements with existing stockholders and borrowed approximately \$8,000,000. The notes were converted into Series AA preferred stock during 2021. The contingent beneficial conversion feature that the notes contained was triggered with a conversion rate of 75% of the Series B preferred stock issuance price, resulting in a pre-reverse stock split number of shares of 791,868,076 shares of Series AA preferred stock being issued upon conversion.

7. Equity Transactions

The Company's authorized capital stock consists of 40,000,000 shares of common stock and 29,241,266 shares of preferred stock as of December 31, 2022. Prior to the Series BB preferred stock capital raise, Series Seed, A, B, and B-1 preferred stock were converted to common stock. The preferred stock is issued in various individual series (Series Preferred). Information by Series Preferred stock class as of December 31, 2022 is as follows:

	Authorized Shares	Outstanding Shares
Series AA	17,325,174	17,290,084
Series BB	11,916,092	11,353,848
	29,241,266	28,643,932

Reverse Stock Split

On November 19, 2021, the Company effected a 100 for 1 reverse stock split for all classes of shares. The par value and the authorized shares of the common and preferred stock were not adjusted as a result of the reverse stock split.

Dividends

In any calendar year, the holders of outstanding shares of common stock and preferred stock are entitled to receive dividends, when, as and if declared by the board, out of any assets at the time legally available therefore, in proportion to the greatest whole number of shares of common stock which would be held by each such holder if all shares of preferred stock were converted at the then-effective conversion rate.

Series BB preferred shareholders are entitled to dividends at the rate per annum of 6.0% of the original issue price only when, as, and if declared by the Board of Directors. Dividends are non-compounding and accrue from day to day, whether or not declared, and shall be cumulative. The Company is restricted from declaring, paying, or setting aside any dividends on shares of any other class or series of capital stock of the Company (other than dividends on shares of common stock payable in common stock) unless the holders of the Series BB shall first receive the unpaid cumulative dividends. As of December 31, 2022, the Board of Directors has not declared any dividends. The unpaid and undeclared cumulative dividends approximate \$2,282,151 as of December 31, 2022 and will be recorded as a liability once declared by the Board of Directors.

Conversion

Shares of Series Preferred stock are convertible, at the option of the holder, at any time into the number of fully-paid, non-assessable shares of common stock determined by dividing the original issue price for the given series by the conversion price for that series. The conversion prices of the Series Preferred stock as of December 31, 2022 are as follows:

	Conversion Price
Series AA	\$ 1.43914
Series BB	3.11051

Each share of Series Preferred stock is automatically converted into fully-paid, non-assessable shares of common stock at the then effective conversion rate for such share: (1) immediately upon the closing of a qualified public offering, or (2) upon the receipt by the Company of a written request for such conversion from the holders of a majority of the Series Preferred stock then outstanding (voting together as a single class and on an as-converted basis).

Redemption

The Series Preferred stock is not redeemable.

Down Round Protection Provisions

The certificate of incorporation provides that if the Company sells common stock at a price that is lower than the current conversion price of the Series AA and BB preferred stock, then the conversion price will be adjusted to equal the selling price of the common stock. This feature is frequently referred to as “down-round protection.” The Company has determined this embedded conversion option is more akin to equity and has not recorded a liability for the instrument as of December 31, 2022 and 2021.

Stockholder Rights

As long as at least 4,322,521 of Series AA shares and 2,979,023 Series BB shares (as adjusted for recapitalizations) of preferred stock remain outstanding, holders of preferred stock have protective provisions that require holders of a majority of the preferred stock then outstanding (voting together as a single class and on an as-converted basis) consent for specific actions including the following: (1) authorize, designate, create or issue any new class or series of equity security that have preferences or privileges with respect to voting, dividends, redemption or payments upon liquidation senior to or on a parity with a series of preferred stock, or increase the authorized or designated number of shares of any such new class or series of security; (2) declare or pay any distribution with respect to the preferred stock or common stock; (3) consummate a liquidation event or recapitalization; (4) increase or decrease the total number of authorized shares of preferred stock or common stock; (5) amend, alter or repeal any provision of the bylaws; (6) increase or decrease the authorized number of directors of the Company or alter the manner in which members of the board are selected; (7) cause or permit the Company to sell, issue, sponsor, create or distribute any digital tokens, cryptocurrency or other blockchain-based assets. (8) amend these rights; or (9) consent, agree or commit to any of the foregoing without first obtaining the required approval.

Voting

Series Preferred stockholders are entitled to the number of votes equal to the number of shares of common stock into which the Series Preferred stock is convertible. Common stockholders are entitled to one vote for every share held.

Liquidation

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company, each holder of preferred stock then outstanding is entitled to be paid, in that order, before any distribution or payment is made upon any common stock, an amount per share equal to the then-existing conversion prices, plus any accrued, declared and unpaid dividends.

Series BB Preferred Stock Offering

During the year ended December 31, 2021, the Company completed a Series BB preferred stock offering that included the issuance of Series BB preferred stock for cash. This transaction is summarized in the following paragraphs.

- **Series BB Offering** – During the years ended December 31, 2022 and 2021, the Company issued 1,607,453 and 9,746,395 shares of Series BB preferred stock, respectively. The shares were issued for \$4,997,952 and \$30,149,849 in 2022 and 2021, respectively, net of issuance costs of \$2,048 and \$166,410, respectively.
- **Secondary Offering (Executive Cancelled Options)** – Subsequent to the Series BB offering that closed in 2021, the Company purchased 221,109 and 214,358 vested options from executives at a 5% discount to the Series BB price in 2022 and 2021, respectively. This resulted in \$396,886 and \$234,718 of additional stock compensation expense in 2022 and 2021, respectively.

Stock Options

The Company authorized for issuance to employees, consultants and directors 5,544,399 common shares through its amended 2014 Equity Incentive Plan (the Plan). The Plan allows employees, consultants and directors that have met certain criteria to participate. Under the Plan, participants are granted the option to purchase stock at a price equivalent to the fair market value of the stock at the grant date. Participants are not required to pay for the options prior to the exercise of their options. As of December 31, 2022, the Company had 1,524,105 options available for grant under the Plan. Options generally vest over a period of 4 years, with 25% vesting after the first year of service and ratably thereafter and are exercisable up to a maximum period of 10 years from the date of grant. Options may also contain performance conditions that must be achieved in order to vest. For stock options with performance conditions, the expense is recognized once it becomes probable the performance condition will be met.

The fair value of stock options is determined on the grant date using the Black-Scholes option-pricing model, which requires the Company to make the following assumptions: (1) The risk-free interest rate is based on U.S. Treasury interest rates. (2) The dividend yield on the Company's common stock is assumed to be zero since the Company does not pay dividends and has no current plans to do so in the future. (3) Currently, there is no active market for the Company's common shares. Therefore, the Company used the historical volatility of similar public companies, which are representative of the Company's industry, to calculate the expected volatility. (4) The expected life of the options is based on the average of the contractual term and vesting term of the options, due to the fact that historical exercise experience or post-vesting termination experience is not readily available.

The following summarizes the Company's common stock option activity:

	Number of Options	Weighted Average Exercise Price Per Share
Outstanding, December 31, 2020	101,149	\$ 37.20
Granted	3,716,846	0.70
Exercised	(1,335)	11.32
Forfeited	(233,068)	15.46
Expired	(8,344)	90.40
Outstanding, December 31, 2021	3,575,248	8.32
Granted	1,160,336	1.16
Exercised	(133,831)	0.70
Forfeited	(717,304)	0.98
Expired	(9,710)	5.92
Outstanding, December 31, 2022	3,874,739	1.48
Exercisable, December 31, 2022	1,001,562	\$ 2.81

The Company paid option holders \$498,596 and \$483,373 to cancel 221,109 and 214,358 options during the years ended December 31, 2022 and 2021, respectively. These cancellations are included in forfeitures in the previous table. This resulted in additional stock-based compensation of \$396,886 and \$234,718 for the years ended December 31, 2022, and 2021, respectively.

The fair value of each option grant is estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions for the year ended December 31:

	2022	2021
Weighted average fair value of stock options	\$ 0.51	\$ 0.29
Expected dividend rate	-	-
Expected stock price volatility	42%	48%
Risk-free interest rate	1.98% - 4.08%	.86% - .90%
Expected life of options	6.06 years	6.65 years

Information regarding options outstanding and exercisable is as follows as of December 31:

	2022	2021
Number outstanding	3,874,739	3,575,248
Weighted average remaining contractual life (years)	7.00	7.95
Weighted average exercise price	\$ 1.48	\$ 1.50
Number exercisable	1,001,562	220,880
Weighted average remaining contractual life (years)	8.13	7.95
Weighted average exercise price	\$ 2.81	\$ 8.32

Stock-based compensation expense recognized under the Plan for the years ended December 31, 2022 and 2021 was \$655,305 and \$432,823, respectively. As of December 31, 2022 and 2021, there was \$1,198,567 and \$1,487,336 of unrecognized stock-based compensation expense that vests over time and will be recognized over the weighted average period of 7.00 and 7.95 years, respectively. The aggregate intrinsic value of all outstanding and exercisable options as of December 31, 2022 and 2021 was \$1,247,726 and \$1,497,574, respectively.

Warrants

As of December 31, 2022 and 2021, the Company had warrants outstanding and fully vested to purchase a total of 37,786 and 3,250 shares, respectively, of common stock with a weighted average exercise price of \$3.20 and \$3.42, respectively, and a remaining life of 10.72 and 7.03 years, respectively.

As of December 31, 2022 and 2021, the Company had one warrant outstanding and fully vested to purchase 35,090 shares of Series AA preferred stock at an exercise price of \$1.44 per share that expires on April 7, 2031.

8. Commitments and Contingencies

Operating Lease

In April 2021, the Company early terminated their prior lease. As a result of the termination, the Company recognized a net gain of \$1,494,682. On April 15, 2021 the Company entered into a new lease for the Company's headquarters. As of December 31, 2022 and 2021, the Company had a right-of-use asset of \$109,818 and \$468,491, respectively, and an operating lease liability of \$119,312 and \$507,980, respectively. In January 2023, the Company extended the existing lease term by 9 months. The total rent for the extended period is \$272,349.

The Company determined its incremental borrowing rate at lease inception of 7.00% was the most accurate discount rate to use in calculating the right-of-use asset and operating lease liability as the rate implicit in the lease was not known.

Future minimum lease payments under the lease as of December 31, 2022 are shown below:

<u>Years Ending December 31,</u>		
2023	\$	120,901
Less imputed interest		<u>(1,589)</u>
Total lease liability	\$	<u>119,312</u>

Rental expense under operating leases was \$383,177 and \$988,195 for the years ended December 31, 2022 and 2021, respectively, and is included in general and administrative in the accompanying statements of operations net of sublease income.

Under the prior lease, the Company had multiple sublease agreements as the sublessor. Rental income under the sublease agreements was \$0 and \$451,980 for the years ended December 31, 2022, and 2021, respectively, and is netted with rental expense in general and administrative expenses in the accompanying statements of operations.

9. Income Taxes

The provision for income taxes differs from the amount computed at federal statutory rates as follows as of December 31:

	<u>2022</u>	<u>2021</u>
Federal income tax benefit as statutory rates	\$ (3,656,609)	\$ (2,053,079)
Change in valuation allowance	4,678,619	2,685,763
Change in effective tax rate	6,317	1,752,157
State income tax benefit at statutory rates	(466,264)	(249,937)
Forgiveness of paycheck protection program loan	-	(728,799)
Other	<u>(559,824)</u>	<u>(1,405,065)</u>
	\$ 2,239	\$ 1,040

Significant components of the Company's deferred income tax assets (liabilities) are as follows as of December 31:

	2022	2021
Net operating loss carryforwards	\$ 24,696,450	\$ 22,198,634
R&D tax credit carryforwards	731,847	731,373
Stock compensation	160,558	3,856
Bad debt allowance	6,622	8,126
Sales returns allowance	5,731	3,039
Deferred revenue	5,264	50
Depreciation and amortization	2,152,731	4,701
Accrued bonus	52,329	9,770
Lease liability	28,162	115,110
Charitable contributions	7,326	2,537
Right-of-use asset	(25,921)	(106,161)
Deferred commissions	(364,243)	(192,798)
Valuation allowance	(27,456,856)	(22,778,237)
	\$ -	\$ -

As of December 31, 2022 and 2021, the Company had net federal and state operating loss (NOL) carryforwards available to offset future taxable income, if any, of approximately \$187,100,000 and \$167,100,000, respectively. Approximately \$29,600,000 of the NOL is subject to expiration beginning with the 2030 tax year. The remaining NOL is carried forward indefinitely. As of December 31, 2022 and 2021, the Company also has research and development tax credits of \$781,333 that are available to offset future tax liabilities. These credits are subject to expiration beginning with the 2028 tax year.

The utilization of the NOL carryforwards is subject to annual limitations under Section 382 of the Internal Revenue Code. Section 382 imposes limitations on a corporation's ability to utilize its NOL carryforwards if it experiences an "ownership change." In general terms, an ownership change results from transactions increasing the ownership of certain stockholders in the stock of a corporation by more than 50% over a three-year period.

Deferred income taxes reflect the tax effect of temporary differences between the bases of assets and liabilities for financial reporting and tax reporting purposes. The Company establishes a valuation allowance if it is more likely than not these assets will not be realized. Annually, the valuation allowance is reviewed and adjusted based on management's assessments of realizability. Management has evaluated the available evidence about future taxable income and other possible sources of realization of deferred income tax assets. Management has determined that a full valuation allowance as of December 31, 2022 and 2021 is appropriate.

The effective income tax rate is substantially less than the statutory rate principally due to the valuation allowance provided against the net deferred income tax assets. The provision for income taxes results from the Company's minimum statutory tax obligation.

The Company has concluded that there are no significant uncertain tax positions requiring disclosure, and there are no material amounts of unrecognized tax benefits.