

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 8-K/A

(Amendment No.2)

### CURRENT REPORT

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

Date of Report (Date of earliest event reported): September 14, 2021

## Veritone, Inc.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction  
of incorporation)

001-38093  
(Commission  
File Number)

47-1161641  
(IRS Employer  
Identification No.)

2420 17th St., Office 3002, Denver, CO  
(Address of Principal Executive Offices)

80202  
(Zip Code)

Registrant's Telephone Number, Including Area Code: (888) 507-1737

### Not Applicable

(Former Name or Former Address, if Changed Since Last Report)

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

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.001 per share	VERI	The NASDAQ Stock Market LLC

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

Emerging growth company

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

## Explanatory Note

This Form 8-K/A is being filed as an amendment to the Current Report on Form 8-K filed on September 17, 2021 (the "Original 8-K"), as previously amended on November 15, 2021 (the "Prior Amendment") solely for the purpose of removing from Exhibit 99.1 the financial statements of PandoLogic Ltd., a company incorporated under the laws of the state of Israel ("PandoLogic"), as of December 31, 2018 and the audit report related thereto, which are not required by Regulation S-X with respect to the acquisition by Veritone, Inc., a Delaware corporation (the "Company"). of PandoLogic, pursuant to the Agreement and Plan of Merger dated July 21, 2021, by and among the Company, Melisandra Ltd., a company incorporated under the laws of the State of Israel and wholly-owned subsidiary of the Company, and PandoLogic.

This Form 8-K/A does not amend or modify the Original 8-K or the Prior Amendment in any other respect, and this amendment should be read in conjunction with the Original 8-K and the Prior Amendment, each of which is incorporated by reference herein. Except as set forth herein, no modifications have been made to information contained in the Original 8-K or the Prior Amendment, and the Company has not updated any information contained therein to reflect events that have occurred since the date of the Original 8-K or the Prior Amendment.

### Item 9.01. Financial Statements and Exhibits.

(a) *Financial Statements of Business Acquired.*

The audited consolidated balance sheets of PandoLogic as of December 31, 2020 and December 31, 2019, and the related consolidated statements of operations, statements of cash flows, and statements of changes in convertible preferred shares and stockholders' equity, for the years ended December 31, 2020 and 2019, are attached as Exhibit 99.1 to this Current Report on Form 8-K/A and incorporated herein by reference.

(d) Exhibits.

EXHIBIT NO.	DESCRIPTION
23.1	<a href="#">Consent of Somekh Chaikin, Member Firm of KPMG International, independent registered public accounting firm.</a>
99.1	<a href="#">Audited consolidated financial statements of PandoLogic as of December 31, 2020 and December 31, 2019.</a>
104	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101)

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**SIGNATURES**

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

Date: November 17, 2021

**Veritone, Inc.**

By: /s/ Michael L. Zemetra  
Michael L. Zemetra  
Executive Vice President, Chief Financial Officer and Treasurer

**Consent of Independent Auditors**

We consent to the incorporation by reference in the registration statements (No. 333-225394, No. 333-227613 and No. 333-231345) on Form S-3 and (No. 333-217990, No. 333-227477, No. 333-237114 and No. 333-249371) on Form S-8 of Veritone Inc. of our report dated June 11, 2021, with respect to the consolidated financial statements of PandoLogic Ltd, which report appears in the Form 8-K/A (Amendment No.1) of Veritone Inc. dated November 15, 2021.

/s/ Somekh Chaikin  
Somekh Chaikin

Member Firm of KPMG International

November 15, 2021

Tel Aviv, Israel

**PandoLogic Ltd.**  
**Consolidated Financial Statements**  
**As of December 31, 2020**

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**Consolidated Financial Statements as of December 31, 2020**

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## Independent Auditors' Report

The Board of Directors  
PandoLogic Ltd.

We have audited the accompanying consolidated financial statements of PandoLogic Ltd. and its subsidiaries (the Company) which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations, changes in convertible preferred shares and shareholders' equity (deficit), and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### *Management Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Somekh Chaikin  
Certified Public Accountants (Isr.)  
Member Firm of KPMG International  
Tel Aviv, Israel

Yosef Shimony  
Certified Public Accountants (Isr.)  
Ramat Gan, Israel

June 11, 2021

**Consolidated Balance Sheets as of December 31**

	Note	2020 US\$ thousands	2019 US\$ thousands
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	3	6,624	1,321
Trade receivable	4	44,249	6,238
Other receivables	5	696	1,143
Total current assets		51,569	8,702
Long-term deposits		53	40
Property and equipment, net	6	309	200
<b>Total assets</b>		<b>51,931</b>	<b>8,942</b>

The accompanying notes are an integral part of the consolidated financial statements.



**Consolidated Balance Sheets as of December 31**

	Note	2020	2019
		US\$ thousands	US\$ thousands
<b>Liabilities, convertible preferred shares and shareholders' equity (deficit)</b>			
<b>Current liabilities</b>			
Short term loan and current maturities of long-term loan	12	456	2,508
Trade payables		14,838	3,002
Deferred income		-	149
Other payables and accruals	7	2,690	1,386
<b>Total current liabilities</b>		<b>17,984</b>	<b>7,045</b>
Long-term loan excluding current maturities	12	-	421
<b>Total long-term liabilities</b>		<b>-</b>	<b>421</b>
<b>Total liabilities</b>		<b>17,984</b>	<b>7,466</b>
<b>Convertible preferred shares and shareholders' equity (deficit)</b>			
Series A1 preferred shares, NIS 0.01 par value; 13,667 shares authorized, issued and outstanding on December 31, 2020 and 2019 (liquidation preference of \$117 thousand on December 31, 2020 and 2019)	8	117	117
Series A2 preferred shares, NIS 0.01 par value; 44,528 shares authorized, issued and outstanding on December 31, 2020 and 2019 (liquidation preference of \$380 thousand on December 31, 2020 and 2019)		380	380
Series B preferred shares, NIS 0.01 par value; 1,471,769 shares authorized, 1,170,569 shares issued and outstanding on December 31, 2020 and 2019 (liquidation preference of \$7,557 and \$6,996 thousand on December 31, 2020 and 2019 respectively)		3,222	3,222
Series B-2 preferred shares, NIS 0.01 par value; 992,025 shares authorized; 910,403 shares issued and outstanding on December 31, 2020 and 2019, (liquidation preference of \$5,540 and \$5,129 thousand on December 31, 2020 and 2019, respectively)		2,900	2,900
Series C preferred shares, NIS 0.01 par value; 1,977,140 shares authorized; 1,903,168 shares issued and outstanding on December 31, 2020 and 2019 (liquidation preference of \$12,432 and \$11,509 thousand on December 31, 2020 and 2019, respectively)		6,548	6,548
Series C-1 preferred shares, NIS 0.01 par value; 1,452,755 shares authorized; issued and outstanding on December 31, 2020 and 2019 (liquidation preference of \$12,706 and \$11,762 thousands on December 31, 2020 and 2019, respectively)		7,950	7,950
<b>Total convertible preferred shares</b>		<b>21,117</b>	<b>21,117</b>
Ordinary shares, NIS 0.01 par value; 12,515,103 shares authorized on December 31, 2020 and 2019, and 1,080,577 shares issued and outstanding on December 31, 2020 and 2019, respectively.	9	3	3
Additional paid-in capital		9,531	9,517
Retained earnings (accumulated deficit)		3,296	(29,161)
<b>Total shareholders' equity (deficit)</b>		<b>12,830</b>	<b>(19,641)</b>
<b>Total convertible preferred shares and shareholder's equity</b>		<b>33,947</b>	<b>1,476</b>
<b>Total liabilities and convertible preferred shares and shareholders' equity (deficit)</b>		<b>51,931</b>	<b>8,942</b>

Sandeep Gill - CFO  
June 11, 2021

Terry Baker - Chief Executive Officer

The accompanying notes are an integral part of the consolidated financial statements.

**Consolidated Statements of Operations for the year ended December 31,**

	Note	2020 US\$ thousands	2019 US\$ thousands
<b>Revenues</b>		<b>47,386</b>	10,213
<b>Operating expenses:</b>			
Cost of revenues		<b>1,240</b>	849
Research and development	14A	<b>5,010</b>	3,479
Sales and marketing	14B	<b>5,235</b>	3,357
General and administrative	14C	<b>2,985</b>	1,779
<b>Total operating expenses</b>		<b>14,470</b>	9,464
<b>Profit from operations</b>		<b>32,916</b>	749
Finance expenses, net	15	<b>215</b>	306
<b>Profit before taxes on income</b>		<b>32,701</b>	443
Taxes on income	13	<b>244</b>	105
<b>Net profit</b>		<b>32,457</b>	338

The accompanying notes are an integral part of the consolidated financial statements.

**Consolidated Statement of Changes in Convertible Preferred Shares and Shareholders' Equity (Deficit)**

	Convertible preferred shares		Ordinary shares		Additional paid-in capital	Retained earnings (accumulated deficit)	Total shareholders' equity / (deficit)
	Number of shares thousands	US\$ thousands	Number of shares thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands
<b>Balance at December 31, 2018</b>	6,197	25,107	1,075	3	5,514	(29,499)	(23,982)
Share-based compensation	-	-	-	-	7	-	7
Exercise of options	-	-	6	*-	6	-	6
Treasury shares at cost	(702)	(3,990)	-	-	3,990	-	3,990
Net profit	-	-	-	-	-	338	338
<b>Balance at December 31, 2019</b>	5,495	21,117	1,081	3	9,517	(29,161)	(19,641)
Share-based compensation	-	-	-	-	11	-	11
Exercise of options	-	-	3	*-	3	-	3
Net profit	-	-	-	-	-	32,457	32,457
<b>Balance at December 31, 2020</b>	<b>5,495</b>	<b>21,117</b>	<b>1,084</b>	<b>3</b>	<b>9,531</b>	<b>3,296</b>	<b>12,830</b>

\* Less than 1,000 USD

The accompanying notes are an integral part of the consolidated financial statements.

**Consolidated Statements of Cash Flows for the year ended December 31,**

	<u>2020</u>	<u>2019</u>
	<u>US\$ thousands</u>	<u>US\$ thousands</u>
<b>Cash flows from operating activities</b>		
Net profit	32,457	338
Adjustments to reconcile net loss to net cash flows provided by (used in) operating activities:		
Finance expenses, net	215	306
Tax expenses	244	105
Depreciation	114	95
Share based compensation	11	7
Decrease in deferred income	(149)	(73)
Increase in trade receivables	(38,011)	(5,016)
Decrease (increase) in other receivables	447	(470)
Increase in trade payables	11,836	2,551
Increase in other payables and accruals	1,304	563
Interest expense paid	(164)	(86)
Taxes paid	(207)	(24)
<b>Net cash - operating activities</b>	<u>8,097</u>	<u>(1,704)</u>
<b>Cash flows used in investing activities</b>		
Changes in long-term deposits, net	(13)	(1)
Acquisition of property and equipment	(223)	(127)
<b>Net cash - investing activities</b>	<u>(236)</u>	<u>(128)</u>
<b>Cash flows from (used in) financing activities</b>		
Changes in short term loans	(2,000)	1,372
Repayment of long term loan	(586)	(586)
Proceeds from exercise of options	3	6
<b>Net cash - financing activities</b>	<u>(2,583)</u>	<u>792</u>
<b>Increase (decrease) in cash and cash equivalents</b>	<u>5,278</u>	<u>(1,040)</u>
Cash and cash equivalents at the beginning of the year	1,321	2,443
Exchange differences on balances of cash and cash equivalents	25	(82)
<b>Cash and cash equivalents at end of the year</b>	<u><u>6,624</u></u>	<u><u>1,321</u></u>

The accompanying notes are an integral part of the consolidated financial statements.

**Notes to the Interim Financial Statements as of December 31, 2020**

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**Note 1 - Nature of the Business**

PandoLogic Ltd. along with its Subsidiaries (the “**Company**”), is a leading recruitment technology company that specializes in performance-based recruitment solutions, delivering a truly programmatic solution for the recruitment industry. PandoLogic brings the advantages and efficiencies of programmatic technology to the recruitment industry through a comprehensive offering that includes AI and machine learning powered programmatic campaign management, predictive campaign analytics, and access to many hundreds of job posting sites. Each application is built on PandoLogic’s proprietary taxonomy which delivers industry leading performance. Through this unique offering, PandoLogic delivers recruitment results, reducing cost, improving time to hire and providing visibility of key data metrics in the sourcing process.

PandoLogic was founded in 2007 to serve internet job boards, providing white-label job site software to the publishing industry. The Company’s unique foundation has provided it with over 10 years of historical job campaign data. Recruitment data from millions of job campaigns throughout the Company’s history has delivered scale to its robust taxonomy, which is constantly refined by machine learning and natural language processing. As the recruitment landscape evolved, PandoLogic expanded its product offering beyond job site software, building programmatic and predictive solutions to efficiently connect employers and qualified job seekers in innovative ways. PandoLogic’s mission is to make online recruitment advertising, an efficient and results-driven process for employers.

The Company is an Israeli corporation incorporated on January 1, 2007 and had two wholly owned subsidiaries in the United States; PandoLogic, Inc. (fka RealMatch, Inc.) and RMOldCo. Both subsidiaries are Delaware corporations. In September 2020 RMOldCo was dissolved.

**Note 2 - Summary of Significant Accounting Policies**

The significant accounting policies followed in the preparation of the financial statements, applied on a consistent basis, are as follows:

**A. Basis of presentation**

The financial statements are presented in accordance with United States generally accepted accounting principles (“U.S. GAAP”).

**B. Basis of consolidation**

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, PandoLogic Inc. All intercompany accounts and transactions have been eliminated in consolidation.

**C. Use of estimates**

The preparation of the Company consolidated financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities, at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. The most significant estimates relate to assessing the fair value of the Company’s ordinary shares and share options granted to employees and service providers and allowance for doubtful accounts.

**Notes to the Interim Financial Statements as of December 31, 2020****Note 2 - Summary of Significant Accounting Policies (cont'd)****D. Foreign currency translation**

The functional currency of the Company is the United States Dollar ("USD"). The financial statements of the Israeli Company have been translated into USD in accordance with ASC 830 "Foreign Currency Translation", whereby all monetary assets and liabilities denominated in a non-USD currency are translated using the year-end exchange rate and non-monetary assets and liabilities and capital accounts denominated in a non-USD currency are translated using historical exchange rates.

Income statement accounts of the Israeli Company denominated in a non-USD currency are translated using the exchange rates in effect on the transaction dates, except for depreciation, which is translated using historical exchange rates. Adjustments from the translation of the Company's financial statements to USD and foreign exchange transaction gains and losses are included in the operating results for the period in which exchange rates change (see note 14).

**E. Cash and cash equivalents**

Cash and cash equivalents consist of cash and deposits with original maturity of three months or less from the date of the investment.

**F. Provision for doubtful accounts**

The financial statements include general provisions for doubtful debts, which, in management's opinion, adequately reflect the estimated losses resulting from account receivables for which the collection is not reasonably probable. Doubtful debts, which according to the Company's management opinion are unlikely to be collected, are written-off from the Company's books, based on a management resolution. Management's determination of the adequacy of the provision is based, inter alia, on an evaluation of the risk, by considering the available information on the financial position of the debtors, the volume of their business, the age of the receivable balance, an evaluation of the security received from them and past experience. The changes in the provision during the year:

	Year ended December 31,	
	2020	2019
	US\$ thousands	US\$ thousands
Opening balance	179	31
Additions during the year	231	176
Deductions during the year	(160)	(28)
Closing balance	<u>250</u>	<u>179</u>

## Notes to the Interim Financial Statements as of December 31, 2020

**Note 2 - Summary of Significant Accounting Policies (cont'd)****G. Concentration of credit risk**

Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of cash, cash equivalents and trade receivable. The Company maintains bank accounts in financial institutions that management believes have strong credit ratings.

**H. Property and equipment**

Property and equipment are stated at cost less accumulated depreciation and amortization.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets using the following annual rates:

	<u>Years</u>
Computers	3
Office equipment and furniture	5-10
Leasehold improvements are depreciated over the shorter of the underlying lease or 10 years	

**I. Revenue recognition**

The Company recognizes revenue through the following five-step model:

- (1) Identifying the contract with customer.
- (2) Identifying distinct performance obligations in the contract.
- (3) Determining the transaction price.
- (4) Allocating the transaction price to distinct performance obligations.
- (5) Recognizing revenue when the performance obligations are satisfied.

The Company generates revenue primarily from transactions where it provides access to digital job advertising done programmatically. Revenue is derived from programmatic advertising, which uses software and algorithms to match buyers and sellers of digital job advertising in a technology-driven marketplace.

The Company's performance obligation is to provide the use of its solution to clients to develop job campaigns. The Company charges clients a fee based on job searches by potential applicants through its solution. The transaction price is determined based on the consideration to which it is entitled in exchange for the completion of a transaction, that is, when a bid for advertising space is won. The Company recognizes revenue for its solution fee at a point in time when a purchase by the client occurs through its solution, which is when a bid is won. Subsequent to a bid being won through the Company's solution, the associated revenue is generally not subject to refund or adjustment. Historically, any refunds and adjustments have not been material.

**Note 2 - Summary of Significant Accounting Policies (cont'd)****I. Revenue recognition (cont'd)**

The Company reports revenue net of amounts it pays suppliers for the cost of jobs advertising. The determination of whether the Company is the principal or agent, and hence whether to report revenue on a gross basis or on a net basis requires judgment. The Company determined that it is not primarily responsible for the purchase of jobs advertising, but rather, it is primarily responsible to provide a solution that enables clients to bid on advertising. The Company does not control the jobs advertising prior to the purchase by the client, and it does not have pricing latitude with respect to the cost of such jobs advertising. The solution fee is not contingent on the results of a jobs advertising campaign, the Company is not primarily responsible for fulfillment, has no inventory risk and it obtains only momentary title to the advertising space offered via the end-to-end solution. Based on these and other factors, the Company determined that it is not the principal in the purchase and sale of jobs advertising in all of its arrangements, and therefore, it reports revenue on a net basis for the solution fees charged to clients.

**Number of Customers accounted for over 10% of Revenue**

For the year ended December 31, 2019, the Company had one customer that accounted for 39% of its revenues. For the year ended December 31, 2020, the Company had one customer that accounted for 86% of its revenues.

**J. Research and development**

Costs associated with the research and development of web-based technology are expensed prior to the establishment of technological feasibility.

**K. Liability in respect of employee's severance payments**

The company's liability for severance pay for its Israel based employees' is calculated pursuant to Israeli Severance Pay Law (1963) (the "Severance Pay Law"). The company's liability is covered by monthly deposits with severance pay funds and insurance policies. For all of the company's Israel based employees, the payments to pension funds and to insurance companies exempt the company from any obligation towards its employees, in accordance with Section 14 of the Severance Pay Law, which is accounted for as a defined contribution plan. Accumulated amounts in pension funds and in insurance companies are not under the company's control or management and, accordingly, neither those amounts nor the corresponding accrual for severance pay are presented in the consolidated statements of financial position. All severance payments are recognized as an expense when they are incurred.



**Note 2 - Summary of Significant Accounting Policies (cont'd)****L. Stock compensation plans***Employees and directors*

The Company accounts for its directors and employees stock-based compensation awards in accordance with ASC Topic 718, Compensation - stock compensation. ASC Topic 718 requires that all stock-based compensation be recognized as an expense in the financial statements and that such cost be measured at the fair value of the awards at the grant date, ultimately expected to vest (net of forfeitures). The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the fair value of the underlying ordinary shares, the expected term of the option, the expected volatility of the price of the underlying shares, risk-free interest rates, and the expected dividend yield of the shares. The assumptions used to determine the fair value of the option awards represent management's best estimates. These estimates involve inherent uncertainties and the application of management's judgment. The Company recognizes the cost of awards with graded vesting based on a straight-line method. All Company's option grants were accounted as equity-classified awards.

**M. Income taxes**

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is provided for deferred tax assets if it is more likely than not, the Company will not be able to realize their benefit. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets and liabilities are classified as current or noncurrent items in accordance with the nature of the assets or liabilities to which they relate. When there are no underlying assets or liabilities the deferred tax assets, and liabilities are classified in accordance with the period of expected reversal. Income tax expenses represent the tax payable for the period and the changes during the period in deferred tax assets and liabilities.

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgement occurs.

**N. Treasury shares**

Treasury shares are recorded at cost and presented as a reduction of shareholders' equity.

## Notes to the Interim Financial Statements as of December 31, 2020

## Note 2 - Summary of Significant Accounting Policies (cont'd)

## O. Recently adopted accounting standards

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. ASU 2014-09 outlines a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance.

The new model will require revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive in exchange for those goods or services. The amendments in ASU 2014-09 are effective for annual reporting periods ending after December 15, 2020, including interim periods within that reporting period. The Company elected to apply the standard retrospectively in 2019. There were no significant effects on profit from operations and retained earnings.

## P. Recently issued accounting standards

In February 2016, the FASB issued ASU 2016-02, which requires lessees to recognize most of their leases on balance sheet as a right-of-use asset and a lease liability. This ASU is effective for interim and annual periods in fiscal years ending after December 15, 2022. Early adoption is permitted. The Company has not yet commenced examining the effects of adopting ASU 2016-02 on the financial statements.

## Note 3 - Cash and Cash Equivalents

	December 31,	
	2020	2019
	US\$ thousands	US\$ thousands
In U.S. dollars	5,120	869
In New Israeli shekels	1,504	452
	<u>6,624</u>	<u>1,321</u>

## Note 4 - Trade Receivable

	December 31,	
	2020	2019
	US\$ thousands	US\$ thousands
Open accounts	44,499	6,417
Provision for doubtful debts	(250)	(179)
	<u>44,249</u>	<u>6,238</u>

## Notes to the Interim Financial Statements as of December 31, 2020

## Note 5 - Other Receivables

	December 31,	
	2020	2019
	US\$ thousands	US\$ thousands
Prepaid expenses	470	1,059
Government institutions	30	15
Other	196	69
	<b>696</b>	<b>1,143</b>

## Note 6 - Property and Equipment, Net

Property and equipment consist of the following for the period presented:

	Estimated useful life (years)	December 31,	
		2020	2019
		US\$ thousands	US\$ thousands
Cost:			
Computers	3	1,261	1,038
Office equipment and furniture	5-10	64	64
Leasehold improvements	5-10	167	167
		<b>1,492</b>	<b>1,269</b>
Less: accumulated depreciation		<b>1,183</b>	<b>1,069</b>
Property and equipment, net		<b>309</b>	<b>200</b>

Depreciation expenses for the years ended December 31, 2020 and 2019 were \$114 thousand and \$95 thousand, respectively.

## Note 7 - Other Payable and Accruals

	December 31,	
	2020	2019
	US\$ thousands	US\$ thousands
Governmental institutions	313	121
Accrued expenses	899	808
Provision for vacation	258	85
Employees and related benefits	1,073	339
Others	147	33
	<b>2,690</b>	<b>1,386</b>

**Notes to the Interim Financial Statements as of December 31, 2020**

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**Note 8 - Convertible Preferred Shares**

The Series A1 Preferred Shares, Series A2 Preferred Shares, Series A3 Preferred Shares, Non-Voting series A3-1 Preferred Shares, Series B Preferred Shares, Non-Voting Series B-1 Preferred Shares, Series B-2 Preferred Shares, Series C Preferred Shares, and Series C-1 Preferred Shares shall be referred to herein as the “**Preferred Share**”.

During 2019 Baytech, one of the Company’s investors, dissolved their fund and thus sold all their shares back to the company for the consideration of \$ 100. As a result, 47,459 A-3, 270,558 A3-1, 83,415 B and 301,200 B-1 Preferred shares were sold back by Baytech to the company and were forfeited.

The Preferred shares have the following characteristics:

**A. Voting**

Each Preferred Share except for the Non-Voting Series A3-1 Preferred Shares and the Non-Voting Series B-1 Preferred Shares (the “**Non-Voting Preferred Shares**”) shall have the right to one vote for each Ordinary Share into which such Preferred Share is convertible, with respect to every resolution brought before the General Meeting of the Company. The Preferred Shares shall have all the rights, powers and authorities associated with the shares of the Company as provided in the Company’s in effect Articles of Association (the “**Company’s Articles**”), including the power to appoint Directors, to receive notices of, and to vote at General Meetings of the Company, to receive dividends and any surplus upon the liquidation of the Company.

Except as specifically set forth otherwise in the Company’s Articles, the holders of the Ordinary Shares and Preferred Shares shall not be entitled to any class vote and every holder of Preferred Shares (except for the Non-Voting Preferred Shares) shall vote, together with the Ordinary Shares, as one class, except with respect to direct changes of the rights attached to such shares under the Company’s Articles.

**B. Dividends**

No dividends shall be paid otherwise than in accordance with order of preference set forth in note 8C below, subject to applicable law and the Company’s Articles.

Through December 31, 2020 and 2019, no dividends have been declared or paid by the Company.

**C. Liquidation preference**

In the event of any Liquidation Event (as such term is defined in the Company’s Articles) including a change of control, where 50% or more of the issued and outstanding shares of the Company are acquired by a person or entity that is not a shareholder prior to the transaction, first, the holders of the Series C-1 Preferred Shares shall be entitled to receive, prior and in preference to any distribution of any of proceeds to the holders of any other shares of the Company, by reason of their ownership thereof, an amount per share equal to the Original C-1 Issue Price plus an amount equal to eight percent (8%) per annum, compounded annually, from the date of issuance of each such share to the date of the Liquidation Event, plus any declared and unpaid dividends on each Series C-1 Preferred Share, less any cash dividends distributed to the holders of the Series C-1 Preferred Shares in accordance with the provisions of these Articles (aggregately for all outstanding Series C-1 Preferred Shares, the “**Preferred C-1 Preference**”). If upon the occurrence of such event, the proceeds thus distributed among the holders of the Series C-1 Preferred Shares shall be insufficient to permit the payment to such holders of the full Preferred C-1 Preference, then the proceeds legally available for distribution shall be distributed ratably among the holders of the Series C-1 Preferred Shares in proportion to the preferential amounts each such holder is entitled to receive.

**Note 8 - Convertible Preferred Shares (cont'd)****C. Liquidation preference (cont'd)**

Second, upon the completion of the distribution of the Preferred C-1 Preference in accordance with the provisions of the Company's Articles of Association, and out of the remaining proceeds available for distribution to shareholders (if any), the holders of the Series C Preferred Shares shall be entitled to receive, prior and in preference to any distribution of any of proceeds to the holders of any other shares of the Company, by reason of their ownership thereof, an amount per share equal to the Original C Issue Price plus an amount equal to eight percent (8%) per annum, compounded annually, from the date of issuance of each such share to the date of the Liquidation Event, plus any declared and unpaid dividends on each Series C Preferred Share, less any cash dividends distributed to the holders of the Series C Preferred Shares in accordance with the provisions of these Articles (aggregately for all outstanding Series C Preferred Shares, the "**Preferred C Preference**"). If upon the occurrence of such event, the proceeds thus distributed among the holders of the Series C Preferred Shares shall be insufficient to permit the payment to such holders of the full Preferred C Preference, then the proceeds legally available for distribution (after distribution of the Preferred C-1 Preference) shall be distributed ratably among the holders of the Series C Preferred Shares in proportion to the preferential amounts each such holder is entitled to receive.

Third, upon the completion of the distribution of the Preferred C-1 Preference and the Preferred C Preference in accordance with the provisions of the Company's Articles of Association, and out of the remaining proceeds available for distribution to shareholders (if any), the holders of the Series B-2 Preferred Shares shall be entitled to receive, prior and in preference to any distribution of any of proceeds to the holders of any other shares of the Company, by reason of their ownership thereof, an amount per share equal to the Original B-2 Issue Price plus an amount equal to eight percent (8%) per annum, compounded annually, from the date of issuance of each such share to the date of the Liquidation Event, plus any declared and unpaid dividends on each Series B-2 Preferred Share, less any cash dividends distributed to the holders of the Series B-2 Preferred Shares in accordance with the provisions of these Articles (aggregately for all outstanding Series B-2 Preferred Shares, the "**Preferred B-2 Preference**"). If upon the occurrence of such event, the proceeds thus distributed among the holders of the Series B-2 Preferred Shares shall be insufficient to permit the payment to such holders of the full Preferred B-2 Preference, then the proceeds legally available for distribution (after distribution of the Preferred C-1 Preference and the Preferred C Preference) shall be distributed ratably among the holders of the Series B-2 Preferred Shares in proportion to the preferential amounts each such holder is entitled to receive.

Fourth, upon the completion of the distribution of the Preferred C-1 Preference, the Preferred C Preference and the Preferred B-2 Preference, and out of the remaining proceeds available for distribution to shareholders (if any), the holders of Preferred B Shares shall be entitled to receive, prior and in preference to any distribution of any of the proceeds to the holders of any of the other securities of the Company, by reason of their ownership thereof, an amount per share equal to the Original B Issue Price plus an amount equal to eight percent (8%) per annum, compounded annually, from the date of issuance of each such share to the date of the Liquidation Event, plus any declared and unpaid dividends, less any cash dividends distributed to the holders of the Series B Preferred Shares in accordance with the provisions of these Articles (aggregately for all outstanding Series B Preferred Shares, the "**Preferred B Preference**").

**Note 8 - Convertible Preferred Shares (cont'd)****C. Liquidation preference (cont'd)**

If upon the occurrence of such event, the proceeds thus distributed among the holders of the Series B Preferred Shares and the Non-Voting Series B-1 Preferred Shares shall be insufficient to permit the payment to such holders of the full Preferred B Preference, then such proceeds (after distribution of the Preferred B-2 Preference, the Preferred C Preference and the Preferred C-1 Preference) shall be distributed ratably among the holders of the Preferred B Shares and the Non-Voting Series B-1 Preferred Shares in proportion to the preferential amounts each such holder is entitled to receive.

Fifth, upon the completion of the distribution of the Preferred C-1 Preference, the Preferred C Preference, the Preferred B-2 Preference and the Preferred B Preference in accordance with the provisions of the Company's Articles, and out of the remaining proceeds available for distribution to shareholders (if any), the holders of Series A1 Preferred Shares and Series A2 Preferred Shares shall be entitled to receive, pari passu and prior and in preference to any distribution of any of the proceeds to the holders of any other shares of the Company, by reason of their ownership thereof, an amount per share equal to the Original A1 Issue Price of such Series A1 Preferred Shares and the Original A2 Issue Price of such Series A2 Preferred Shares (as applicable), plus any declared and unpaid dividends, less any cash dividends distributed to the holders of the Series A1 Preferred Shares and Series A2 Preferred Shares (as applicable) in accordance with the provisions of these Articles (aggregately for all outstanding Series A1 Preferred Shares and Series A2 Preferred Shares, the "**Preferred A1 and A2 Preference**"). If upon the occurrence of such event, the proceeds thus distributed among the holders of the Series A1 Preferred Shares and Series A2 Preferred Shares shall be insufficient to permit the payment to such holders of the full Preferred A1 and A2 Preference, then the proceeds legally available for distribution (after distribution of the Preferred C-1 Preference, the Preferred C Preference, the Preferred B-2 Preference and the Preferred B Preference) shall be distributed ratably among the holders of the Series A1 Preferred Shares and Series A2 Preferred Shares in proportion to the preferential amounts each such holder is entitled to receive.

Sixth, upon the completion of the distribution in accordance with the provisions of the Company's Articles of Association, the remaining proceeds available for distribution to shareholders shall be distributed among all Shareholders (including, without limitation, the holders of the Preferred Shares) pro rata in proportion to the number of shares of Ordinary Shares held by each holder (on an as converted basis).

**D. Conversion**

Each Preferred Share shall be convertible, at the option of the holder of such share, at any time after the date of issuance of such share, into such number of fully paid and non assessable Ordinary Shares of the Company. The Conversion Price is determined using the conversion ratio by which each class of Preferred Shares is converted into Ordinary shares as set forth in the Articles of Association. No fractional shares shall be issued upon conversion of the Preferred Shares, and the number of Ordinary Shares to be issued shall be rounded to the nearest whole share.

**Note 8 - Convertible Preferred Shares (cont'd)****D. Conversion (cont'd)**

All issued and outstanding Preferred Shares (other than Series C Preferred Shares and Series C-1 Preferred Shares) shall automatically be converted into Ordinary Shares (subject to the Articles of Association) at the applicable Conversion Price at the time in effect for such Preferred Share upon the earlier of: (i) the closing of a Series B Qualified IPO; and (ii) the written consent of the majority of the issued and outstanding Preferred B-2 Shares and Preferred B Shares (on an as converted basis), provided that such majority includes a certain investor. Per the Articles, a Series B Qualified IPO is defined as an IPO yielding at least \$30 million net cash to the Company at a price per share which is at least five times the Original B Issue Price.

All issued and outstanding Series C Preferred Shares shall automatically be converted into Ordinary Shares (subject to the Articles of Association) at the applicable Conversion Price at the time in effect for such Preferred Share upon the earlier of: (i) the closing of a Qualified IPO; and (ii) the written consent of the majority of the issued and outstanding Series C Preferred Shares (on an as converted basis). All issued and outstanding Series C-1 Preferred Shares shall automatically be converted into Ordinary Shares at the applicable Conversion Price at the time in effect for such Preferred Share upon the earlier of: (i) the closing of a Qualified IPO; and (ii) the written consent of the majority of the issued and outstanding Series C-1 Preferred Shares (on an as converted basis). Per the Articles, a Qualified IPO is defined as an IPO yielding at least \$40 million net cash to the Company at a price per share which is at least five times the Original C-1 Issue Price.

*Classification of Convertible Preferred Shares*—The deemed liquidation preference provisions of the convertible preferred shares are considered contingent redemption provisions that are not solely within the Company's control. Accordingly, the convertible preferred shares have been presented outside of permanent equity in the mezzanine section of the consolidated balance sheets.

**Anti-Dilution Protection:**

Upon the issuance by the Company of any Additional Shares as defined in the Articles of Association, for consideration per share less than the applicable Preferred Conversion Price of such series of Preferred Shares, in effect immediately prior to the time of such issue or sale the Preferred Conversion Price (as such term is defined in the Company's Articles of Association) of any series of Preferred Shares shall be reduced to a number determined by multiplying the applicable Preferred Conversion Price by a fraction, (i) the numerator of which shall be the sum of (A) the number of Ordinary Shares issued and outstanding (on an as converted basis, and treating for this purpose as outstanding all Ordinary Shares issuable upon exercise of options and warrants outstanding immediately prior to such issue or upon conversion or exchange of all convertible securities outstanding (assuming exercise of any options or warrants therefor) immediately prior to such issue) immediately prior to such issuance, plus (B) the number of Ordinary Shares (on an as converted basis) which the aggregate consideration received by the Company for the total number of Additional Shares so issued would purchase at such Preferred Conversion Price (in effect prior to the issuance of such Additional Shares), and (ii) the denominator of which shall be the sum of (A) the number of shares of Ordinary Shares outstanding (on an as converted basis, and treating for this purpose as outstanding all Ordinary Shares issuable upon exercise of options and warrants outstanding immediately prior to such issue or upon conversion or exchange of all convertible securities outstanding (assuming exercise of any options or warrants therefor) immediately prior to such issue) immediately prior to such issue, plus (B) the number of such Additional Shares so issued.

**Notes to the Interim Financial Statements as of December 31, 2020**

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**Note 9 - Ordinary Shares**

Each share of ordinary shares is entitled to one vote. The holders of common shares are also entitled to receive dividends whenever funds are legally available and when declared by the Board of Directors, subject to the prior rights of holders of all classes of shares outstanding.

The Company issued 3,000 and 6,000 shares against options exercised during 2020 and 2019 respectively.

**Note 10 - Shares Option Plan**

In January 2007, the Company's Board of Directors adopted the Company Incentive Option Plan (the "Option Plan"). The Option Plan provides for the grant of share options for the purchase of up to 2,547,004 shares of the Company's ordinary shares by officers, employees, consultants and directors of the Company. As of December 31, 2020 there were 276,775 options available for future grant under the Plan.

Under the Option Plan, the Board of Directors is responsible for administration of the Plan. The Board determines the term of each option, the option exercise price and the number of shares for which each option is granted and the vesting schedule of each option.

The options granted both in 2019 and 2020 were to officers, employees, and directors of the Company. All of the options granted to employees in both years vest over a 4-year period, with 25% thereof vesting on the end of a 12-month period following the date of grant, and the remaining 75% thereof vesting in 12 equal portions at the end of each 3-month period thereafter. Options issued to certain directors in 2019 included vesting on a monthly basis over a 24-month period. Certain other directors during 2019 received options that vested 25% on the end of a 12-month period following the date of grant, and the remaining 75% thereof vesting in 8 equal portions at the end of each 3-month period thereafter. Options issued to a certain director in 2020 included vesting on a monthly basis over a 24-month period.

The following is a summary of shares option activity and related information for the year ended December 31, 2020:

<u>Exercise price range</u>	<u>Number outstanding as of December 31, 2020</u>	<u>Weighted average remaining contractual life (in years)</u>	<u>Number exercisable as of December 31, 2020</u>
\$0.07-\$0.917	2,270,229	5.18	1,345,542



## Notes to the Interim Financial Statements as of December 31, 2020

## Note 11 - Shares Option Plan (cont'd)

The option allotments are as follows:

	Share Options	Weighted average exercise price
<b>Outstanding - December 31, 2018</b>	1,772,196	
Options exercised	(6,125)	\$ 0.917
Options granted	766,350	\$ 0.917
Options forfeited	(662,399)	\$ 0.917
<b>Outstanding - December 31, 2019</b>	1,870,022	
Options exercised	(3,000)	\$ 0.917
Options granted	441,500	\$ 0.07
Options forfeited	(38,293)	\$ 0.43
<b>Outstanding - December 31, 2020</b>	<b>2,270,229</b>	
<b>Exercisable at end of December 31, 2020</b>	1,345,542	
<b>Options available for future grants</b>	276,775	

The Company applies ASC 718 in respect of options granted to employees using the Black-Scholes model and recorded net compensation expense in respect of amortization of \$11 thousand and \$7 thousand for the years ended December 31, 2020 and 2019, respectively, based on the following parameters:

Volatility	35.05%-41.44%
Risk-free interest rate	0.28%-2.54%
Expected dividends	0%
Expected life	5.37-6.11

## Note 12 - Loan Agreements

In July 2014, the Company entered into a line of credit agreement. The borrowing against the line of credit on December 31, 2019 was \$2.0 million of the \$4.0 million total allowed under the line of credit. In 2020 the borrowing limit under the line of credit was raised to \$7.0 million. The line of credit bears interests at the bank's prime rate plus between 1.25% to 1.75%. The company repaid the loan in December 2020 and had no balance outstanding as of December 31, 2020.

During 2018 the Company entered into a loan agreement with Kreos Capital V LP. According to the agreement, the Company received a loan in the amount of \$1.5 million. The loan will be repaid in 36 equal monthly payments of capital and interest of 11.75%. Kreos Capital V LP has a perfected first priority security interest in all assets of the Company. The loan balance as of December 31, 2020 and 2019 amounted to \$456 thousand and \$929 thousand respectively (which includes current maturities of \$456 thousand and \$508 thousand respectively).

**Note 13 - Income Taxes****A. The Company and its subsidiaries**

1. Measurement of taxable income under the Income Tax (Inflationary Adjustments) Law, 1985
2. Corporate tax rate

Capital gains are taxed at the regular corporate tax rates on income in Israel.

In December 2016, the Economic Efficiency Law (Legislative Amendments for Implementing the Economic Policy for the 2017 and 2018 Budget Year), 2016 was published, introducing a gradual reduction in corporate tax rate from 25% to 23%. However, the law also included a temporary provision setting the corporate tax rate in 2017 at 24%. As a result, the corporate tax rate was 24% in 2017 and 23% in 2018 and thereafter.

**B. Details regarding the tax environment of the Group****Benefits under the Law for the Encouragement of Capital Investments**

1. Beneficiary enterprise

An industrial enterprise of PandoLogic Ltd was granted “Beneficiary Enterprise” status in accordance with the Israeli Encouragement Law. PandoLogic Ltd has elected 2010 as the year of election.

The income generated by the “Beneficiary Enterprise” is exempt from tax over a period of two years and is subject to a reduced rate of company tax for a period of up to 8 years, beginning with the year in which the Company first had taxable income. The tax benefit period of the beneficiary enterprise will end in 2020. The benefits are contingent upon compliance with the terms of the Encouragement Law (export rate, etc.). The Company is currently in compliance with these terms.

A company having a beneficiary enterprise that distributes a dividend from exempt income, will be required in the tax year of the dividend distribution to pay company tax on the amount of the dividend distributed (including the company tax required as a result of the distribution) at the tax rate that would have been applicable to it in the year the income was produced if it had not been exempt from tax.

2. Amendment to the Law for the Encouragement of Capital Investments – 1959

On December 21, 2016 the Knesset plenum passed the second and third reading of the Economic Efficiency Law (Legislative Amendments for Achieving Budget Objectives in the Years 2017 and 2018) – 2016 in which the Encouragement Law was also amended (hereinafter: “the Amendment”). The Amendment added new tax benefit tracks for a “preferred technological enterprise” and a “special preferred technological enterprise” which award reduced tax rates to a technological industrial enterprise for the purpose of encouraging activity relating to the development of qualifying intangible assets.

The benefits will be awarded to a “preferred company” that has a “preferred technological enterprise” or a “special preferred technological enterprise” with respect to taxable “preferred technological income” per its definition in the Encouragement Law.

## Notes to the Interim Financial Statements as of December 31, 2020

## Note 13 - Income Tax (cont'd)

## B. Details regarding the tax environment of the Group (cont'd)

**Benefits under the Law for the Encouragement of Capital Investments (cont'd)**Amendment to the Law for the Encouragement of Capital Investments – 1959 (cont'd)

Preferred technological income that meets the conditions required in the law, will be subject to a reduced corporate tax rate of 12%, and if the preferred technological enterprise is located in Development Area A to a tax rate of 7.5%. A company that owns a special preferred technological enterprise will be subject to a reduced corporate tax rate of 6% regardless of the development area in which the enterprise is located. The Amendment is effective as from January 1, 2017.

On May 16, 2017 the Knesset Finance Committee approved Encouragement of Capital Investment Regulations (Preferred Technological Income and Capital Gain of Technological Enterprise) – 2017 (hereinafter: “the Regulations”), which provides rules for applying the “preferred technological enterprise” and “special preferred technological enterprise” tax benefit tracks including the Nexus formula that provides the mechanism for allocating the technological income eligible for the benefits.

The Company elected to apply the benefits of the “preferred technological enterprise” track as of tax year 2021.

## C. Deferred income taxes

	Year ended December 31,	
	2020	2019
	US\$ thousands	US\$ thousands
<b>Deferred tax assets:</b>		
Deferred tax of provision for doubtful debts	53	-
Deferred tax of accrued vacation and convalescence	31	-
Deferred tax of operating loss carry forwards	-	4,883
Total gross deferred tax assets	84	4,883
Less – valuation allowance	-	(4,883)
Net deferred tax assets	84	-
<b>Deferred tax liability</b>	-	-
Net deferred tax liability	-	-

## Notes to the Interim Financial Statements as of December 31, 2020

## Note 13 - Income Tax (cont'd)

## C. Deferred income taxes (cont'd)

The net changes in the total valuation allowance for each of the years ended December 31, 2020 and 2019, are comprised as follows:

US\$ thousands	Year ended December 31,	
	2020	2019
	US\$ thousands	US\$ thousands
Balance at beginning of year	4,883	4,924
Additions during the year from continuing operations	(4,883)	(41)
Balance at end of year	–	4,883

In assessing the reliability of deferred tax assets, management considers whether it is more likely than not that some or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the periods in which those temporary differences or carry-forwards are deductible.

## D. Income tax (expense) benefit included in the consolidated statements of operations are as follows:

	Year ended December 31,	
	2020	2019
	US\$ thousands	US\$ thousands
Previous year taxes	(100)	–
Current	(228)	(105)
Deferred	84	–
Income tax expense	(244)	(105)

## E. Profit from continuing operations before taxes on income consists of the following:

	Year ended December 31,	
	2020	2019
	US\$ thousands	US\$ thousands
Israel	31,857	143
Non-Israel	844	300
	32,701	443

## Notes to the Interim Financial Statements as of December 31, 2020

## Note 13 - Income Tax (cont'd)

## F. Tax assessments:

The Company has final assessments for the year 2015.

## G. Theoretical tax:

The main reconciling item from the statutory tax rate of the Company to the effective tax rate are changes in valuation allowances provided for deferred tax assets.

## Note 14 - Supplemental Operational Data

## A. Research and Development Expenses

	Year ended December 31, 2020	Year ended December 31, 2019
	US\$ thousands	US\$ thousands
Salaries and related expenses	4,273	2,895
Subcontractors and consulting	229	62
Office rent and maintenance	110	153
Computer services	138	77
Communication	3	6
Car maintenance	89	96
Depreciation	55	66
Other	113	124
	<u>5,010</u>	<u>3,479</u>

## B. Sales and Marketing Expenses

	Year ended December 31, 2020	Year ended December 31, 2019
	US\$ thousands	US\$ thousands
Salaries and related expenses	4,116	2,517
Professional Service	79	49
Sales incentive	37	124
Office rent and maintenance	310	203
Computer services	109	138
Advertising	438	155
Communication	33	26
Travel expenses	17	99
Depreciation	55	21
Other	41	25
	<u>5,235</u>	<u>3,357</u>

## Notes to the Interim Financial Statements as of December 31, 2020

## Note 14 - Supplemental Operational Data (cont'd)

## C. General and Administrative Expenses

	Year ended December 31, 2020	Year ended December 31, 2019
	US\$ thousands	US\$ thousands
Salaries and related expenses	1,775	1,037
Professional services	294	178
Office supply	16	13
Communication	9	14
Office rent and maintenance	46	95
Computer services	229	66
Travel expenses	17	27
Insurances	31	27
Depreciation	4	9
Doubtful and bad debts	474	190
Other	90	123
	<b>2,985</b>	<b>1,779</b>

## Note 15 - Finance Expenses, net

	Year ended December 31, 2020	Year ended December 31, 2019
	US\$ thousands	US\$ thousands
Exchange rate differences, net	25	82
Expenses from interest	190	224
Finance expenses, net	<b>215</b>	<b>306</b>

## Note 16 - Subsequent Events

On May 20, 2021 the Company acquired the assets and certain liabilities of Wade & Wendy, a privately-owned, Delaware corporation for approximately \$6 million plus an additional \$4 million in potential milestone payments. The purchase price was comprised of cash, preferred junior A shares and ordinary shares of the Company. The potential milestone payments would be based on certain performance provisions which if fully met would result in the issuance of up to 136,820 in preferred junior A shares of the Company and up to 45,607 ordinary shares. The preferred junior A class of shares were newly issued in conjunction with the transaction. The preferred junior A shares are non-participating and, after the completion of distribution of any proceeds to all other classes of preferred stock, would be entitled to receive, prior and in preference to any distribution of any of the proceeds to the holders of Ordinary Shares of the Company. The acquisition will be accounted for as a business combination.