

Long-Term Stock Exchange, Inc.

Date of filing: April 3, 2019

Date as of which the information is accurate: April 3, 2019

**Exhibit D**

**For each subsidiary or affiliate of the exchange, provide unconsolidated financial statements for the latest fiscal year. Such financial statements shall consist, at a minimum, of a balance sheet and an income statement with such footnotes and other disclosures as are necessary to avoid rendering the financial statements misleading. If any affiliate or subsidiary is required by another Commission rule to submit annual financial statements, a statement to that effect, with a citation to the other Commission rule, may be provided in lieu of the financial statements required here.**

LTSE Group, Inc., an affiliate of the applicant, was not formed until February 2019. Accordingly, interim financial statements will be provided following its first month of operations.

Audited Financial Statements of LTSE Holdings, Inc. for the fiscal year ending 12/31/18.....D-1

**Addendum D-1**

LTSE Holdings, Inc. Audited

Financial Statements

**LTSE Holdings, Inc.**

Financial Statements

December 31, 2018 and 2017



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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
LTSE Holdings, Inc.  
San Francisco, California

We have audited the accompanying financial statements of LTSE Holdings, Inc. (a Delaware corporation), which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of operations, stockholders' equity, and cash flows for the year ended December 31, 2018 and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of LTSE Holdings, Inc. as of December 31, 2018 and 2017, 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.

*Armanino LLP*

Armanino<sup>LLP</sup>  
San Francisco, California

March 21, 2019

LTSE Holdings, Inc.  
Balance Sheets  
December 31, 2018 and 2017

	2018	2017
ASSETS		
Current assets		
Cash	\$ 6,654,089	\$ 11,882,270
Related party notes receivable	152,023	120,000
Related party interest receivable	16,500	9,469
Prepaid expenses	-	12,787
Total current assets	6,822,612	12,024,526
Other assets		
Intercompany receivables	449,980	624,980
Investments in subsidiaries	20	20
Other assets	74,523	41,923
Total other assets	524,523	666,923
Total assets	\$ 7,347,135	\$ 12,691,449

The accompanying notes are an integral part of these financial statements.

LTSE Holdings, Inc.  
Balance Sheets  
December 31, 2018 and 2017

	2018	2017
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 360,422	\$ 237,532
Accrued expenses	<u>103,557</u>	<u>282,706</u>
Total current liabilities	<u>463,979</u>	<u>520,238</u>
<b>Stockholders' equity</b>		
Common stock; \$0.001 par value; 70,635,029 shares authorized:		
Class A common stock; \$0.0001 par value; 14,937,500 shares designated, and 11,337,500 shares issued and outstanding at December 31, 2018 and 2017	1,134	1,134
Class B common stock; \$0.0001 par value; 55,697,529 shares designated, and 893,571 shares issued and outstanding at December 31, 2018 and 2017	90	90
Preferred stock; \$0.001 par value; 28,583,611 shares authorized:		
Founders convertible preferred stock; \$0.0001 par value; 3,600,000 shares designated, issued, and outstanding at December 31, 2018 and 2017	360	360
Series A-1 convertible preferred stock; \$0.0001 par value; 1,292,445 shares designated, issued, and outstanding at December 31, 2018 and 2017	129	129
Series A-2 convertible preferred stock; \$0.0001 par value; 1,317,564 shares designated, issued, and outstanding at December 31, 2018 and 2017	132	132
Series A-3 convertible preferred stock; \$0.0001 par value; 3,003,032 shares designated, issued, and outstanding at December 31, 2018 and 2017	300	300
Series A-4 convertible preferred stock; \$0.0001 par value; 575,902 shares designated, issued, and outstanding at December 31, 2018 and 2017	58	58
Series A-5 convertible preferred stock; \$0.0001 par value; 273,666 shares designated, issued, and outstanding at December 31, 2018 and 2017	27	27
Series A-6 convertible preferred stock; \$0.0001 par value; 3,638,729 shares designated, issued, and outstanding at December 31, 2018 and 2017	364	364
Series A-7 convertible preferred stock; \$0.0001 par value; 55,697,529 shares designated at December 31, 2018 and 2017; 14,882,273 and 15,008,856 shares issued and outstanding at December 31, 2018 and 2017, respectively	1,489	1,501
Additional paid-in capital	19,520,356	19,429,257
Accumulated deficit	<u>(12,641,283)</u>	<u>(7,262,141)</u>
Total stockholders' equity	<u>6,883,156</u>	<u>12,171,211</u>
 Total liabilities and stockholders' equity	 <u>\$ 7,347,135</u>	 <u>\$ 12,691,449</u>

The accompanying notes are an integral part of these financial statements.

LTSE Holdings, Inc.  
Statement of Operations  
For the Year Ended December 31, 2018

Revenue	<u>\$ 10,900</u>
Operating expenses	
General and administrative	2,304,753
Legal and regulatory	1,358,583
Sales and marketing	323,001
Research and development	<u>1,548,961</u>
Total operating expenses	<u>5,535,298</u>
Loss from operations	<u>(5,524,398)</u>
Other income (expense)	
Interest income	151,672
Other expenses	<u>(5,500)</u>
Total other income (expense), net	<u>146,172</u>
Loss before provision for income taxes	(5,378,226)
Income taxes	<u>916</u>
Net loss	<u><u>\$ (5,379,142)</u></u>

The accompanying notes are an integral part of these financial statements.

LTSE Holdings, Inc.  
 Statements of Stockholders' Equity  
 For the Years Ended December 31, 2018 and 2017

	Class A Common Stock		Class B Common Stock		Founders Convertible Preferred Stock		Series A Convertible Preferred Stock		Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Total
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
Balance, January 1, 2017	11,337,500	\$ 1,134	196,571	\$ 20	3,600,000	\$ 360	24,441,837	\$ 2,444	\$ 18,698,369	\$ (2,261,351)	\$ 16,440,976
Sale of Series A-7 Convertible Preferred Stock less issuance costs of \$17,647	-	-	-	-	-	-	541,744	54	517,301	-	517,355
Class B Common Stock issued on exercise of options	-	-	697,000	70	-	-	-	-	146,300	-	146,370
Repurchase liability for early-exercised options	-	-	-	-	-	-	-	-	(147,153)	-	(147,153)
Issuance of Series A-7 Convertible Preferred Stock for contract considerations	-	-	-	-	-	-	126,583	13	124,988	-	125,001
Stock-based compensation expense	-	-	-	-	-	-	-	-	89,452	-	89,452
Net loss	-	-	-	-	-	-	-	-	-	(5,000,790)	(5,000,790)
Balance, December 31, 2017	<u>11,337,500</u>	<u>\$ 1,134</u>	<u>893,571</u>	<u>\$ 90</u>	<u>3,600,000</u>	<u>\$ 360</u>	<u>25,110,164</u>	<u>\$ 2,511</u>	<u>\$ 19,429,257</u>	<u>\$ (7,262,141)</u>	<u>\$ 12,171,211</u>

The accompanying notes are an integral part of these financial statements.

LTSE Holdings, Inc.  
 Statements of Stockholders' Equity  
 For the Years Ended December 31, 2018 and 2017

	Class A Common Stock		Class B Common Stock		Founders Convertible Preferred Stock		Series A Convertible Preferred Stock		Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Total
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
Balance, December 31, 2017	11,337,500	\$ 1,134	893,571	\$ 90	3,600,000	\$ 360	25,110,164	\$ 2,511	\$ 19,429,257	\$ (7,262,141)	\$ 12,171,211
Additional issuance costs for Series A-7 Convertible Preferred Stock recorded	-	-	-	-	-	-	-	-	(5,973)	-	(5,973)
Issuance of Series A-7 Convertible Preferred Stock for contract consideration	-	-	-	-	-	-	126,583	13	124,988	-	125,001
Cancellation of shares of Series A-7 Convertible Preferred Stock in conjunction with settlement agreement	-	-	-	-	-	-	(253,166)	(25)	(249,976)	-	(250,001)
Issuance of warrants for Class B Common Stock	-	-	-	-	-	-	-	-	5,500	-	5,500
Vesting of early-exercised options	-	-	-	-	-	-	-	-	44,542	-	44,542
Simple agreements for equity issued	-	-	-	-	-	-	-	-	100,000	-	100,000
Stock-based compensation expense	-	-	-	-	-	-	-	-	72,018	-	72,018
Net loss	-	-	-	-	-	-	-	-	-	(5,379,142)	(5,379,142)
Balance, December 31, 2018	<u>11,337,500</u>	<u>\$ 1,134</u>	<u>893,571</u>	<u>\$ 90</u>	<u>3,600,000</u>	<u>\$ 360</u>	<u>24,983,581</u>	<u>\$ 2,499</u>	<u>\$ 19,520,356</u>	<u>\$ (12,641,283)</u>	<u>\$ 6,883,156</u>

The accompanying notes are an integral part of these financial statements.

LTSE Holdings, Inc.  
Statement of Cash Flows  
For the Year Ended December 31, 2018

Cash flows from operating activities	
Net loss	\$ (5,379,142)
Adjustments to reconcile net loss to net cash used in operating activities	
Stock-based compensation	72,018
Warrant expense	5,500
Changes in operating assets and liabilities	
Notes receivable	(32,023)
Interest receivable	(7,031)
Prepaid expenses	12,787
Intercompany receivables	50,000
Other assets	(32,600)
Accounts payable	167,432
Accrued expenses	<u>(179,149)</u>
Net cash used in operating activities	<u>(5,322,208)</u>
Cash flows from financing activities	
Additional issuance costs for Series A-7 Convertible Preferred Stock	(5,973)
Simple agreements for equity issued	<u>100,000</u>
Net cash provided by financing activities	<u>94,027</u>
Net decrease in cash and cash equivalents	(5,228,181)
Cash and cash equivalents, beginning of year	<u>11,882,270</u>
Cash and cash equivalents, end of year	<u><u>\$ 6,654,089</u></u>
Supplemental disclosure of cash flow information	
Cash paid during the year for taxes	\$ 800

The accompanying notes are an integral part of these financial statements.

LTSE Holdings, Inc.  
Notes to Financial Statements  
December 31, 2018 and 2017

1. NATURE OF OPERATIONS

LTSE Holdings, Inc. (the "Company") was incorporated in Delaware in 2012. The Company represents a coalition of other companies and like-minded investors who are committed to restoring trust and prioritizing value creation in the capital markets. The Company's innovative governance model aims to establish new rules of engagement to enable the building of lasting businesses, and the Company's software tools facilitate alignment and partnership to and through the initial public offering. The Company has submitted an application with the SEC to become a national securities exchange and currently serves over twenty thousand companies with its software. As of December 31, 2018 and 2017, the Company had two wholly-owned subsidiaries: LTSE Listings, Inc. ("LTSE Listings") and Long-Term Stock Exchange, Inc. ("LTSE").

The Company's financial statements are not consolidated with either LTSE Listings or LTSE.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Going concern

The Company has incurred operating losses and negative cash flows from operations since its inception. As of December 31, 2018 and 2017, the Company had an accumulated deficit of approximately \$12,382,000 and \$7,003,000, respectively. Such conditions raise substantial doubt about the Company's ability to continue as a going concern.

To date, the Company has primarily financed its operations through private placement of equity securities. As of December 31, 2018, the Company has submitted an application with the SEC to become a national securities exchange, and beginning in 2019, the Company's management projects the Company will begin its operation as a national securities exchange. Once operational, the Company also projects the resulting revenue plus cash on-hand as of December 31, 2018 to be sufficient to fund operations through at least twelve months subsequent to the issuance of these financial statements. Thereafter, the Company's projections indicate the Company's operations are expected to be cash-flow positive.

Failure to execute on management's plans described above, manage discretionary expenditures or, if necessary, raise additional financing, will adversely impact the Company's ability to achieve its intended business objectives and continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Use of estimates

The preparation of the Company's financial statements in conformity accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. These estimates are based on information available as of the date of the financial statements; therefore, actual results could differ from those estimates.

LTSE Holdings, Inc.  
Notes to Financial Statements  
December 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

The Company considers all highly liquid financial instruments purchased with original maturities of three months or less to be cash equivalents. As of December 31, 2018 and 2017, cash and cash equivalents consist of cash deposited with banks.

Concentration of credit risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents. The Company maintains its cash and cash equivalents with one financial institution and such amounts exceed federally insured limits. At December 31, 2018 and 2017, the Company had a cash balance of \$6,654,089 and \$11,882,270, respectively, with the financial institution. The Company has not experienced any losses on its cash and cash equivalents.

The Company is subject to risks common to companies in the software development industry including, but not limited to, new technological innovations, dependence on key personnel, protection of proprietary technology, and product liability. There can be no assurance that the Company's products or services will be accepted in the marketplace. Nor can there be any assurance that any future products or services can be developed or deployed at an acceptable cost and with appropriate performance characteristics, or that such products or services will be successfully marketed, if at all. These factors could have a materially adverse effect on the Company's future financial results, financial position and cash flows.

Notes receivable

Periodically, the Company will issue notes receivable to selected employees to either meet personal financial need or to assist with the exercise of equity options in the Company. All notes receivable issued bear a reasonable fixed rate of interest which compounds annually, as determined by the Company's Board of Directors, and all principal plus accrued but unpaid interest is due either three or four years after issuance and there is no early payment penalty. In accordance with U.S. GAAP, when a note receivable is issued for the exercise of the Company's equity, the Company records neither the note receivable nor the associated equity. However, upon repayment of any notes receivable issued for the exercise of the Company's equity, the issuance of the equity will be recorded by the Company.

Revenue recognition

As of December 31, 2018 all of the Company's commercial products are freeware and the only revenue recognized is from the Company's agreement with a third-party. Under the agreement, the Company invoices the third-party for each 409A valuation performed by the third-party which was originated from one of the Company's freeware products. Because the Company has no other performance obligations, revenue is recognized upon invoicing.

As of December 31, 2018 all invoices from the Company to the third-party have been paid.

LTSE Holdings, Inc.  
Notes to Financial Statements  
December 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development

Research and development costs are charged to operations as incurred. Research and development costs include, but are not limited to, payroll and personnel expenses, and consulting costs.

Stock-based compensation

The Company estimates the fair value of each employee stock option on the date of grant using the Black-Scholes-Merton option pricing model which is recorded as stock-based compensation over the requisite service period. The model requires management to make a number of assumptions including expected volatility, expected life, risk-free interest rate, and expected dividends.

Given the Company's limited history, the Company used comparable companies' calculated historical volatility to estimate the Company's expected volatility.

The expected life of the options is based on the average period the stock options are expected to remain outstanding based on the options' vesting terms and contractual terms.

The risk-free interest rate assumption is based on published interest rates for United States Treasury zero-coupon issues with a remaining term approximately equal to the expected life assumed at the date of grant appropriate for the terms of the Company's stock options granted.

The dividend yield assumption is based on the Company's history and expectation of no dividend payouts.

The Company accounts for forfeitures of granted stock options when they actually occur.

Income taxes

The Company accounts for income taxes using the asset and liability method, whereby, deferred tax asset and liability account balances are determined based on temporary differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. A valuation allowance is established when management estimates that it is more likely than not that deferred tax assets will not be realized. Realization of deferred tax assets is dependent upon future pretax earnings, the reversal of temporary differences between book and tax income, and the expected tax rates in future periods.

LTSE Holdings, Inc.  
Notes to Financial Statements  
December 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes (continued)

The Company is required to evaluate the tax positions taken in the course of preparing its tax returns to determine whether tax positions are more-likely-than-not to be sustained by the applicable tax authority. Tax benefits of positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax expense in the current year. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount that is initially recognized.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Act") was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, the transition of federal international taxation from a world-wide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017. The Company has calculated the impact of the Act in its year end income tax provision in accordance with its understanding of the Act and guidance available as of the date of this filing.

In December 2017, the SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118") which allows the Company to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. Since the Act was passed late in the fourth quarter of 2017, and ongoing guidance and accounting interpretation are expected over the next 12 months, the Company both considers the accounting of the transition tax and deferred tax re-measurements to be incomplete due to the forthcoming guidance and the Company's ongoing analysis of final year-end data and tax positions and believes the Financial Accounting Standards Board will also support this use of SAB 118 relative to the Act. The Company expects to complete their analysis within the measurement period in accordance with SAB 118.

3. NOTES RECEIVABLE

In May 2016, the Company issued total notes receivable of \$384,640 to three employees to purchase 4,808,000 shares of Class B Common Stock. All the notes bear an annual interest rate of 1.43%, compounding annually, and are due in May 2020. As of December 31, 2018 and 2017, no principal has been repaid and total accrued interest on the notes was \$14,585 and \$8,956, respectively.

LTSE Holdings, Inc.  
Notes to Financial Statements  
December 31, 2018 and 2017

3. NOTES RECEIVABLE (continued)

In August 2016, the Company issued a note receivable to an employee for \$60,000. The note receivable is due in August 2019 and bears an annual interest rate of 0.61%, compounding annually. In 2018, the Company forgave \$38,325 of principal and recorded the forgiveness as a bonus to the employee and paid all taxes associated with the bonus. In turn, the Company recorded a receivable of \$10,348 for the employee's portion of the taxes on the bonus which was outstanding as of December 31, 2018 and was paid by the employee in February 2019. As of December 31, 2018 and 2017, no remaining principal has been repaid and total accrued interest on the notes was \$865 and \$496, respectively.

In December 2017, the Company issued a note receivable to an employee for \$60,000. The note receivable is due in December 2020 and bears an annual interest rate of 0.61%, compounding annually. As of December 31, 2018 and 2017, no principal has been repaid and total accrued interest on the note was \$383 and \$17, respectively.

In July 2018, the Company issued a note receivable to an employee for \$60,000. The note receivable is due in July 2021 and bears an annual interest rate of 2.34%, compounding annually. As of December 31, 2018, no principal has been repaid and total accrued interest on the note was \$667.

4. INTERCOMPANY RECEIVABLES AND INVESTMENTS

Intercompany receivables consisted of the following:

	2018	2017
LTSE Listings, Inc.	\$ 449,990	\$ 624,990
Long-Term Stock Exchange, Inc.	(10)	(10)
	\$ 449,980	\$ 624,980

As of December 31, 2018 and 2017, the Company had recorded its investment in LTSE Listings and LTSE of \$10 and \$10, respectively.

5. ACCRUED EXPENSES

Accrued expenses consisted of the following:

	2018	2017
Bank account overdraft	\$ -	\$ 135,553
Accrued credit card	946	-
Repurchase liability	102,611	147,153
	\$ 103,557	\$ 282,706

LTSE Holdings, Inc.  
Notes to Financial Statements  
December 31, 2018 and 2017

6. COMMITMENTS AND CONTINGENCIES

As of December 31, 2018, the Company has three operating leases which expire at various times during 2019. Lease payments due under noncancelable lease agreements in 2019 total \$251,447.

7. STOCKHOLDERS' EQUITY

Common stock

The Company has reserved shares of Class B Common Stock for issuance for the following purposes at December 31, 2018:

Class A Common Stock*	11,337,500
Founders Convertible Preferred Stock*	3,600,000
Series A-1 Convertible Preferred Stock ("Series A-1")	1,292,445
Series A-2 Convertible Preferred Stock ("Series A-2")	1,317,564
Series A-3 Convertible Preferred Stock ("Series A-3")	3,003,032
Series A-4 Convertible Preferred Stock ("Series A-4")	575,902
Series A-5 Convertible Preferred Stock ("Series A-5")	273,666
Series A-6 Convertible Preferred Stock ("Series A-6")	3,638,729
Series A-7 Convertible Preferred Stock ("Series A-7")	14,882,273
Warrants	<u>1,009,646</u>
	<u><u>40,930,757</u></u>

\* See conversion rights below for more detail

Convertible preferred stock

A summary of the preferred stock shares designated, issued, and outstanding as of December 31, 2018 is as follows:

	<u>Shares Designated</u>	<u>Shares Issued and Outstanding</u>	<u>Original Issuance Price</u>	<u>Liquidation Preference Value</u>
Founders Convertible Preferred Stock	3,600,000	3,600,000	\$ 0.0001	\$ -
Series A-1	1,292,445	1,292,445	\$ 0.1973	254,999
Series A-2	1,317,564	1,317,564	\$ 0.2960	389,999
Series A-3	3,003,032	3,003,032	\$ 0.3946	1,184,996
Series A-4	575,902	575,902	\$ 0.4341	249,999
Series A-5	273,666	273,666	\$ 0.4933	134,999
Series A-6	3,638,729	3,638,729	\$ 0.5919	2,153,764
Series A-7	<u>20,253,165</u>	<u>14,882,273</u>	\$ 0.9875	<u>14,696,245</u>
	<u><u>33,954,503</u></u>	<u><u>28,583,611</u></u>		<u><u>\$ 19,065,001</u></u>

LTSE Holdings, Inc.  
Notes to Financial Statements  
December 31, 2018 and 2017

7. STOCKHOLDERS' EQUITY (continued)

Convertible preferred stock (continued)

Class A and B Common Stock, Series A-1 thru A-7 (collectively "Series A"), and Founders Convertible Preferred Stock rights, preferences, and privileges are as follows:

- *Liquidation preference* - In the event of liquidation, the holders of outstanding shares of Series A shall be entitled to receive, prior and in preference to any distribution of any of the assets of the Company to the holders of Founders Convertible Preferred Stock and common stock, an amount per share equal to their respective original issuance price per share, plus any declared and unpaid dividends thereon. Any remaining assets of the Company shall be distributed to the holders of outstanding shares of Founders Convertible Preferred Stock (on an as-converted basis) and common stock on a pro rata basis. If, however, the assets to be distributed are insufficient to permit the required payment to the holders of outstanding shares of Series A, then the entire assets of the Company shall be distributed amongst the holders of Series A in proportion to the preferential amount each such holder is otherwise entitled to receive. Liquidation is deemed to occur if the Company shall (i) sell, convey, exclusively license or otherwise dispose of all or substantially all of its assets, property, or business, (ii) merge with or into or consolidate with any other entity, or (iii) effect a liquidation, dissolution or winding up of the Company pursuant to the applicable laws of the state of incorporation.
- *Conversion rights* - Each share of outstanding Series A shall be convertible at the option of the holder thereof into shares of Class B Common Stock as is determined by dividing the applicable original issuance price (as adjusted for any stock splits, stock dividends, or the like) for each respective series of Series A. Each outstanding share of Series A shall be automatically converted into shares of Class B Common Stock as described above in the event of (i) the Company's sale in a firm commitment underwritten public offering where the price per share is not less than \$4.9375 per share (as adjusted for stock splits, stock dividends, or the like) and aggregate proceeds are not less than \$25,000,000, net of underwriting discounts and commissions, or (ii) the holders of a majority of the outstanding shares of Series A vote on an as-converted basis to do so.

Each share of outstanding Founders Convertible Preferred Stock shall be convertible at the option of the holder thereof into shares of Class A Common Stock as is determined by dividing \$0.0001 (as adjusted for any stock splits, stock dividends, or the like) by the original issuance price. Any transfer of shares of Founders Convertible Preferred Stock that is neither (i) made in connection with an equity financing, nor (ii) approved by a majority of the Company's Board of Directors shall be deemed to convert into shares of Class B Common Stock as is determined by dividing \$0.0001 (as adjusted for any stock splits, stock dividends, or the like) by the original issuance price. Each outstanding share of Founders Convertible Preferred Stock shall be automatically converted into shares of Class A Common Stock as described above in the event of (i) the Company's sale in a firm commitment underwritten public offering as described above, or (ii) the holders of a majority of the outstanding shares of Founders Convertible Preferred Stock vote to do so.

LTSE Holdings, Inc.  
Notes to Financial Statements  
December 31, 2018 and 2017

7. STOCKHOLDERS' EQUITY (continued)

Convertible preferred stock (continued)

Each share of outstanding Class A Common Stock shall be convertible at the option of the holder thereof into Class B Common Stock. Each share of Class A Common Stock shall be automatically converted into Class B Common Stock upon the transfer of such shares, except in certain circumstances detailed in the Company's Articles of Incorporation.

- *Dividends* - The holders of outstanding shares of Series A shall be entitled to receive dividends, when, as and if declared by the Company's Board of Directors, in preference and priority to any declaration or payment of any dividend on either Founders Convertible Preferred Stock or common stock at a rate of 8% of the respective original issuance price per share per annum. After the payment of such dividends, any additional dividends shall be distributed amongst the holders of Series A, Founders Convertible Preferred Stock, and common stock pro rata based on the number of shares of common stock then held on an as-converted basis.

Furthermore, any dividends declared on outstanding shares of Class A Common Stock shall also be paid on outstanding shares of Class B Common Stock while any dividends declared on outstanding shares of Class B Common Stock are not required to be paid on outstanding Shares of Class A Common Stock.

Dividends are not cumulative.

- *Redemption* - Neither Series A nor Founders Convertible Preferred Stock is redeemable.
- *Voting rights* - Each share of outstanding Series A shall be entitled to the number of votes equal to the number of shares of Class B Common Stock into which shares of Series A may be converted.

Each share of outstanding Founders Convertible Preferred Stock shall be entitled to the same number of votes as the holders of common stock into which such shares could then be directly converted.

Each share of Class A and B Common Stock shall be entitled to ten and one vote, respectively, and in all cases, fractional votes are not permitted and any fractional shares shall be rounded down to the nearest whole number.

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7. STOCKHOLDERS' EQUITY (continued)

Convertible preferred stock (continued)

- *Protective provisions* - If the Company issues, or is deemed to issue, common stock for a price less than the applicable original issuance price for the respective Series A in effect immediately prior to the issuance of such common stock (adjusted for any stock splits, stock dividends, or the like), the conversion price for such series in effect immediately prior to each issuance shall automatically be adjusted, except for: (a) common stock issued for the conversion of Founders Convertible Preferred Stock, Series A, (b) securities issued primarily for the purpose of a (i) joint venture, technology licensing, or development activities, (ii) distribution, supply or manufacture of the Company's products or services, or (iii) any other arrangements involving corporate partners that are primarily for purposes other than raising capital, or (c) securities for whom the anti-dilution provisions have been waived by a vote of a majority of both the holders of Series A on an as-converted basis and, specifically, the holders of Series A-7.

Warrants

In December 2016, the Company issued warrants to a third-party for the purchase of 917,175 shares of Class B Common Stock at \$0.01 per share. The warrants expire in December 2026 and have been classified by the Company as equity. When the warrant was issued, the Company valued the warrant at \$192,607 and recorded the warrant to additional paid-in capital and other expense.

In December 2016, the Company issued warrants to a third-party for the purchase of 67,471 shares of Series A-1 at \$0.9875 per share. The warrants expire in December 2026 and have been classified by the Company as equity. When the warrant was issued, the Company valued the warrant at \$66,628 and recorded the warrant to additional paid-in capital and other expense.

In August 2018, the Company issued warrants to a third-party for the purchase of 25,000 shares of Class B Common Stock at \$0.22 per share. The warrants expire in December 2028 and have been classified by the Company as equity. During 2018 the Company calculated the value of the warrant at \$5,500 and recorded the warrant to additional paid-in capital and other expense.

Simple agreement for equity issuance

During the issuance of Series A-1 thru A-6, the Company raised approximately \$4,400,000 of total proceeds via simple agreements for equity ("SAFE"). Although the SAFEs were issued in advance of each respective round of financing, none accrued interest. However, each SAFE agreement included provisions which allowed the respective holder to convert into additional shares of the respective round of Series A based on the Company's total capitalization as defined in the respective agreement. Because no additional issuances were made to the holders of Series A SAFEs, no beneficial conversion feature was recorded by the Company.

LTSE Holdings, Inc.  
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7. STOCKHOLDERS' EQUITY (continued)

Simple agreement for equity issuance (continued)

During the year ended December 31, 2018 the Company issued SAFEs totaling \$100,000 to two investors which will convert into the Company's next round of convertible preferred stock financing, and based capitalization requirements set forth in the respective agreements, each holder will have the right to convert into additional shares of the Company's next round of convertible preferred stock financing if certain capitalization thresholds set forth in the respective agreements are met.

8. STOCK-BASED COMPENSATION

In 2016, the Company established the 2016 Stock Plan, which provides for the grant of incentive stock options, non-statutory stock options, and restrictive stock. The Company's Board of Directors has the authority to approve the employees and non-employees to whom options are granted and determine the terms of each option, including (i) the number of shares of common stock subject to the option; (ii) when the option becomes exercisable; (iii) the option exercise price (which shall not be less than 100% of the fair market value of the common stock as of the date of the grant for incentive and non-statutory stock options or less than 110% of the fair value for stockholders owning greater than 10% of all classes of stock). Options are exercisable over periods not to exceed ten years (five years for incentive stock options granted to holders of 10% or more of all classes of stock) from the date of grant. Generally, options vest over a four year period.

Option activity

Activity of shares outstanding under the stock option plan are as follows for the year ended December 31, 2017:

	Shares available for grant	Outstanding stock awards	Weighted average exercise price	Weighted average remaining contractual life (years)
Balance, January 1, 2017	3,562,320	1,920,206	\$ 0.10	9.65
Granted	(2,675,403)	2,675,403	\$ 0.21	-
Exercised	-	(697,000)	\$ 0.21	-
Forfeited	<u>586,180</u>	<u>(586,180)</u>	<u>\$ 0.22</u>	<u>-</u>
Balance, December 31, 2017	<u>1,473,097</u>	<u>3,312,429</u>	<u>\$ 0.15</u>	<u>8.99</u>

LTSE Holdings, Inc.  
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8. STOCK-BASED COMPENSATION (continued)

Option activity (continued)

Activity of shares outstanding under the stock option plan are as follows for the year ended December 31, 2018:

	<u>Shares available for grant</u>	<u>Outstanding stock awards</u>	<u>Weighted average exercise price</u>	<u>Weighted average remaining contractual life (years)</u>
Balance, January 1, 2018	1,473,097	3,312,429	\$ 0.15	8.99
Authorized	2,584,551	-	\$ -	-
Granted	(4,014,959)	4,014,959	\$ 0.22	-
Forfeited	<u>389,585</u>	<u>(389,585)</u>	<u>\$ 0.22</u>	<u>-</u>
Balance, December 31, 2018	<u>432,274</u>	<u>6,937,803</u>	<u>\$ 0.19</u>	<u>8.97</u>
Exercisable, December 31, 2018		<u>1,897,949</u>	<u>\$ 0.14</u>	<u>8.03</u>
Exercisable and expected to vest, December 31, 2018		<u>6,454,623</u>	<u>\$ 0.18</u>	<u>8.94</u>

The intrinsic value of options exercised for the year ended December 31, 2017 amounted to \$6,970. There were no options exercised during the year ended December 31, 2018. Total stock-based compensation expense for the year ended December 31, 2018 was \$72,018, and as of December 31, 2018, unamortized stock-based compensation totaled \$359,098 with a weighted-average remaining life of 4.86 years.

The total fair value of stock options vested during the year ended December 31, 2018 was \$40,223 and the weighted average fair value of stock options granted during 2018 was \$0.06 per share.

Share-based compensation expense is as follows for the year ended December 31, 2018:

General and administrative	\$ 32,106
Legal and regulatory	12,338
Sales and marketing	6,767
Research and development	<u>20,807</u>
	<u>\$ 72,018</u>

LTSE Holdings, Inc.  
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8. STOCK-BASED COMPENSATION (continued)

Option activity (continued)

During the year ended December 31, 2017, certain option holders early exercised and were issued 612,000 shares of the Company's Class B Common Stock. The Company recorded the issuance of the Class B Common Stock to equity and corresponding entries to both a contra-equity account and repurchase liabilities, and as the early-exercised options vest, the Company will reduce the repurchase liability and the contra-equity accounts, respectively. As of December 31, 2018 and 2017, the repurchase liability balance was \$102,611 and \$147,153, respectively.

The assumptions used under the Black-Scholes-Merton option pricing model and the weighted average calculated value of the options are as follows for the year ended December 31, 2018:

Dividend yield	0%
Expected volatility	20%
Expected term (in years)	6.23
Risk-free interest rate	2.8%

9. INCOME TAX

The provision for income tax for the year ended December 31, 2018 consisted of the following:

Current	
State	\$ <u>916</u>

Significant components of the Company's deferred income tax assets are as follows:

	<u>2018</u>	<u>2017</u>
Accruals and reserves	\$ 38,510	\$ 27,365
Intangibles	1,654,789	1,772,887
Net operating losses and credit carryovers	<u>1,824,252</u>	<u>204,426</u>
Total current	3,517,551	2,004,678
Valuation allowance	<u>(3,517,551)</u>	<u>(2,004,678)</u>
Total net deferred tax asset	<u>\$ -</u>	<u>\$ -</u>

LTSE Holdings, Inc.  
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9. INCOME TAX (continued)

At December 31, 2018 and 2017, the Company had net operating loss carry-forwards for federal and state income tax purposes of approximately \$6,168,000 and \$6,188,000, and \$522,000 and \$524,000, respectively, available to reduce future income subject to income taxes. The federal and state net operating loss carry-forwards will begin to expire in 2036. At December 31, 2018 and 2017, the Company also has research credit carry-forwards for federal and California tax purposes of approximately \$14,000 and \$95,000, and \$14,000 and \$55,000, respectively, available to reduce future income subject to income taxes. The federal research credit carry-forwards will begin to expire in 2036 and the California research credits carry forward indefinitely.

The Company believes that, based on a number of factors, it is more likely than not, that all or some portion of the deferred tax assets will not be realized; and, accordingly, for the years ended December 31, 2018, the Company has provided a valuation allowance against the its net deferred tax assets. The net change in the valuation allowance for the years ended December 31, 2018 and 2017 was an increase of approximately \$1,513,000 and \$1,183,000, respectively.

The Internal Revenue Code of 1986, as amended, imposes restrictions on the utilization of net operating losses in the event of an “ownership change” of a corporation. Accordingly, a company’s ability to use net operating losses may be limited as prescribed under Internal Revenue Code Section 382 (“IRC Section 382”). Events which may cause limitations in the amount of the net operating losses that the Company may use in any one year include, but are not limited to, a cumulative ownership change of more than 50% over a three-year period. Utilization of the federal and state net operating losses may be subject to substantial annual limitation due to the ownership change limitations provided by the IRC Section 382 and similar state provisions.

The Company files federal and state income tax returns with varying statutes of limitations. Due to the Company’s net carryover of unused operating losses, all years from 2016 forward remain subject to future examination by tax authorities.

10. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through March 21, 2019, which is the date the financial statements were available to be issued. No events have occurred subsequent to December 31, 2018.