
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended November 30, 2022

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-39348

ACCOLADE, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

01-0969591
(I.R.S. Employer
Identification No.)

1201 Third Avenue, Suite 1700
Seattle, WA 98101
(Address of principal executive offices
including zip code)

Registrant's telephone number, including area code: (206) 926-8100
Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading symbol</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.0001 par value per share	ACCD	The Nasdaq Stock Market LLC (The Nasdaq Global Select Market)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of December 31, 2022, 72,786,747 shares of the registrant's common stock were outstanding.

ACCOLADE, INC.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND RISK FACTOR SUMMARY

This Quarterly Report on Form 10-Q contains forward-looking statements about us and our industry that involve substantial risks and uncertainties. All statements other than statements of historical facts contained in this Quarterly Report on Form 10-Q are forward-looking statements. In some cases, you can identify forward-looking statements because they contain words such as "anticipate," "believe," "contemplate," "continue," "could," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "project," "should," "target," "will," or "would" or the negative of these words or other similar terms or expressions. Forward-looking statements include information related to our financial performance and possible or assumed future results of operations and expenses, our outlook, business strategies and plans, business environment, market size, product capabilities, timing of new product releases, the impact of our focus areas and key initiatives, and potential future growth. Forward-looking statements include all statements that are not historical facts.

You should not rely on forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Quarterly Report on Form 10-Q primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, and operating results. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties, and other factors described in the section titled "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Quarterly Report on Form 10-Q. The results, events, and circumstances reflected in the forward-looking statements may not be achieved or occur, and actual results, events, or circumstances could differ materially from those described in the forward-looking statements.

In addition, statements that "we believe" and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based on information available to us as of the date of this Quarterly Report on Form 10-Q. While we believe that such information provides a reasonable basis for these statements, that information may be limited or incomplete. Our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all relevant information. These statements are inherently uncertain, and investors are cautioned not to unduly rely on these statements.

The forward-looking statements made in this Quarterly Report on Form 10-Q relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Quarterly Report on Form 10-Q to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect new information or the occurrence of unanticipated events, except as required by law. We may not actually achieve the plans, intentions, or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures, or investments we may make.

RISK FACTOR SUMMARY

Investing in our securities involves a high degree of risk. Below is a summary of material factors that make an investment in our securities speculative or risky. Importantly, this summary does not address all of the risks that we face. Additional discussion of the risks summarized in this risk factor summary, as well as other risks that we face, can be found under the heading "Item 1A—Risk Factors," below.

- We have a history of net losses, we anticipate increasing expenses in the future, and we may not be able to achieve or maintain profitability.
- We derive a significant portion of our revenue from our largest customers. The loss of any of these customers, or renegotiation of any of our contracts with these customers, could negatively impact our results.

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- We have a limited operating history with some of our current offerings, in particular those which we have acquired, which makes it difficult to evaluate our current and future business prospects and increases the risk of your investment.
- Our business, results of operations, and financial condition may fluctuate on a quarterly and annual basis, which may result in a decline in our stock price if such fluctuations result in a failure to meet any projections that we may provide or the expectations of securities analysts or investors.
- Our sales cycle can be long and unpredictable and requires considerable time and expense. As a result, our sales, revenue, and cash flows are difficult to predict and may vary substantially from period to period, which may cause our results of operations to fluctuate significantly.
- Certain of our operating results and financial metrics may be difficult to predict as a result of seasonality and due to the fact that a portion of our revenue is subject to the achievement of performance metrics and healthcare cost savings.
- If we fail to effectively manage our growth and organizational change, our mission-driven culture could be impacted, and our business could be harmed.
- If we are unable to attract, integrate, and retain additional qualified personnel, especially for Accolade Health Assistants, clinical, including primary care physicians and medical specialists, and various product and technology roles, our business could be adversely affected.
- We may acquire other companies or technologies, which could divert our management's attention, result in dilution to our stockholders, and otherwise disrupt our operations, and we may have difficulty integrating any such acquisitions successfully or realizing the anticipated benefits therefrom, any of which could have an adverse effect on our business, financial condition, and results of operations.
- We may face intense competition, which could limit our ability to maintain or expand market share within our industry, and if we do not maintain or expand our market share our business and operating results will be harmed.
- The evolving effects of the Coronavirus Disease 2019 (COVID-19) pandemic and associated global economic instability may have further adverse effects on our operations and negatively impact our business, financial condition, and results of operations.
- If we fail to comply with healthcare laws and regulations, we could face substantial penalties and our business could be harmed.

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

ACCOLADE, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets (unaudited)
(In thousands, except share and per share data)

	November 30, 2022	February 28, 2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 325,637	\$ 365,853
Accounts receivable, net	20,483	21,116
Unbilled revenue	3,702	9,685
Current portion of deferred contract acquisition costs	4,075	3,015
Prepaid and other current assets	12,334	9,468
Total current assets	366,231	409,137
Property and equipment, net	13,561	11,797
Operating lease right-of-use assets	30,936	33,126
Goodwill	278,191	577,896
Intangible assets, net	213,574	244,690
Deferred contract acquisition costs	9,981	7,205
Other assets	1,317	1,678
Total assets	<u>\$ 913,791</u>	<u>\$ 1,285,529</u>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 9,987	\$ 7,837
Accrued expenses and other current liabilities	11,026	11,000
Accrued compensation	35,467	39,189
Due to customers	9,244	16,263
Current portion of deferred revenue	43,500	30,875
Current portion of operating lease liabilities	7,392	6,589
Total current liabilities	116,616	111,753
Loans payable, net of unamortized issuance costs	281,914	280,666
Operating lease liabilities	28,849	32,486
Other noncurrent liabilities	203	4,562
Deferred revenue	256	268
Total liabilities	427,838	429,735
Commitments and Contingencies (note 12)		
Stockholders' equity		
Common stock par value \$0.0001; 500,000,000 shares authorized; 72,390,727 and 67,098,477 shares issued and outstanding at November 30, 2022 and February 28, 2022, respectively	7	7
Additional paid-in capital	1,409,807	1,350,431
Accumulated deficit	(923,861)	(494,644)
Total stockholders' equity	485,953	855,794
Total liabilities and stockholders' equity	<u>\$ 913,791</u>	<u>\$ 1,285,529</u>

See accompanying notes to condensed consolidated financial statements.

ACCOLADE, INC. AND SUBSIDIARIES
 Condensed Consolidated Statements of Operations (unaudited)
 (In thousands, except share and per share data)

	<u>Three months ended November 30,</u>		<u>Nine months ended November 30,</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Revenue	\$ 90,946	\$ 83,450	\$ 264,117	\$ 216,265
Cost of revenue, excluding depreciation and amortization	50,412	45,156	147,857	125,426
Operating expenses:				
Product and technology	24,254	22,846	77,265	61,297
Sales and marketing	25,023	24,616	75,573	63,134
General and administrative	20,037	21,464	61,295	69,636
Depreciation and amortization	11,602	11,250	34,749	30,967
Goodwill impairment	—	—	299,705	—
Change in fair value of contingent consideration	—	(68,428)	—	(38,282)
Total operating expenses	<u>80,916</u>	<u>11,748</u>	<u>548,587</u>	<u>186,752</u>
Income (loss) from operations	(40,382)	26,546	(432,327)	(95,913)
Interest income (expense), net	386	(743)	(484)	(2,137)
Other income (expense)	201	25	21	(19)
Income (loss) before income taxes	(39,795)	25,828	(432,790)	(98,069)
Income tax benefit (expense)	(77)	(3,325)	3,573	9,501
Net income (loss)	<u>\$ (39,872)</u>	<u>\$ 22,503</u>	<u>\$ (429,217)</u>	<u>\$ (88,568)</u>
Net income (loss) per share				
Basic	<u>\$ (0.56)</u>	<u>\$ 0.34</u>	<u>\$ (6.07)</u>	<u>\$ (1.41)</u>
Diluted	<u>\$ (0.56)</u>	<u>\$ 0.31</u>	<u>\$ (6.07)</u>	<u>\$ (1.41)</u>
Weighted-average common shares outstanding				
Basic	<u>71,228,351</u>	<u>65,418,728</u>	<u>70,755,157</u>	<u>62,684,823</u>
Diluted	<u>71,228,351</u>	<u>71,490,045</u>	<u>70,755,157</u>	<u>62,684,823</u>

See accompanying notes to condensed consolidated financial statements.

ACCOLADE, INC. AND SUBSIDIARIES
 Condensed Consolidated Statements of Stockholders' Equity (Deficit) (unaudited)
 (In thousands, except shares)

	Stockholders' Equity (Deficit)				
	Common stock Shares	Common stock Amount	Additional paid-in capital	Accumulated deficit	Total
Balance, February 28, 2021	55,699,052	6	762,362	(371,520)	390,848
Issuance of common stock in connection with acquisition	2,822,242	—	116,187	—	116,187
Issuance of replacement awards in connection with acquisition	—	—	1,520	—	1,520
Exercise of stock options and vesting of restricted stock units	236,982	—	2,141	—	2,141
Purchase of capped calls	—	—	(34,503)	—	(34,503)
Issuance of common stock in connection with the employee stock purchase plan	50,516	—	1,948	—	1,948
Stock-based compensation expense	—	—	7,675	—	7,675
Net loss	—	—	—	(48,707)	(48,707)
Balance, May 31, 2021	58,808,792	\$ 6	\$ 857,330	\$ (420,227)	\$ 437,109
Issuance of common stock in connection with acquisition	7,144,393	1	330,337	—	330,338
Issuance of replacement awards in connection with acquisition	—	—	5,209	—	5,209
Exercise of stock options and vesting of restricted stock units	394,815	—	3,491	—	3,491
Stock-based compensation expense	—	—	19,775	—	19,775
Net loss	—	—	—	(62,364)	(62,364)
Balance, August 31, 2021	66,348,000	\$ 7	\$ 1,216,142	\$ (482,591)	\$ 733,558
Issuance of common stock in connection with acquisition	252,808	—	10,068	—	10,068
Exercise of stock options and vesting of restricted stock units	215,181	—	1,833	—	1,833
Issuance of common stock in connection with the employee stock purchase plan	90,322	—	2,361	—	2,361
Stock-based compensation expense	—	—	18,377	—	18,377
Net income	—	—	—	22,503	22,503
Balance, November 30, 2021	66,906,311	\$ 7	\$ 1,248,781	\$ (460,088)	\$ 788,700

ACCOLADE, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Convertible Preferred Stock and Stockholders' Equity (Deficit) (unaudited)
(In thousands, except shares) (continued)

	Stockholders' Equity (Deficit)				
	Common stock		Additional paid-in capital	Accumulated deficit	Total
	Shares	Amount			
Balance, February 28, 2022	67,098,477	7	1,350,431	(494,644)	855,794
Settlement of acquisition-related contingent consideration	1,939,853	—	—	—	—
Exercise of stock options and vesting of restricted stock units	228,701	—	358	—	358
Issuance of common stock in connection with the employee stock purchase plan	343,310	—	1,788	—	1,788
Stock-based compensation expense	—	—	19,389	—	19,389
Net loss	—	—	—	(342,822)	(342,822)
Balance, May 31, 2022	69,610,341	\$ 7	\$ 1,371,966	\$ (837,466)	\$ 534,507
Settlement of acquisition-related contingent consideration	1,327,408	—	—	—	—
Exercise of stock options and vesting of restricted stock units	600,628	—	816	—	816
Stock-based compensation expense	—	—	17,514	—	17,514
Net loss	—	—	—	(46,523)	(46,523)
Balance, August 31, 2022	71,538,377	\$ 7	\$ 1,390,296	\$ (883,989)	\$ 506,314
Exercise of stock options and vesting of restricted stock units	635,315	—	466	—	466
Issuance of common stock in connection with the employee stock purchase plan	217,035	—	1,139	—	1,139
Stock-based compensation expense	—	—	17,906	—	17,906
Net loss	—	—	—	(39,872)	(39,872)
Balance, November 30, 2022	<u>72,390,727</u>	<u>\$ 7</u>	<u>\$ 1,409,807</u>	<u>\$ (923,861)</u>	<u>\$ 485,953</u>

See accompanying notes to condensed consolidated financial statements

ACCOLADE, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows (unaudited)
(In thousands)

	<u>Nine months ended November 30,</u>	
	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Net loss	\$ (429,217)	\$ (88,568)
Adjustments to reconcile net loss to net cash used in		
Operating activities:		
Goodwill impairment	299,705	—
Depreciation and amortization expense	34,749	30,967
Amortization of deferred contract acquisition costs	2,592	1,938
Change in fair value of contingent consideration	—	(38,282)
Deferred income taxes	(3,859)	(9,658)
Noncash interest expense	1,251	1,239
Stock-based compensation expense	54,809	45,827
Changes in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable and unbilled revenue	6,616	(5,743)
Accounts payable and accrued expenses	244	(1,881)
Deferred contract acquisition costs	(6,428)	(3,304)
Deferred revenue and due to customers	5,596	16,316
Accrued compensation	(3,722)	(4,494)
Other liabilities	2,030	(1,047)
Other assets	(2,512)	(3,376)
Net cash used in operating activities	<u>(38,146)</u>	<u>(60,066)</u>
Cash flows from investing activities:		
Purchase of marketable securities	—	(99,998)
Sale of marketable securities	—	99,998
Capitalized software development costs	(2,914)	(619)
Purchases of property and equipment	(1,901)	(2,297)
Cash paid for acquisition, net of cash acquired	—	(260,165)
Net cash used in investing activities	<u>(4,815)</u>	<u>(263,081)</u>
Cash flows from financing activities:		
Proceeds from stock option exercises	1,646	7,042
Payments of equity issuance costs	—	(60)
Payment of debt issuance costs	—	(8,368)
Payment for purchase of capped calls	—	(34,443)
Proceeds from employee stock purchase plan	2,927	3,574
Proceeds from borrowings on debt	—	287,500
Payment of contingent consideration for acquisition	(1,828)	—
Net cash provided by financing activities	<u>2,745</u>	<u>255,245</u>
Net decrease in cash and cash equivalents	<u>(40,216)</u>	<u>(67,902)</u>
Cash and cash equivalents, beginning of period	365,853	433,884
Cash and cash equivalents, end of period	<u>\$ 325,637</u>	<u>\$ 365,982</u>
Supplemental cash flow information:		
Interest paid	\$ 1,539	\$ 880
Fixed assets included in accounts payable	\$ 736	\$ 123
Other receivable related to stock option exercises	\$ —	\$ 521
Income taxes paid	\$ 103	\$ 103
Common stock issued in connection with acquisitions	\$ —	\$ 455,586
Replacement awards issued in connection with acquisitions	\$ —	\$ 6,729

See accompanying notes to condensed consolidated financial statements.

Accolade, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (unaudited)
(in thousands except share and per share data)

(1) Background

Accolade, Inc. (Accolade or together with its subsidiaries, the Company) provides personalized, technology-enabled solutions that help people better understand, navigate, and utilize the healthcare system and their workplace benefits. The Company's customers are primarily employers that contract with Accolade to provide their employees and their employees' families (the members) a single place to turn for their health, healthcare, and benefits needs. The Company also offers expert medical opinion services to employer customers and virtual primary care and mental health support, both directly to consumers and to employer customers. These services are designed to drive better healthcare outcomes and increased satisfaction for the participants while lowering costs for the payor. The Company provides its services to customers throughout the United States. Accolade is co-headquartered in Seattle, Washington and Plymouth Meeting, Pennsylvania.

(2) Basis of Presentation and Summary of Significant Accounting Policies

The Company's significant accounting policies are disclosed in the audited financial statements for the year ended February 28, 2022 appearing in the Company's Annual Report on Form 10-K and filed with the Securities and Exchange Commission (the SEC) on May 2, 2022.

(a) Basis of Presentation and Principles of Consolidation

Accolade's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and include the Company's accounts and those of the Company's wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Through the acquisition of PlushCare, Inc. (PlushCare), the Company has various administrative service agreements (ASA) with professional medical corporations established in California, Illinois, Wyoming, and New Jersey (PC). The PCs employ or contract with medical providers who provide services via the Company's technology platform. The ASAs are evergreen and are terminable by the parties for breach or bankruptcy. Through the ASAs, the Company provides non-clinical administrative services to the PCs and manages the economic activities that most significantly affect PCs. The PCs retain control over the provision of medical services and the PC's clinical personnel.

The PCs are variable interest entities (VIE) to the Company. Under Accounting Standards Codification Subtopic 810 – *Consolidation*, the Company is considered the PC's primary beneficiary because the Company has the power to direct the activities that most significantly impact the VIE's economic performance and absorbs the residual benefits and losses from the VIE's operations. Consequently, the Company consolidates the operations of the PCs. PC assets were \$46,602 as of November 30, 2022. These assets consisted primarily of receivables from PlushCare, Inc. of \$26,226 and cash of \$17,186, which may only be used to settle the obligations of the PCs. PC liabilities were \$27,835 as of November 30, 2022 and consisted primarily of amounts due to Accolade, Inc. of \$22,581.

The PCs and the Company are independent entities, and as such creditors of the PCs do not have recourse against the Company in the event of default by the PCs. Additionally, the PCs' non-cash assets are available to the Company to satisfy obligations or for other corporate purposes.

(b) Unaudited Interim Financial Statements

The accompanying consolidated financial statements and the related footnote disclosures are unaudited. The unaudited consolidated interim financial statements have been prepared on the same basis as the annual audited consolidated financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary for the fair statement of the Company's interim consolidated financial position as of

Accolade, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (unaudited)
(in thousands except share and per share data) (continued)

November 30, 2022, the results of its operations for the three and nine months ended November 30, 2022 and 2021, and its cash flows for the nine months ended November 30, 2022 and 2021. The results for the three and nine months ended November 30, 2022 are not necessarily indicative of results to be expected for the year ending February 28, 2023, any other interim periods, or any future year or period. The Company's management believes that the disclosures are adequate to make the information presented not misleading when read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended February 28, 2022.

(c) Capitalized Internal-Use Software Costs

Costs related to software acquired, developed, or modified solely to meet the Company's internal requirements, including tools that enable the Company's employees to interact with members and their providers, with no substantive plans to market such software at the time of development, are capitalized. Costs incurred during the preliminary planning and evaluation stage of the project and during the post-implementation operational stage are expensed as incurred. Costs related to minor upgrades, minor enhancements, and maintenance activities are expensed as incurred. Costs incurred during the application development stage of the project are capitalized. Internal-use software is included in property and equipment and is amortized on a straight-line basis over 3 years.

For the three months ended November 30, 2022 and 2021, the Company capitalized \$1,941 and \$263, respectively, for internal-use software. For the nine months ended November 30, 2022 and 2021, the Company capitalized \$3,440 and \$619, respectively, for internal-use software. Amortization expense related to capitalized internal-use software during the three months ended November 30, 2022 and 2021 was \$290 and \$290, respectively. Amortization expense related to capitalized internal-use software during the nine months ended November 30, 2022 and 2021 was \$869 and \$2,096, respectively.

(d) Impairment of Long-Lived Assets

The Company reviews long-lived assets, such as property and equipment and finite-lived intangibles, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, then an impairment charge is recognized for the amount by which the carrying value of the asset exceeds the fair value of the asset. There were no long-lived asset impairment charges recorded during the three and nine months ended November 30, 2022 and 2021.

(e) Intangible Assets

The Company has acquired intangible assets in the form of developed technology, customer relationships, trade names, supplier-based network, and non-compete agreements through various acquisitions. Intangible assets are recorded at fair value on the date of acquisition and are subject to amortization over the estimated useful lives of each asset. Estimates of fair value and useful lives are based on historical factors, current circumstances, and the experience and judgment of management. Estimates and assumptions used to value intangible assets are evaluated by management on an ongoing basis.

(f) Goodwill

Goodwill is the excess of the cost of an acquired entity over the net amounts assigned to tangible and intangible assets acquired and liabilities assumed. Goodwill is not amortized, but is subject to an annual impairment test. The Company has a single reporting unit and all goodwill relates to that reporting unit.

The Company performs an impairment analysis of goodwill on an annual basis in the fourth quarter of each fiscal year or more frequently if changes in circumstances or the occurrence of events suggest that an impairment exists.

Accolade, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (unaudited)
(in thousands except share and per share data) (continued)

If the fair value of the reporting unit is less than its carrying value, an impairment loss is recorded. A goodwill impairment loss was recorded during the first quarter of fiscal 2023. See Note 5 for further information.

(g) Revenue and Deferred Revenue

Revenue Recognition

The Company generates revenue by providing customers access to its advocacy, expert medical opinion, and virtual primary care and mental health support services, as well as through utilization of its expert medical opinion and virtual primary care and mental health support services that were acquired through the acquisitions of Innovation Specialists LLC d/b/a 2nd.MD (2nd.MD) and PlushCare. Contracts with customers that include expert medical opinion or virtual primary care and mental health support services may contain either an access fee, a utilization-based fee, or both.

In accordance with Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers*, the Company recognizes revenue when control of the promised services is transferred to its customers, in an amount that reflects the consideration to which it expects to be entitled in exchange for those services. Accordingly, the Company determines revenue recognition through the following steps:

- identification of the contract, or contracts, with a customer;
- identification of the performance obligations in the contract;
- determination of the transaction price;
- allocation of the transaction price to the performance obligations in the contracts; and
- recognition of revenue when, or as, the Company satisfies a performance obligation.

At contract inception, the Company assesses the type of services being provided and assesses the performance obligations in the contract. The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis. The Company determines the standalone selling prices based on overall pricing objectives, taking into consideration market conditions and other factors, using an expected cost plus margin approach. The Company considered the variable consideration allocation exception in ASC 606 for its advocacy contracts and concluded that such exception for allocating variable consideration to distinct performance obligations or distinct time periods within a series was not met primarily due to variability in its per-member-per-month (PMPM) pricing.

The majority of fees earned by the Company are considered to be variable consideration due to both the uncertainty regarding the total number of members, consultations or visits for which the Company will invoice the customer, as well as the variable PMPM fees that are dependent upon the achievement of performance metrics and/or healthcare cost savings. Performance metrics are measured monthly, quarterly, or annually, and with respect to the achievement of healthcare cost savings targets, annually (typically measured on a calendar year basis). Accordingly, at contract inception and on an ongoing basis, as part of the Company's estimate of the transaction price, the Company determines whether any such fees should be constrained, and the Company includes the estimated consideration for those fees to the extent that it is probable that a significant reversal of cumulative revenue recognized will not occur (and is therefore considered to be unconstrained). Consideration related to the Company's achievement of healthcare cost savings is typically constrained until the end of the applicable calendar year due to uncertainty related to factors outside of the Company's control. Consideration related to other performance metrics is typically not constrained based on the Company's prior success of achieving such metrics. On an ongoing basis, the Company reassesses its estimates for variable consideration, which can change based upon its assessment of the achievement of performance metrics and healthcare cost savings, as well as the number of members, consultations, or visits.

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Access Fees

The Company generates revenue primarily from contracts with customers to access the Company's advocacy, expert medical opinion, and virtual primary care and mental health support services. The Company prices access fees primarily using a recurring PMPM fee, typically with a portion of the fee calculated as the product of a fixed rate times the number of members (fixed PMPM fee), plus a variable PMPM fee calculated as the product of a variable rate times the number of members (variable PMPM fee). The fees associated with the variable PMPM fee can be earned through the achievement of performance metrics and/or the realization of healthcare cost savings resulting from use of the Company's services. Collectively, the fixed PMPM fee and variable PMPM fee are referred to as the total PMPM fee. The Company's PMPM pricing varies by contract. In certain contracts, the maximum total PMPM fee varies during the contract term (total PMPM rate increases or decreases annually), while in other contracts, the total PMPM maximum fee is consistent over the term, yet the fixed and variable portions vary. For example, in certain contracts the fixed PMPM fee increases on an annual basis while the variable PMPM fee decreases on an annual basis, resulting in the same total PMPM fee throughout the term of the contract. The PMPM fees for expert medical opinion and virtual primary care and mental health support services may be tiered based upon the customer's utilization.

Access to the Company's services represent a single stand-ready performance obligation. The Company's contracts include stand-ready services to provide eligible participants with access to the Company's services and to perform an unspecified quantity of interactions with members during the contract period. Accordingly, the Company's services are generally viewed as stand-ready performance obligations comprised of a series of distinct daily services that are substantially the same and have the same pattern of transfer. For advocacy services, the Company satisfies these performance obligations over time and recognizes revenue related to its services as the services are provided using a measure of progress based upon the actual number of members eligible for the service during the respective period as a percentage of the estimated members expected to be eligible for the service over the term of the contract. The Company believes a measure of progress based on the number of members is the most appropriate measurement of control of the services being transferred to the customer as the amount of internal resources necessary to stand-ready is directly correlated to the number of members who can use the services.

For the majority of expert medical opinion services, the Company satisfies these performance obligations over time and recognizes revenue in the amount of consideration for which it has the right to invoice using the as-invoiced practical expedient. Access fees also include access to the Company's virtual primary care and mental health support services sold directly to consumers on a monthly or yearly fixed fee subscription basis. For these services, the Company satisfies these stand-ready performance obligations over time and recognizes revenue ratably over the subscription period.

Utilization-based fees

The Company also generates revenue when members utilize the expert medical opinion and virtual primary care and mental health support services that are billed based on utilization. Many, but not all, contracts with customers contain utilization-based fees. For any utilization-based fees, the Company satisfies these performance obligations over time and recognizes revenue in the amount of consideration for which it has the right to invoice using the as-invoiced practical expedient for any consultations or visits sold to enterprise customers as well as any non-insured consultations or visits related to virtual primary care and mental health support services sold directly to consumers. For any consultations or visits that are paid through insurance claims, the Company recognizes revenue as the consultations and visits occur in an amount that reflects the consideration that is expected based upon then-current prices and historical experience from insurance payors.

Deferred Revenue

The Company typically invoices its customers in advance of the services performed on a monthly or quarterly basis, and the amount invoiced typically represents the maximum total PMPM fee for the estimated number of eligible members over the applicable invoice period. The total PMPM fee covers the stand-ready services in the Company's typical

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contracts (i.e., the performance obligations are not separately priced or invoiced). The maximum total PMPM fee that is invoiced includes both the fixed PMPM fee and the variable PMPM fee related to the performance metrics and/or the realization of healthcare cost savings that can be achieved during the period. These fees are classified as deferred revenue on the Company's consolidated balance sheet until such time that revenue can be recognized. In the event the Company fails to satisfy any of the performance metrics and/or realization of healthcare cost savings that are billed in advance, the Company will refund the applicable portion of the fee or offset the amount against a future invoice. These amounts are included in due to customers on the Company's consolidated balance sheet. The Company's accounts receivable represent rights to consideration that are unconditional.

(h) Concentration of Credit Risk

Financial instruments that potentially subject the Company to credit risk consist principally of cash, cash equivalents, and marketable securities. The Company maintains its cash primarily with domestic financial institutions of high credit quality, which may exceed federal deposit insurance corporation limits. The Company invests its cash equivalents in highly rated money market funds. Marketable securities are comprised of United States treasury bills with original maturities greater than three months. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash, cash equivalents, and marketable securities and performs periodic evaluations of the credit standing of such institutions. Additionally, no customer represented 10% or more of our revenue for the three and nine months ended November 30, 2022 and 2021.

(i) Marketable Securities

The Company classifies its marketable securities as available-for-sale, which include U.S. treasury bills with original maturities of greater than three months. These securities are carried at fair market value.

(j) Leases

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842). The new guidance requires lessees to recognize lease liabilities and corresponding right-of-use assets for all leases with terms of more than 12 months.

The Company adopted Topic 842 on February 28, 2022, with an effective date of adoption of March 1, 2021, using the modified retrospective approach. Topic 842 requires the Company to recognize a lease liability, which represents the discounted obligation to make future minimum lease payments, and a corresponding right-of-use (ROU) asset on its consolidated balance sheet for most leases and disclose key information about leasing arrangements. The Company elected to utilize the package of practical expedients available under Topic 842, which allowed it to not reassess: (i) whether any expired or existing contracts contain leases, (ii) the lease classification for any expired or existing leases, and (iii) the initial direct costs for existing leases. As a result of the adoption, the Company recorded operating lease right-of-use assets and operating lease liabilities of \$34,739 and \$38,740, respectively, on the consolidated balance sheet as of March 1, 2021.

Whenever the Company enters into a new arrangement, it determines, at the inception date, whether the arrangement is or contains a lease. This determination generally depends on whether the arrangement conveys to the Company the right to control the use of an explicitly or implicitly identified asset for a period of time in exchange for consideration. Control of an underlying asset is conveyed to the Company if the Company obtains the right to direct the use of, and obtain substantially all the economic benefits from, the use of the underlying asset.

If a lease exists, the Company then determines the separate lease and non-lease components of the arrangement. Each right to use an underlying asset conveyed by a lease arrangement should generally be considered a separate lease component if it both: (i) can benefit the Company without depending on other resources not readily available to the Company and (ii) does not significantly affect, and is not significantly affected by, other rights of use conveyed by the

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lease. Aspects of a lease arrangement that transfer other goods or services to the Company but do not meet the definition of lease components are considered non-lease components. The consideration owed by the Company pursuant to a lease arrangement is generally allocated to each lease and non-lease component for accounting purposes. However, the Company has elected, for all of its leases, to not separate lease and non-lease components.

For each lease, the Company then determines the lease term, the present value of lease payments, and the classification of the lease as either an operating or finance lease. The lease term is the period of the lease not cancellable by the Company, together with periods covered by: (i) renewal options the Company is reasonably certain to exercise, (ii) termination options the Company is reasonably certain not to exercise, and (iii) renewal or termination options that are controlled by the lessor.

The present value of lease payments is calculated based on:

- (1) Lease payments – Lease payments included in the measurement of the lease asset or liability comprise the following: fixed payments (including in-substance fixed payments), and the exercise price of a lessee option to purchase the underlying asset if the lessee is reasonably certain to exercise.
- (2) Discount rate – the discount rate is determined based on information available to the Company upon the commencement of the lease. Lessees are required to use the rate implicit in the lease whenever such rate is readily available; however, as the implicit rate in the Company's leases is generally not readily determinable, the Company generally uses the incremental borrowing rate it would have to pay to borrow an amount equal to the lease payments, on a collateralized basis, over a timeframe similar to the lease term.

In making the determination of whether a lease is an operating lease or a finance lease, the Company considers the lease term in relation to the economic life of the leased asset, the present value of lease payments in relation to the fair value of the leased asset and certain other factors, including the lessee's and lessor's rights, obligations, and economic incentives over the term of the lease.

The Company does not recognize leases with an initial term of 12 months or less on its consolidated balance sheets and recognizes these payments in the consolidated statements of operations on a straight-line basis over the lease term. Certain leases contain variable payments which are based on usage or operating costs, such as utilities and maintenance. These payments are not included in the measurement of the lease liability or corresponding right-of-use asset due to the uncertainty of the payment amount and are recorded as lease expense in the period incurred.

Prior to the adoption of Topic 842, the Company accounted for leases under FASB ASC Topic 840, *Leases* (Topic 840).

(k) Recently Issued Accounting Standards

In June 2022, the FASB issued ASU 2022-03, *Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*. This ASU clarifies the guidance when measuring the fair value of an equity security subject to contractual sale restrictions that prohibit the sale of an equity security and requires certain disclosures for equity securities subject to contractual sale restrictions that are measured at fair value in accordance with Topic 820. This guidance is effective for annual reporting periods, including interim periods, beginning after December 15, 2023, with early adoption permitted. The provisions of ASU 2022-03 are to be applied prospectively with any adjustments made to earnings on the date of adoption. The Company is currently evaluating the impact, if any, of this guidance on its financial statements.

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(3) Revenue

The following table presents the Company's revenues disaggregated by revenue source:

	<u>Three Months Ended November 30,</u> <u>2022</u>	<u>2021</u>	<u>Nine Months Ended November 30,</u> <u>2022</u>	<u>2021</u>
Access fees	\$ 69,965	\$ 69,063	\$ 205,968	\$ 185,968
Utilization-based fees	20,981	14,387	58,149	30,297
Total	<u>\$ 90,946</u>	<u>\$ 83,450</u>	<u>\$ 264,117</u>	<u>\$ 216,265</u>

As of November 30, 2022, \$233,849 of revenue is expected to be recognized from remaining performance obligations and is expected to be recognized as follows:

Fiscal year ending February 28(29),	
Remainder of 2023	\$ 53,759
2024	116,787
2025	51,465
2026	11,838
Total	<u>\$ 233,849</u>

The expected revenue includes variable fee estimates for the non-cancellable term of the Company's contracts. The expected revenue does not include amounts of variable consideration that are constrained.

Significant changes to the contract liability balances during the nine months ended November 30, 2022 and 2021 were the result of revenue recognized as well as net cash received and liabilities assumed associated with the acquisitions of 2nd.MD and PlushCare (during the nine months ended November 30, 2021). Significant changes in the deferred revenue balances during the nine months ended November 30, 2022 and 2021 were the result of recognized revenue of \$29,993 and \$25,817, respectively, that were previously included in deferred revenue. In addition, significant changes to the contract asset balances during the three and nine months ended November 30, 2022 and 2021 were the result of revenue recognized as well as transfers to accounts receivable. Contract assets relating to unbilled revenue are transferred to accounts receivable when the right to consideration becomes unconditional.

Revenue related to performance obligations satisfied in prior periods that was recognized during the three months ended November 30, 2022 and 2021 was \$664 and \$1,330, respectively. Revenue related to performance obligations satisfied in prior periods that was recognized during the nine months ended November 30, 2022 and 2021 was \$3,291 and \$4,088, respectively. These amounts relate to the ratable recognition through the minimum contract term of performance obligations satisfied in prior periods related to the Company's achievement of healthcare cost savings.

Cost to obtain and fulfill a contract

The Company capitalizes sales commissions paid to internal sales personnel that are both incremental to the acquisition of customer contracts and recoverable. These costs are recorded as deferred contract acquisition costs in the accompanying consolidated balance sheets. The Company capitalized commission costs of \$2,117 and \$916 for the three months ended November 30, 2022 and 2021, respectively. The Company capitalized commission costs of \$5,617 and \$2,949 for the nine months ended November 30, 2022 and 2021, respectively. During the three months ended November 30, 2021, the Company wrote off previously deferred commissions of \$484 related to a revision of the Company's commission plan, which offset the amounts capitalized in the three and nine months ended November 30, 2021. The Company defers costs based on its sales compensation plans only if the commissions are incremental and would not have occurred absent the customer contract. Payments to direct sales personnel are typically made upon signature of the contract. The Company does not pay commissions on contract renewals.

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Deferred commissions paid on the initial acquisition of a contract are amortized ratably over an estimated period of benefit of five years, which is the estimated customer life. The Company determined the period of amortization for deferred commissions by taking into consideration current customer contract terms, historical customer retention, and other factors. Amortization is included in sales and marketing expenses in the accompanying consolidated statements of operations and totaled \$620 and \$489 for the three months ended November 30, 2022 and 2021, respectively, and \$1,884 and \$1,390 for the nine months ended November 30, 2022 and 2021, respectively. The Company periodically reviews deferred contract acquisition costs to determine whether events or changes in circumstances have occurred that could impact the estimated period of benefit. There were no impairment losses recorded during the periods presented.

For certain customer contracts, the Company may incur direct and incremental costs related to customer set-up and implementation. The Company recorded deferred implementation costs of \$581 and \$524 for the three months ended November 30, 2022 and 2021, respectively, and \$811 and \$839 for the nine months ended November 30, 2022 and 2021, respectively. These implementation costs are deferred and amortized over the expected useful life of the Company's customers, which is five years. Amortization is included in cost of revenues in the Company's consolidated statements of operations and totaled \$259 and \$205 for the three months ended November 30, 2022 and 2021, respectively, and \$707 and \$548 for the nine months ended November 30, 2022 and 2021, respectively.

(4) Acquisitions

Acquisition of 2nd.MD

On March 3, 2021, the Company acquired all the outstanding equity interests of 2nd.MD. Based in Houston, Texas, 2nd.MD is a leading expert medical opinion and medical decision support company. The results of operations and financial position of 2nd.MD are included in the Company's consolidated financial statements from the date of acquisition.

The consideration paid was comprised of cash, common stock, and contingent consideration as follows:

Consideration	
Cash consideration, net of cash acquired	\$ 226,135
Fair value of common stock issued	116,187
Fair value of replacement awards	1,520
Fair value of contingent consideration	76,248
Total consideration	<u>\$ 420,090</u>

The aggregate purchase consideration of \$420,090 was provided through cash of \$226,135 (net of \$205 cash acquired) and the issuance of up to 4,384,882 shares of the Company's common stock, of which 2,822,242 were issued upon closing of the acquisition, of which 2,495,441 were fully vested at the time of issuance with the remaining 326,801 vesting over future service periods. The cash consideration in the above table includes the repayment of 2nd.MD debt of \$13,026. The contingent consideration represented potential obligations for the Company to issue up to 2,170,972 additional shares of its common stock to the selling shareholders of 2nd.MD and is comprised of two earnout scenarios associated with (1) a contract renewal and (2) the achievement of certain future revenue milestones. As a result of the contract renewal and achievement of certain revenue milestones, the Company will issue a total of 1,977,343 shares of its common stock, of which 1,939,853 shares of common stock were issued in May 2022. The estimated fair value of the replacement awards issued in the above table is comprised of 120,760 restricted stock units issued to 2nd.MD employees with an estimated fair value of \$5,434 of which \$1,520 was attributable to pre-acquisition services. The remaining estimated value of \$3,914 associated with the replacement awards is attributable to post-acquisition services and is being expensed over the requisite service periods of the awards.

Several key 2nd.MD employees entered into agreements with the Company whereby their pro rata portion of shares issued at closing and upon achievement of the contingent consideration milestones are also subject to continuous employment with the Company and vest annually over a period of two years following the acquisition date. Upon

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voluntary termination of employment, any unvested shares will be forfeited. Due to the risk of forfeiture upon termination of employment, the aggregate 326,801 shares issued at closing and the aggregate shares eligible to be issued upon achievement of the contingent consideration milestones of 281,531 shares were excluded from the purchase price and contingent consideration. These shares are accounted for as stock-based compensation expense in the post business combination periods.

The estimated fair value of the contingent consideration associated with future revenue milestones was determined using a Monte Carlo simulation. The Monte Carlo simulation performs numerous simulations utilizing certain assumptions such as (i) projected eligible revenues, (ii) expected term, (iii) risk-free rate, (iv) risk-adjusted discount rate, (v) share volatility and (vi) operational leverage ratio between revenues and earnings before interest, taxes, depreciation and amortization (EBITDA). The fair value measurements for contingent consideration are based on significant inputs not observable in the market and thus represents a Level 3 measurement within the fair value hierarchy. Changes in the assumptions used could materially change the estimated fair value of the contingent consideration. The estimated fair value of the contingent consideration was \$37,767 as of January 31, 2022, at which time the contingency was resolved. The estimated fair value of contingent consideration decreased from the acquisition date to January 31, 2022 primarily due to a decrease in the Company's stock price. The Company recorded the change in fair value of its contingent consideration liability in the consolidated statements of operations until January 31, 2022. Upon resolution of the contingency and determination of the number of common stock shares to be issued, the Company reclassified the value of the contingent consideration from a liability into stockholders' equity in the consolidated balance sheet.

The Company accounted for the acquisition of 2nd.MD under the U.S. GAAP business combinations guidance. This accounting requires that assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. The allocation of the purchase price to the assets acquired and liabilities assumed was subject to further adjustment within the measurement period (up to one year from the acquisition date). Measurement period adjustments since initial preliminary estimates reported in the first quarter of fiscal 2022 were primarily related to an updated working capital calculation. The cumulative effect of all measurement period adjustments resulted in a decrease to recognized goodwill of \$1,878. As of February 28, 2022, the purchase price allocation was considered complete.

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The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

Assets acquired:	
Accounts receivable	\$ 5,550
Unbilled revenue	226
Current portion of deferred contract acquisition costs	176
Prepaid and other current assets	1,052
Property and equipment	4,344
Deferred contract acquisition costs	564
Goodwill	208,286
Intangible assets ⁽¹⁾	
Customer relationships	120,000
Technology	58,000
Supplier-based network	25,000
Trade name	3,400
Non-compete agreement	3,100
Total assets acquired	<u>\$ 429,698</u>
Liabilities assumed:	
Accounts payable	\$ 1,195
Accrued expenses	585
Accrued compensation	3,817
Deferred rent and other current liabilities	904
Due to customers	294
Current portion of deferred revenue	625
Deferred rent and other noncurrent liabilities	2,188
Total liabilities assumed	<u>\$ 9,608</u>
Net assets acquired	<u>\$ 420,090</u>

(1) The weighted-average useful life of intangible assets acquired is approximately 14 years.

The purchase price was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. The identifiable intangible assets included technology, customer relationships, trade name, supplier based network, and non-compete agreements and are being amortized on a straight-line basis ranging from 3 years to 20 years. Customer relationships and trade names were valued using a multiple period excess earnings method (MPEEM) and the relief from royalty method (RFR), respectively. The supplier-based network and non-compete agreement intangible assets were valued using the "With and Without Method." These valuation methods are specific forms of the Income Approach, which is a valuation technique that derives value by estimating the fair value of after-tax cash flows attributable to the acquired intangibles. The valuation methods require several judgments and assumptions to determine the fair value of intangible assets, including growth rates, discount rates, customer attrition rates, expected levels of cash flows, and tax rate. Key assumptions used included revenue projections for fiscal 2022 through 2032, an attrition rate of 8.0%, a tax rate of 24%, a discount rate of 13%, a royalty rate of 1.5% and probability of competition of 33%.

The technology intangible asset was valued using the estimated replacement cost method. This method requires several judgments and assumptions to determine the fair value, including expected profits and opportunity cost. Goodwill is attributable to the workforce of 2nd.MD as well as expected future growth into new and existing markets and is deductible for income tax purposes.

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Acquisition of PlushCare

On June 9, 2021, the Company acquired all the outstanding equity interests of PlushCare. Based in San Francisco, California, PlushCare is a provider of various technology and administrative services to the medical practice PCs, which in turn provide virtual primary care and mental health support to patients. The results of operations and financial position of PlushCare are included in the Company's consolidated financial statements from the date of acquisition.

The consideration paid was comprised of cash, common stock, and contingent consideration as follows:

Consideration	
Fair value of common stock issued	\$ 330,338
Fair value of contingent consideration	44,618
Cash consideration, net of cash acquired	33,860
Fair value of replacement awards	5,209
Total consideration	<u>\$ 414,025</u>

The aggregate purchase consideration of \$414,025 was provided through cash of \$33,860 (net of \$17,837 cash acquired and \$1,463 of debt repaid) and the issuance of 7,144,393 shares of the Company's common stock, of which 854,717 are subject to future vesting and excluded from consideration paid. The contingent consideration represented a potential obligation for the Company to issue up to an additional 1,429,556 shares of its common stock and up to approximately \$2,000 in cash upon the achievement of defined revenue milestones following the closing, of which \$1,828 was paid during the three months ended August 31, 2022. Up to 102,111 shares of this contingent consideration will be withheld from being issued to the selling shareholders of PlushCare until the resolution of a pending litigation matter. The revenue milestone contingency was resolved at December 31, 2021, and as a result the Company issued 1,327,408 shares of its common stock during the three months ended August 31, 2022, excluding the 102,111 shares that are withheld pending the resolution of the litigation matter.

The estimated fair value of the replacement awards issued in the above table is comprised of 325,992 options to purchase Accolade common stock issued to PlushCare employees as of the acquisition date with an estimated fair value of \$16,663, of which \$5,209 was attributable to pre-acquisition services. The remaining estimated value of \$11,454 associated with the replacement awards is attributable to post-acquisition services and is being expensed over the requisite service periods of the awards.

Certain key PlushCare employees entered into agreements with the Company whereby a portion of their shares issued at closing are subject to continuous employment with the Company and vest annually over a three-year period following the acquisition date. Upon voluntary termination of employment, any unvested shares will be forfeited. Due to the risk of forfeiture upon termination of employment, the 806,161 shares subject to forfeiture have been excluded from the purchase price and are accounted for as stock-based compensation expense in the post-business combination periods.

The estimated fair value of the contingent consideration associated with future revenue milestones was determined using a Monte Carlo simulation. The Monte Carlo simulation performs numerous simulations utilizing certain assumptions such as (i) projected eligible revenues, (ii) expected term, (iii) risk-free rate, (iv) risk-adjusted discount rate, (v) share volatility, and (vi) operational leverage ratio between revenues and earnings before interest, taxes, depreciation, and amortization (EBITDA). The fair value measurements for contingent consideration are based on significant inputs not observable in the market and thus represent a Level 3 measurement within the fair value hierarchy. The estimated fair value of the contingent consideration was \$37,683 as of December 31, 2021, at which time the contingent consideration was resolved. The estimated fair value of contingent consideration decreased since the acquisition date primarily due to a decrease in the Company's stock price. The Company recorded the change in fair value of its contingent consideration liability in the consolidated statements of operations through December 31, 2021. Upon resolution of the contingency and determination of the number of common stock shares to be issued, the Company

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reclassified the value of the contingent consideration from a liability into stockholders' equity as of February 28, 2022 in the consolidated balance sheet.

The Company accounted for the acquisition of PlushCare under the U.S. GAAP business combinations guidance. This accounting requires that assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. The allocation of the purchase price to the assets acquired and liabilities assumed was subject to further adjustment within the measurement period (up to one year from the acquisition date).

During the three months ended November 30, 2021, the Company included a correction to the fair value of contingent consideration from the preliminary value recorded in the second fiscal quarter of 2022 in the amount of \$3,292. This correction resulted in an increase to recognized goodwill of \$5,799 and would have resulted in less change in fair value of contingent consideration expense and net loss on the statement of operations of \$3,292 during the three months ended August 31, 2021. The Company has concluded that this error was not material to the financial statements taken as a whole.

Measurement period adjustments since initial preliminary estimates reported in the second quarter of fiscal 2022 were primarily related to updated assessments of acquired deferred tax liability and accounts receivable. The cumulative effect of all measurement period adjustments resulted in a decrease to recognized goodwill of \$1,685. As of May 31, 2022, the purchase price allocation was considered complete.

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The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

Assets acquired:	
Accounts receivable	\$ 1,359
Prepaid and other current assets	573
Property and equipment	298
Other noncurrent assets	932
Goodwill	365,597
Intangible assets ⁽¹⁾	
Customer relationships	4,050
Technology	40,650
Trade name	10,300
Non-compete agreements	6,200
Total assets acquired	<u>\$ 429,959</u>
Liabilities assumed:	
Accounts payable	\$ 1,532
Accrued expenses	193
Accrued compensation	2,117
Current portion of deferred revenue	1,212
Deferred tax liability	9,992
Other liabilities	888
Total liabilities assumed	<u>\$ 15,934</u>
Net assets acquired	<u>\$ 414,025</u>

⁽¹⁾ The weighted-average useful life of intangible assets acquired is approximately 5 years.

The purchase price was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. The identifiable intangible assets included customer relationships, technology, trade name, and non-compete agreements and are being amortized on a straight-line basis ranging from 2 years to 10 years. The valuation methods require several judgments and assumptions to determine the fair value of intangible assets, including growth rates, discount rates, customer attrition rates, expected levels of cash flows, and tax rate. Key assumptions used included revenue projections for fiscal years 2022 through 2035, an attrition rate of 25% and 50%, a tax rate of 25%, a discount rate of 12.5%, a royalty rate of 3% and probabilities of competition between 70% and 90%.

The technology intangible asset was valued using the estimated replacement cost method. This method requires several judgments and assumptions to determine the fair value, including expected profits and opportunity cost. Goodwill is attributable to the workforce of PlushCare as well as expected future growth into new and existing markets and is not deductible for income tax purposes.

Acquisition of HealthReveal

On September 30, 2021, the Company acquired substantially all the assets of HealthReveal, Inc. (HealthReveal). HealthReveal is a clinical artificial intelligence company focused on ensuring patients receive optimal, personalized chronic care to preempt adverse outcomes. Under the terms of the agreement, the Company issued 252,808 shares of common stock as consideration at closing. The Company will issue up to 28,089 additional shares of common stock that are subject to an indemnity holdback, and these shares will be released 18 months following the closing.

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The Company accounted for this transaction as an asset acquisition based on an evaluation of the U.S. GAAP guidance for business combinations. The Company concluded that the developed technology acquired from HealthReveal comprised substantially all of the fair value of the gross assets acquired and that the assets acquired did not meet the definition of a business under the guidance for business combinations. The developed technology intangible asset was recorded at \$9,976 on the acquisition date and is being amortized on a straight-line basis over 3 years.

Acquisition and Integration-Related Costs

For the three and nine months ended November 30, 2022, the Company incurred \$439 in acquisition and integration-related costs related to litigation inherited through the PlushCare acquisition. Refer to Note 12 for further details. These costs were recorded in general and administrative expenses in the Company's consolidated statements of operations. For the three and nine months ended November 30, 2021, the Company incurred \$311 and \$13,208, respectively, in acquisition and integration-related costs that were expensed immediately and recorded in general and administrative expenses in the Company's consolidated statements of operations. These costs include banking, legal, accounting, and consulting fees related to acquisitions.

(5) Goodwill and Intangible Assets

The following table presents changes in the carrying amount of goodwill for the nine months ended November 30, 2022:

Balance, February 28, 2022	\$ 577,896
Impairment	(299,705)
Balance, November 30, 2022	<u>\$ 278,191</u>

Annually, and upon the identification of a triggering event, management is required to perform an evaluation of the recoverability of goodwill. Triggering events potentially warranting an interim goodwill impairment test include, among other factors, declines in historical or projected revenue, operating income or cash flows, and sustained declines in the Company's stock price or market capitalization, considered both in absolute terms and relative to peers.

As a result of sustained decreases in the Company's stock price and market capitalization, the Company conducted an impairment test of its goodwill and intangible assets as of May 31, 2022. As a result of this testing, the Company recorded a non-cash goodwill impairment charge of \$299,705 (equivalent to \$4.24 per basic and diluted share for the nine months ended November 30, 2022) during the first quarter of fiscal 2023. No impairments to goodwill were recorded during the three months ended November 30, 2022 and no impairments were recorded to intangible assets during the nine months ended November 30, 2022.

The Company's May 31, 2022 goodwill impairment test reflected an allocation of 70% and 30% between income and market-based approaches, respectively. The Company believes the 70% weighting to the income-based approach is appropriate as it more directly reflects its future growth and profitability expectations. Significant inputs into the valuation models included the discount rate, revenue market multiples, and estimated future cash flows. Management used a discount rate of 11% and guideline peer group and public transaction revenue multiples between 1.1x and 1.8x current and forward-looking revenues in the goodwill impairment test. Subsequent to the impairment, there was no excess of reporting unit fair value over carrying value.

While management cannot predict if or when additional future goodwill impairments may occur, additional goodwill impairments could have material adverse effects on the Company's operating income, net assets, and/or the Company's cost of, or access to, capital.

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Intangible assets consist of the following as of November 30, 2022:

	As of November 30, 2022					
	Useful Life	Gross Value	Accumulated Amortization	Net Carrying Value		Weighted Average Remaining Useful Life (Years)
Customer relationships	2 to 20 years	\$ 124,050	\$ (13,374)	\$ 110,676		18.1
Technology	2 to 5 years	111,526	(39,280)	72,246		3.2
Supplier-based network	5 years	25,000	(8,750)	16,250		3.3
Trade name	10 years	13,700	(2,140)	11,560		8.4
Non-compete agreement	2 to 3 years	9,300	(6,458)	2,842		0.8
		\$ 283,576	\$ (70,002)	\$ 213,574		

Amortization expense for intangible assets was \$10,372 and \$10,028 during the three months ended November 30, 2022 and 2021, respectively, and \$31,116 and \$26,166 during the nine months ended November 30, 2022 and 2021, respectively.

(6) Leases

The Company adopted Topic 842 on February 28, 2022, with an effective date of adoption of March 1, 2021, using the modified retrospective approach. The Company has operating leases for offices and certain equipment under non-cancelable leases in the United States and Czech Republic. These leases have remaining terms of up to 8 years. The Company had no finance leases during the nine months ended November 30, 2022 and 2021.

The components of operating lease cost recorded in the consolidated statements of operations were as follows:

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2022	2021	2022	2021
Operating lease cost	\$ 1,890	\$ 1,805	\$ 5,728	\$ 5,374
Variable lease cost	642	435	1,609	1,216
Total lease cost	\$ 2,532	\$ 2,240	\$ 7,337	\$ 6,590

The following tables set forth the cash flows, weighted-average remaining term, and weighted-average discount rate for the Company's leases:

Cash Flow Information	Nine Months Ended November 30,	
	2022	2021
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 6,300	\$ 6,243
Right-of-use assets obtained in exchange for lease obligations		
Operating leases	\$ 2,155	\$ 3,356

Supplemental Information	November 30, 2022
Weighted-average remaining lease term (years)	5.5
Weighted-average discount rate	4.9 %

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As of November 30, 2022, the future minimum lease payments under non-cancelable operating leases were as follows:

<u>Year Ending February 28(29),</u>	
Remainder of 2023	\$ 2,313
2024	8,845
2025	7,266
2026	7,232
2027	6,416
Thereafter	9,395
Total lease payments	41,467
Less: Imputed interest	(5,226)
Total lease liabilities	<u>\$ 36,241</u>

(7) Fair Value Measurements

The following table sets forth the fair value of the Company's financial assets and liabilities within the fair value hierarchy:

	<u>November 30, 2022</u>			<u>Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets				
Cash equivalents:				
Money market funds	\$ 147,029	\$ —	\$ —	\$ 147,029

	<u>February 28, 2022</u>			<u>Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets				
Cash equivalents:				
Money market funds	\$ 131,527	\$ —	\$ —	\$ 131,527
United States treasury bills	\$ 99,999	\$ —	\$ —	\$ 99,999

The estimated fair value of the convertible senior notes (Note 8) was \$206,368 as of November 30, 2022, based on quoted market prices of the Company's instrument in markets that are not active and are classified as Level 2 within the fair value hierarchy. Considerable judgment is necessary to interpret the market data and develop an estimate of the fair value. Accordingly, the estimate is not necessarily indicative of the amount at which this instrument could be purchased, sold, or settled.

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(8) Debt

(a) Convertible Senior Notes and Capped Call Options

Convertible Senior Notes

The Notes consisted of the following:

	November 30, 2022	February 28, 2022
Principal	\$ 287,500	\$ 287,500
Unamortized issuance costs	(5,586)	(6,834)
Net carrying amount	<u>\$ 281,914</u>	<u>\$ 280,666</u>

In March 2021, the Company completed a private convertible note offering, pursuant to an Indenture dated as of March 29, 2021 between the Company and U.S. Bank National Association, as trustee (the Indenture), and issued \$287,500 of 0.50% Convertible Senior Notes due 2026 (the Notes) that mature in April 2026, unless earlier converted, redeemed or repurchased. The Notes bear interest at a rate of 0.50% per annum, payable semiannually in arrears on April 1 and October 1 of each year, beginning on October 1, 2021 and are convertible into cash, shares of the Company's common stock or a combination of cash and shares of common stock, at the Company's election. The Company incurred costs of \$8,428 in connection with the Notes and the capped calls, of which \$8,368 was allocated to the Notes and recorded as a debt discount and \$60 was allocated to the capped call and recorded directly to additional paid-in capital. Net proceeds from the issuance of Notes were \$279,132, and the Company used \$34,443 of the net proceeds to pay the costs of the capped call transactions described below. For the three months ended November 30, 2022 and 2021, the Company recorded interest expense of \$772 and \$769, respectively, of which \$413 and \$411, respectively, was associated with the amortization of the debt discount. For the nine months ended November 30, 2022 and 2021, the Company recorded interest expense of \$2,330 and \$2,095, respectively, of which \$1,247 and \$1,127, respectively, was associated with the amortization of the debt discount.

Pursuant to the terms of the Notes, a holder may convert all or any portion of its Notes at its option at any time prior to October 1, 2025 and only under the following circumstances: (1) during any fiscal quarter commencing after the fiscal quarter ending on August 31, 2021, if the last reported sale price of the Company's common stock for at least 20 trading days during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any ten consecutive trading day period (the "measurement period") in which the trading price (as defined in the Indenture) per \$1 principal amount of Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such trading day; (3) if the Company calls such Notes for redemption, at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date, but only with respect to the Notes called (or deemed called) for redemption; or (4) upon the occurrence of specified corporate events. On or after October 1, 2025 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert all or any portion of their Notes at any time, regardless of the foregoing circumstances.

The initial conversion rate is 19.8088 shares of the Company's common stock per \$1 principal amount of Notes (equivalent to an initial conversion price of approximately \$50.48 per share of the Company's common stock). The conversion rate is subject to adjustment in some events but will not be adjusted for any accrued and unpaid interest. In addition, following certain corporate events that occur prior to the maturity date, or if the Company delivers a notice of redemption, the Company will, in certain circumstances, increase the conversion rate for a holder who elects to convert its Notes in connection with such a corporate event or convert its Notes called (or deemed called) for redemption in connection with such notice of redemption, as the case may be.

The Company may not redeem the Notes prior to April 6, 2024. On or after April 6, 2024, the Company may redeem for cash all or any portion of the Notes (subject to the partial redemption limitation set forth in the Indenture), at

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its option, if the last reported sale price of the Company's common stock has been at least 130% of the conversion price then in effect for at least 20 trading days, including the trading day immediately preceding the date on which the Company provides notice of redemption, during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which the Company provides notice of redemption at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. No sinking fund is provided for the Notes.

Upon a fundamental change (as defined in the Indenture), holders may, subject to certain exceptions, require the Company to purchase their Notes in whole or in part for cash at a price equal to the principal amount of the Notes to be purchased, plus accrued and unpaid interest, if any, to, but excluding, the fundamental change repurchase date (as defined in the Indenture). In addition, upon a Make-Whole Fundamental Change (as defined in the Indenture), the Company will, under certain circumstances, increase the applicable conversion rate for a holder that elects to convert its Notes in connection with such Make-Whole Fundamental Change.

Under the Indenture, the Notes may be accelerated upon the occurrence of certain customary events of default. If certain bankruptcy and insolvency-related events of default with respect to the Company occur, the principal of, and accrued and unpaid interest on, all of the then outstanding Notes shall automatically become due and payable. The Indenture provides that the sole remedy for an event of default relating to certain failures by the Company to comply with reporting covenants, including timely filings, consists exclusively of the right to receive additional interest on the Notes.

As of November 30, 2022, none of the conditions of the Notes to early convert have been met. The Notes are the Company's senior, unsecured obligations that rank senior in right of payment to the Company's future indebtedness that is expressly subordinated to the Notes, rank equally in right of payment with the Company's future senior unsecured indebtedness that is not so subordinated, effectively subordinated to the Company's existing and future secured indebtedness, to the extent of the value of the collateral securing such indebtedness, and structurally subordinated to all existing and future indebtedness and other liabilities (including trade payables and preferred equity (to the extent the Company is not a holder thereof)) of the Company's subsidiaries. The Notes contain both affirmative and negative covenants. As of November 30, 2022, the Company was in compliance with all covenants in the Notes.

The Company concluded the Notes are accounted for as debt, with no bifurcation of the embedded conversion feature. Transaction costs were recorded as a direct deduction from the related debt liability in the consolidated balance sheet and are amortized to interest expense using the effective interest method over the term of the Notes. The effective interest rate for the Notes is 1.1%.

Capped Call

Concurrent with the pricing of the Notes, the Company entered into privately negotiated capped call transactions with two of the initial purchasers and/or their respective affiliates and another financial institution (the Option Counterparties). The capped call transactions are expected to offset the potential dilution to Accolade's common stock as a result of any conversion of Notes, with such offset subject to a cap initially equal to \$76.20 (which represented a premium of 100% over the last reported sale price of the Company's common stock on March 24, 2021). The capped call transactions are separate transactions, entered into by the Company with the Option Counterparties, and are not part of the terms of the Notes.

As the capped call options are both legally detachable and separately exercisable from the Notes, the Company accounts for the capped call options separately from the Notes. The capped call options are indexed to the Company's own common stock and classified in stockholders' equity. As such, the premiums paid for the capped call options were included as a net reduction to additional paid-in capital in the consolidated balance sheet.

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(b) Revolving Credit Facility

During July 2019, the Company entered into a revolving credit facility (the 2019 Revolver) with a syndicate of two banks. Under the 2019 Revolver, the Company has the capacity to borrow up to \$80,000 on a revolving facility. Availability of borrowings on the 2019 Revolver is calculated as a multiple of the Company's eligible monthly recurring revenues (as defined in the 2019 Revolver). As of November 30, 2022, the Company had outstanding letters of credit to serve as office landlord security deposits in the amount of \$1,208. These letters of credit are secured through the revolving credit facility, thus reducing the maximum capacity of the revolving credit facility to \$78,792 as of November 30, 2022. No amounts are outstanding as of November 30, 2022.

The 2019 Revolver term ends on July 19, 2024. The interest rate on the outstanding borrowings are at the Bloomberg Short-Term Bank Yield Index (BSBY) rate plus 350 basis points or Base Rate (as defined) plus 250 basis points, with the BSBY rate and Base Rate subject to minimum levels. Interest payments are to be made in installments of one, two, or three months as chosen by the Company.

The Company incurred lender and third-party fees when entering into the 2019 Revolver, all of which were deferred at the onset of the facility and have been fully amortized. During the three months ended November 30, 2022 and 2021, the Company recorded interest expense of \$51 and \$51, respectively, related to the revolving credit facility. During the nine months ended November 30, 2022 and 2021, the Company recorded interest expense of \$261 and \$245, respectively, related to the revolving credit facility.

On August 21, 2020, the Company entered into an amendment to the 2019 Revolver which revised the terms of the revenue covenant and imposed minimum LIBOR and Base Rate levels. On September 11, 2020, the Company entered into a second amendment to the 2019 Revolver which modified the allocation requirements of the Company's cash to be held at each of the two lenders participating in the 2019 Revolver. On November 6, 2020, the Company entered into a third amendment to the 2019 Revolver which increased the capacity from a maximum of \$50,000 to a maximum of \$80,000, based on the achievement of certain growth metrics as defined in the amendment. On March 2, 2021, the Company entered into a fourth amendment to the 2019 Revolver in association with the acquisition of 2nd.MD to be completed and amended certain revenue covenants. On March 23, 2021, the Company entered into a fifth amendment to the 2019 Revolver in association with the issuance of the Convertible Senior Notes. On May 26, 2021, the Company entered into a sixth amendment to the 2019 Revolver in association with the acquisition of PlushCare which modified certain reporting covenants. On July 19, 2022, the Company entered into a seventh amendment to the 2019 Revolver which extended the term until July 19, 2024, documented the transition from the LIBOR interest rate index to the BSBY rate, and established new minimum covenant revenue targets. The term will automatically be extended to July 19, 2025 if the Company has at least \$200,000 in consolidated net cash as of May 31, 2024.

The 2019 Revolver is collateralized by substantially all of the assets of the Company.

(9) Stock-based Compensation

In July 2020, the Company adopted the 2020 Equity Incentive Plan (the Incentive Plan), which authorized the Company to grant up to 4,300,000 shares of common stock to eligible employees, directors, and consultants to the Company in the form of stock options, restricted stock units, and other various equity awards, including any shares subject to stock options or other awards granted under the Company's prior stock option plan that expire or terminate for any reason (other than being exercised in full) or are cancelled in accordance with the terms of the prior stock option plan. The Incentive Plan also includes an annual evergreen increase, and the amount, terms of grants, and exercisability provisions are determined by the board of directors. The term of an award may be up to 10 years and options generally vest over four years, with one quarter of an award vesting one year after grant and the remainder vesting on a monthly basis over three years. As of November 30, 2022, there was a total of 9,211,901 shares of common stock authorized for issuance under the Incentive Plan, of which 1,344,021 were available for future grants.

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The following table summarizes the amount of stock-based compensation included in the consolidated statements of operations:

	<u>Three months ended November 30,</u>		<u>Nine months ended November 30,</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Cost of revenue, excluding depreciation and amortization	\$ 1,247	\$ 949	\$ 3,645	\$ 2,331
Product and technology	5,930	5,303	19,045	13,491
Sales and marketing	4,513	3,608	12,772	9,035
General and administrative	6,216	8,517	19,347	20,970
Total stock-based compensation	\$ 17,906	\$ 18,377	\$ 54,809	\$ 45,827

(a) Stock Options

The following is a summary of stock option activity under the Incentive Plan:

	<u>Stock Options</u>	<u>Weighted average exercise price</u>	<u>Weighted remaining contractual life in years</u>	<u>Aggregate intrinsic value</u>
Balance, February 28, 2022	8,045,792	\$ 11.24		
Granted	915,081	8.06		
Exercised	(295,361)	5.34		
Forfeited	(461,096)	19.04		
Balance, November 30, 2022	<u>8,204,416</u>	\$	5.5	\$ 18,062

For the three months ended November 30, 2022 and 2021, the Company recognized \$2,766 and \$2,766 in compensation expense related to stock options, respectively. For the nine months ended November 30, 2022 and 2021, the Company recognized \$7,989 and \$7,679 in compensation expense related to stock options, respectively. As of November 30, 2022, approximately \$17,679 of unrecognized compensation expense related to our stock options is expected to be recognized over a weighted average period of 1.9 years. The aggregate intrinsic value of stock options exercised was \$453 and \$5,407 for the three months ended November 30, 2022 and 2021, respectively, and \$1,598 and \$28,605 for the nine months ended November 30, 2022 and 2021, respectively.

(b) PlushCare Stock Options

In connection with the acquisition of PlushCare, the Company assumed all stock options that were awarded under the PlushCare Plan and that were outstanding as of the closing of the acquisition. These options were converted into options to purchase the Company's common stock at a ratio determined in the purchase agreement. The Company has no intent to grant any further options under the PlushCare Plan beyond the options granted and outstanding as of the Company's acquisition of PlushCare. The following is a summary of stock option activity under the PlushCare Plan:

	<u>Stock Options</u>	<u>Weighted average exercise price</u>	<u>Weighted remaining contractual life in years</u>	<u>Aggregate intrinsic value</u>
Balance, February 28, 2022	267,721			
Exercised	(59,939)	\$ 1.07		
Forfeited	(18,587)	\$ 2.79		
Balance, November 30, 2022	<u>189,195</u>	\$ 1.81	7.0	\$ 1,443

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For the three months ended November 30, 2022 and 2021, the Company recognized \$1,072 and \$1,323, respectively, in compensation expense related to PlushCare stock options. For the nine months ended November 30, 2022 and 2021, the Company recognized \$3,528 and \$2,778, respectively, in compensation expense related to PlushCare stock options. As of November 30, 2022, approximately \$3,559 of unrecognized compensation expense related to PlushCare stock options is expected to be recognized over a weighted average period of 1.5 years. The aggregate intrinsic value of stock options exercised was \$152 and \$136 for the three months ended November 30, 2022 and 2021, respectively, and \$635 and \$811 for the nine months ended November 30, 2022 and 2021, respectively.

(c) Restricted Stock Units

Time-based restricted stock units are generally subject to a four-year vesting period, with one quarter of an award vesting one year after the vesting commencement date and the remainder vesting ratably on a monthly basis over the subsequent three years. The following is a summary of activity for the nine months ended November 30, 2022:

	<u>Restricted Stock Units</u>
Balance, February 28, 2022	2,226,057
Granted	4,315,118
Vested	(1,109,344)
Forfeited	(606,707)
Balance, November 30, 2022	<u>4,825,124</u>

For the three months ended November 30, 2022 and 2021, the Company recognized \$8,914 and \$6,281, respectively, in restricted stock unit compensation expense. For the nine months ended November 30, 2022 and 2021, the Company recognized \$24,220 and \$14,297, respectively, in restricted stock unit compensation expense with \$71,793 remaining total unrecognized compensation costs related to these awards as of November 30, 2022. The total unrecognized costs are expected to be recognized over a weighted-average term of 2.5 years. The weighted average grant date fair value of restricted stock units granted during the nine months ended November 30, 2022 was \$8.75.

In connection with the PlushCare acquisition, the agreement provides for the issuance of time-based restricted stock units for 64,694 shares of common stock to existing PlushCare shareholders upon the achievement of the contingent consideration revenue milestones. During the second quarter of fiscal 2023, 57,124 of these restricted stock units were issued. These restricted stock units are included in the table above.

During the three and nine months ended November 30, 2022, the Company recorded \$1,162 and \$3,705 in stock-based compensation expense related to the approved issuance of restricted stock units in lieu of cash for a portion of the Company's 2023 bonus plan payout.

(d) Employee Stock Purchase Plan

In July 2020, the Board of Directors adopted the Company's 2020 Employee Stock Purchase Plan (the ESPP), which became effective immediately prior to the effectiveness of the registration statement for the Company's initial public offering (IPO). The total shares of common stock initially reserved under the ESPP was limited to 1,100,000 shares. On March 1, 2022, there was an automatic annual increase, which increased the total available common shares to 2,327,976.

Under the ESPP, eligible employees can purchase the Company's common stock through accumulated payroll deductions at such times as are established by the compensation committee. Eligible employees may purchase the Company's common stock at 85% of the lower of the fair market value of the Company's common stock on the first day of the offering period or on the last day of the offering period. Eligible employees may contribute up to 15% of their eligible compensation. Under the ESPP, a participant may not accrue rights to purchase more than \$25,000 worth of the Company's common stock for each calendar year in which such right is outstanding.

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Employees who elect to participate in the ESPP commence payroll withholdings that accumulate through the end of the respective period. In accordance with the guidance in ASC 718-50 – *Compensation – Stock Compensation*, the ability to purchase shares of the Company’s common stock for 85% of the lower of the price on the first day of the offering period or the last day of the offering period (i.e. the purchase date) represents an option and, therefore, the ESPP is a compensatory plan under this guidance. Accordingly, share-based compensation expense is determined based on the option’s grant-date fair value as estimated by applying the Black Scholes option-pricing model and is recognized over the withholding period. The Company recognized share-based compensation expense of \$253 and \$480 during the three months ended November 30, 2022 and 2021, respectively, related to the ESPP and \$938 and \$1,341 during the nine months ended November 30, 2022 and 2021, respectively.

During the nine months ended November 30, 2022 and 2021, employees who elected to participate in the ESPP purchased a total of 560,345 and 140,838 shares of common stock, respectively, resulting in cash proceeds to the Company of \$2,927 and \$4,309, respectively. ESPP employee payroll contributions accrued as of November 30, 2022 and February 28, 2022 totaled \$252 and \$1,511, respectively, and are included within accrued compensation in the consolidated balance sheet. Cash withheld via employee payroll deductions is presented in financing activities as proceeds from stock purchases under employee stock purchase plan on the consolidated statement of cash flows.

(e) Other

In connection with the acquisition of 2nd.MD (Note 4), several 2nd.MD individuals entered into agreements with the Company whereby these individuals are eligible to receive an aggregate of 608,332 shares that required continued employment with the Company. These shares are excluded from the above restricted stock units table. Included in the 608,332 shares are 281,531 shares that were also contingent upon the achievement of the contingent consideration milestones. These shares are considered compensatory in the post business combination periods due to the additional service requirement for these individuals. These shares vested 50% on the first anniversary of the acquisition date and will vest 50% on the second anniversary of acquisition date. As a result of the achievement of certain revenue milestones (the contingent consideration milestones), a total of 256,418 of the eligible 281,531 shares will be issued to such shareholders, subject to the service requirements. As of November 30, 2022, there were 241,614 unvested shares outstanding with a grant date fair value of \$46.56 per share, with vesting subject to future service periods. The Company recognized stock-based compensation expense of \$219 and \$3,540 during the three months ended November 30, 2022 and 2021, respectively, and \$3,796 and \$10,621 during the nine months ended November 30, 2022 and 2021. The stock-based compensation expense for the nine months ended November 30, 2022 includes \$3,139 of accelerated expense related to certain separation and transition agreements entered into during fiscal 2022. The unamortized compensation expense of \$219 will be recognized over a remaining period of 0.3 years.

In connection with the acquisition of PlushCare (Note 4), certain PlushCare individuals entered into agreements with the Company whereby these individuals are eligible to receive an aggregate of 806,161 shares that require continued employment with the Company. These shares are excluded from the above restricted stock units table. These shares are considered compensatory in the post business combination periods due to the additional service requirement for these individuals. One third of these shares vested on the first anniversary of the acquisition date, one third will vest on the second anniversary of acquisition date, and one third will vest on the third anniversary of the acquisition date. As of November 30, 2022, there were 537,401 unvested shares outstanding with a grant date fair value of \$52.52 per share. The Company recognized stock-based compensation expense of \$3,519 and \$3,519 during the three months ended November 30, 2022 and 2021, respectively. The Company recognized stock-based compensation expense of \$10,663 and \$6,728 during the nine months ended November 30, 2022 and 2021, respectively. The unamortized compensation expense of \$21,498 will be recognized over a weighted average remaining period of 1.6 years.

(10) Income Taxes

The provision (benefit) for income taxes consists of provisions for federal, state and foreign income taxes for separate U.S. tax filers and for entities in separate tax jurisdictions. As a result of the Company’s history of net operating

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losses (NOL), the Company has historically provided for a full valuation allowance against its U.S. deferred tax assets that are not more-likely-than-not to be realized. For the three months ended November 30, 2022 and 2021, the Company recorded income tax provision (benefit) of \$77 and \$3,325, respectively, which resulted in effective tax rates of 0.2% and 12.9%, respectively. For the nine months ended November 30, 2022 and 2021, the Company recorded income tax provision (benefit) of \$(3,573) and \$(9,501), respectively, which resulted in effective tax rates of 0.8% and 9.7%, respectively. The tax benefit for the nine months ended November 30, 2022 is primarily related to the reversal of the deferred tax liability associated with the basis difference in goodwill from the 2nd.MD acquisition. The goodwill impairment recorded in the first quarter of fiscal 2023 required the Company to reverse that deferred tax liability during the nine months ended November 30, 2022. The tax benefit for the three and nine months ended November 30, 2021 is related to the partial release of the U.S. valuation allowance due to the acquired intangibles of PlushCare. The decrease in the valuation allowance was due to the acquisition of PlushCare's stock, whereby the acquired intangible assets had no tax basis. This required the Company to record a deferred tax liability which served as a source of taxable income to realize the existing deferred tax assets of the Company.

(11) Net Income (Loss) Per Share Attributable to Common Stockholders

The following table sets forth the computation of basic and diluted net income (loss) per share attributable to Accolade's common stockholders:

	Three months ended November 30,		Nine months ended November 30,	
	2022	2021	2022	2021
Net income (loss)	\$ (39,872)	\$ 22,503	\$ (429,217)	\$ (88,568)
Shares:				
Weighted-average common shares outstanding, basic	71,228,351	65,418,728	70,755,157	62,684,823
Dilutive effect of stock options	—	5,792,987	—	—
Dilutive effect of unvested restricted stock units	—	128,331	—	—
Dilutive effect of shares issued to 2nd.MD employees and subject to vesting	—	102,042	—	—
Dilutive effect of shares to be issued to HealthReveal shareholders upon expiration of indemnification period	—	19,138	—	—
Dilutive effect of shares issued to PlushCare employees and subject to vesting	—	28,819	—	—
Weighted-average common shares outstanding, diluted	71,228,351	71,490,045	70,755,157	62,684,823
Net income (loss) per share attributable to common stockholders, basic	<u>\$ (0.56)</u>	<u>\$ 0.34</u>	<u>\$ (6.07)</u>	<u>\$ (1.41)</u>
Net income (loss) per share attributable to common stockholders, diluted	<u>\$ (0.56)</u>	<u>\$ 0.31</u>	<u>\$ (6.07)</u>	<u>\$ (1.41)</u>

Contingently issuable securities are excluded from diluted net loss per share attributable to common stockholders until the contingency has been resolved. In the periods in which the Company has reported a net loss, the potentially dilutive securities are antidilutive. The following potential outstanding shares of common stock were excluded from the

Accolade, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (unaudited)
(in thousands except share and per share data) (continued)

computation of diluted net loss per share attributable to common stockholders for the periods presented because including them would have been antidilutive:

	Three months ended November 30,		Nine months ended November 30,	
	2022	2021	2022	2021
Stock options	8,393,611	534,377	8,393,611	8,468,806
Unvested restricted stock units	4,825,124	1,298,788	4,825,124	1,788,134
Shares issued to 2nd.MD employees and subject to vesting	274,224	281,531	274,224	281,531
Contingent shares in connection with 2nd.MD acquisition	—	1,889,441	—	1,889,441
Shares issued to PlushCare employees and subject to vesting	537,401	844,202	537,401	844,202
Contingent shares in connection with PlushCare acquisition	102,111	1,494,210	102,111	1,494,210
Indemnity shares held in escrow in connection with PlushCare acquisition	27,342	—	27,342	27,382
Shares to be issued to HealthReveal shareholders upon expiration of indemnification	28,089	—	28,089	28,089
Convertible Senior Notes	5,700,297	5,700,297	5,700,297	5,700,297
Total	<u>19,888,199</u>	<u>12,042,846</u>	<u>19,888,199</u>	<u>20,522,092</u>

(12) Commitments and Contingencies

(a) Legal Proceedings

The Company is involved in various claims, inquiries and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters is not expected to have a material adverse effect on the Company's financial position or liquidity. As of November 30, 2022, the Company had accruals of \$3,700 related to legal matters.

On May 8, 2021, a purported class action complaint (Robbins v. PlushCare, Inc. et al.) was filed in the United States District Court for the Northern District of California against the Company's wholly owned subsidiary, PlushCare, Inc. The complaint, as amended, alleges that certain of PlushCare's subscription payment practices violate California and other state automatic renewal laws and the Federal Electronic Funds Transfer Act, among other claims, arising from allegations that PlushCare failed to provide adequate disclosures to members. The lawsuit seeks restitution of subscription fees, statutory damages for each violation, subject to trebling, reasonable attorneys' fees, and injunctive relief. Under the terms of the agreement to purchase PlushCare, the selling shareholders will indemnify Accolade for losses related to this matter, subject to a cap. During the three months ended November 30, 2022, the parties tentatively agreed on a settlement and the Company has recorded a contingent liability. The majority of the Company's liability is eligible to be paid through third-party insurance and the remaining indemnification from the selling shareholders of PlushCare. The remainder amounted to \$439 at November 30, 2022 and was recorded in general and administrative expenses in the statement of operations.

(b) Employment Agreements

Certain officers of the Company have employment agreements providing for severance, continuation of benefits, and other specified rights in the event of termination without cause, including in the event of a change of control of the Company, as defined in the agreements.

(c) Purchase Obligations

The Company has minimum required purchase commitments of \$40,323 pursuant to an agreement primarily related to cloud computing services. Portions of the total purchase commitment are required to be met prior to the end of

Accolade, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (unaudited)
(in thousands except share and per share data) (continued)

each contract year, September 30, in each of fiscal years 2023 through 2027. If total purchases in a contract year do not meet the portion of the commitment required for that year, the shortfall must be prepaid and can be used for future purchases through September 30, 2027. As of November 30, 2022, the Company has remaining future purchase commitments under this agreement of \$34,114.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and our audited consolidated financial statements and the related notes and the discussion under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" for the fiscal year ended February 28, 2022 included in the Annual Report on Form 10-K. Our fiscal year ends on the last day of February, and our fiscal quarters end on May 31, August 31, November 30, and the last day of February.

This discussion, particularly information with respect to our future results of operations or financial condition, business strategy and plans and objectives of management for future operations, includes forward-looking statements that involve risks and uncertainties as described under the heading "Special Note Regarding Forward-Looking Statements" in this Quarterly Report on Form 10-Q. You should review the disclosure under the heading "Risk Factors" in this Quarterly Report on Form 10-Q for a discussion of important factors that could cause our actual results to differ materially from those anticipated in these forward-looking statements.

Overview

We provide personalized, technology-enabled solutions that help people better understand, navigate, and utilize the healthcare system and their workplace benefits. Our customers are primarily employers that deploy Accolade solutions in order to provide employees and their families (our "members") a single place to turn for their health, healthcare, and benefits needs. We also offer expert medical opinion services to employer customers and virtual primary care and mental health support, both directly to consumers and to employer customers. Our innovative platform combines open, cloud-based intelligent technology with multimodal support from a team of empathetic and knowledgeable Accolade Health Assistants and clinicians, including registered nurses, physician medical directors, pharmacists, behavioral health specialists, women's health specialists, case management specialists, expert medical opinion providers, and virtual primary care physicians. We leverage our integrated capabilities, connectivity with providers and the broader healthcare ecosystem, and longitudinal data to engage across the entire member population, rather than focusing solely on high-cost claimants or those with chronic conditions. Our goal is to build trusted relationships with our members that ultimately position us to deliver personalized recommendations and interventions. We believe that our platform dramatically improves the member experience, encourages better health outcomes, and lowers costs for both our members and our customers.

Accolade Total Health and Benefits has historically been our most comprehensive offering and most closely aligns to our "Premier" solution on which the company was founded and from which the majority of our revenues are derived today. Our technology platform enabled us to unbundle aspects of this comprehensive offering to create two additional standalone offerings: Accolade Total Benefits (focused on member benefits engagement) and Accolade Total Care (focused on guiding members to high-quality, cost-effective providers). Following our acquisition of 2nd.MD in March 2021, we began offering customers expert medical consultation (primarily for high-complexity, high-cost conditions) as a standalone service as well as a capability that can be incorporated into other core offerings. Following our acquisition of PlushCare in June 2021, we began offering virtual primary care and mental health services directly to consumers and commercial customers. We have further leveraged our technology platform to develop add-on offerings and to integrate acquired solutions that target specific challenges faced by our customers.

In September 2021, we announced new solutions and new naming for the solutions described above. The new solutions – Accolade One and Accolade Care – combine the capabilities of Accolade's historical navigation and advocacy solutions with our acquired primary care, mental health, and expert medical opinion services, augmented by artificial intelligence, machine learning, and data-driven recommendations. The new solutions are in their early stages of implementation. Additionally, we announced new solution bundles incorporating all of our existing solutions to reflect the evolution and maturation of our offering portfolio. With these changes, our current offerings include:

- Accolade Expert MD – Expert medical consultations that connect patients to highly qualified condition-specific specialists for both adult and pediatric care

- Accolade Care – Integrated primary care and mental health support
- Core and Plus – A benefits navigation and care solution designed to work with our customers’ existing benefits ecosystem, incorporating elements of all Accolade solutions including Advocacy, Accolade Expert MD, Accolade Care, and the Accolade partner ecosystem. Different offering configurations may also include member services, provider services, and an expanded set of clinical programs that address case and disease management to maximize member engagement and return on investment
- Accolade One – A value-based option that includes all of the Accolade solutions and the Accolade partner ecosystem with a pricing structure that includes a higher portion of revenues associated with outcomes-based measures

We were founded in 2007 and launched our initial offering in 2009. We have seen significant growth in recent years since the changes to our executive management team in 2015 and the subsequent investments we have made in product, technology, sales, and distribution. As of February 28, 2022, we had over 600 employer customers comprising more than 10 million members. Our customers represent a diversified set of industries, including media, technology, financial services, transportation, energy, and retail. Additionally, as of February 28, 2022, we had more than 100,000 consumers subscribed to virtual primary care services through our PlushCare solution.

For the three months ended November 30, 2022, our total revenue was \$90.9 million, representing 9% year-over-year growth compared to total revenue of \$83.5 million for the three months ended November 30, 2021. For the nine months ended November 30, 2022, our total revenue was \$264.1 million, representing 22% year-over-year growth compared to total revenue of \$216.3 million for the nine months ended November 30, 2021. For the three months ended November 30, 2022 and 2021, our net income (loss) was \$(39.9) million and \$22.5 million, respectively. For the nine months ended November 30, 2022 and 2021, our net income (loss) was \$(429.2) million and \$(88.6) million, respectively. Net loss for the nine months ended November 30, 2022 included a goodwill impairment charge of \$299.7 million.

Our Business Model

We provide our solutions primarily to employers that deploy Accolade offerings to our members and to consumers who directly purchase our PlushCare virtual primary care services. We earn revenue from providing personalized health guidance solutions, expert medical opinion services, virtual primary care services, and mental health support to the members of our employer customers' health plans and to members of fully insured plans offered via health insurance companies. Our advocacy solutions are priced based on a recurring per-member-per-month (PMPM) fee, typically consisting of both a base fee and a performance-based fee component. As a result, generally, a portion of our potential revenue is variable, subject to our achievement of performance metrics and the realization of savings in healthcare spend by our customers resulting from the utilization of our solutions. We typically achieve a substantial portion of the contractual performance metrics and realization in savings of healthcare spend. We also provide expert medical opinion services, which are typically charged on a PMPM or case rate basis, and virtual primary care and mental health support, which are typically priced on a fee per visit basis for consumers and a visit fee basis or PMPM plus visit fee basis for employer customers.

The primary cost of delivering our service includes the personnel costs of Accolade Health Assistants and clinicians, including registered nurses, physician medical directors, pharmacists, behavioral health specialists, women's health specialists, case management specialists, expert medical opinion providers and virtual primary care physicians, as well as software and tools for telephony, workforce management, business analytics, allocated overhead costs, and other expenses related to delivery and implementation of our solutions. As we support more customers with an increasing number of members over time, we expect that our support costs per member will decline due to economies of scale and improved operational efficiencies driven by continued enhancements of our technology platform and capabilities. We have experienced and expect to continue to achieve operational efficiencies realized from continued enhancements of our technology platform and capabilities.

We employ a multipronged go-to-market strategy to increase adoption of our solutions to new and existing customers. We principally sell our solutions through our direct salesforce which is stratified by account size (i.e., strategic

(more than 35,000 employees), enterprise (5,000 to 35,000 employees), and mid-market (500 to 5,000 employees)), region, and existing versus prospective customer. Our sales team possesses deep domain expertise in health benefits management and brings substantial experience selling to key decision makers within our current and prospective customer organizations (human resource officers, CFOs, benefits executives, consultants, and brokers). We believe the effectiveness of our sales organization is evidenced by growing adoption of our platform by large strategic customers, recent traction with enterprise and mid-market customers and demonstrated demand for add-on offerings from existing customers.

We have chosen to invest significantly in growing our customer base, and plan to continue both adding new customers and expanding our relationships with existing customers, which we believe will allow us to increase margins over time. When a customer renews their contract or purchases additional solutions or enhancements, the value realized from that customer increases because we generally do not incur significant incremental acquisition or implementation costs for the renewal or expansion. We believe that as our customer base grows and a higher percentage of our revenue is attributable to renewals and upsells or cross-sells to existing customers, relative to acquisition of new customers, associated sales and marketing expenses and other upfront costs will decrease as a percentage of revenue.

In addition, we have strategically curated our offering portfolio to ensure we have a compelling value proposition at an appropriate price point that resonates with each identified customer segment. Based on our experience, the opportunity to cross-sell is meaningfully enhanced once a customer has been on-boarded onto our platform and has benefited from a measurable and compelling return on their investment. Our customer success team provides strategic insights, point solution recommendations, and day-to-day account support to our customers. They are focused on existing customer retention, cross-sell, and upsell.

We maintain relationships with a range of third parties, including brokers, agents, benefits consultants, carriers, third-party administrators, trusted suppliers, and co-marketing and co-selling partners. These third parties provide an important source of referrals for our sales organization. We also selectively form strategic alliances to further drive customer acquisition and adoption of our solutions. We believe the breadth of our go-to-market and distribution strategy enables us to reach customers of nearly every size and across markets.

We have demonstrated a consistent track record of product and technology innovation over time as evidenced by continuous improvement of our platform and new offerings. This innovation is driven by feedback we receive from our customers, industry experts, and the market generally. Our technology platform has enabled us to unbundle aspects of our core navigation capability to create various offerings for our customers, while integrating capabilities from our recent acquisitions to deliver our Personalized Healthcare solution that combines our core navigation with expert medical consultations and virtual primary care and mental health support. Our investments in product and technology have been focused on increasing the value we provide via our personalized member health guidance solutions and expanding the market segments we can serve with a portfolio of offerings and associated price points.

COVID-19 Update

COVID-19 has created uncertainty for Accolade's employees, members, and customers. We consider the impact of the pandemic on our business by evaluating the health of our operations, any changes to our revenue outlook, and the degree to which perceptions of and interest in Accolade solutions have evolved during this unprecedented time. We measure our performance through several key metrics, including but not limited to customer satisfaction, member engagement, and health assistant availability. As gauged by these core performance metrics, service levels have been high, and member engagement and satisfaction have remained strong. To ensure we could address our members' many COVID-19-related concerns, our operations and clinical leaders trained our frontline teams on evidence-based guidelines and continue to equip them with relevant resources to help them ably serve under these exceptional circumstances.

While the COVID-19 pandemic has not had a material adverse impact on our financial condition and results of operations to date, the future impact of the ongoing COVID-19 pandemic on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on our customers and our sales cycles, impact on our marketing efforts, and any decreases of workforce or benefits spending by our customers, all of which are uncertain and cannot be predicted. We have a diverse set of customers across a variety of industries. We may experience increased member attrition to the extent our existing customers reduce their respective workforces in response

to changes in economic conditions. Any layoffs or reductions in employee headcounts by our employer customers would result in a reduction in our base and variable PMPM fees. When customer headcount reductions occur, we may not experience the impact of changes to our customers' headcounts immediately because employees that are on furlough or are receiving continued health coverage pursuant to COBRA may still have access to our services during such periods and would be included in our member count.

We believe our value proposition now resonates with an even broader audience of employers as they turn their focus to safely reopening their workplaces and managing the ongoing health and well-being of employees and their families. To directly address the former, we developed Accolade COVID Response Care, a solution that allows employers of all sizes to leverage Accolade's platform to support employee education, testing, care plans, contact tracing, and return-to-work clearance. On the latter, we believe that the current disruptions to traditional care consumption have reinforced the need for navigation services, and that projected increases in healthcare costs (due to some combination of COVID-19-related testing and care, complications stemming from neglected non-COVID conditions, pent-up demand for elective services, and strain on individuals' mental health) prompt the need for solutions such as ours that bend the cost curve, and improve health outcomes, by driving good utilization up and wasteful utilization down.

Factors Affecting Our Performance

The following factors have been important to our business and we expect them to impact our business, results of operations, and financial condition in future periods:

Growth and Retention of Our Customer Base

We believe there is a substantial opportunity to further grow our customer base in our large and under-penetrated market through our sales and marketing strategy. Across our existing customer base and as we acquire new customers, we intend to expand and deepen these relationships. As we build trust through our proven model, we seek to cross-sell our Accolade ExpertMD and Accolade Care solutions as well as Accolade partner ecosystem programs. We plan to continue to invest in sales and marketing in order to grow our customer base and increase sales to existing customers. Any investments we make in our sales and marketing organization will occur in advance of experiencing any benefits from such investments, so it may be difficult for us to determine if we are efficiently allocating our resources in these areas.

Adoption of Current and Future Solutions

We are constantly innovating to enhance our model and develop new offerings. Our ability to act as a trusted advisor to our members and customers positions us to identify new opportunities for additional offerings that can meet their existing and emerging needs. Our open technology platform also allows us to efficiently add and integrate new offerings and applications on top of our existing technology stack that target specific challenges faced by our customers. Our open technology platform is instrumental for integration of the capabilities acquired through our acquisitions of 2nd.MD and PlushCare. We believe that as we expand our customer base and enter into new markets, we will be adept at identifying and deploying innovative new solutions whether developed internally or through acquisitions. In September 2021, we announced two new solutions – Accolade One and Accolade Care – that combine some or all of the elements of Accolade's historical solutions and the acquired capabilities from 2nd.MD and PlushCare. The new solutions are in their early stages of implementation, with initial customer launches in January 2022.

Achievement of Performance-Based Revenue

In most of our contracts, a portion of our potential fee is variable, subject to our achievement of performance metrics and the realization of savings in healthcare spend by our customers resulting from the utilization of our solutions, and thus we might record higher revenue in some quarters compared to others. Examples of performance metrics included in our customer contracts are achievement of specified member engagement levels, member satisfaction levels, and various operational metrics. Although we have earned over 90% of the aggregate maximum potential revenue under our contracts (measured on the corresponding calendar year basis) in fiscal years 2022 and 2021, our revenue and financial results in the future may vary as a result of our ability to earn this performance-based revenue. In addition, because our customers

typically pay both the base PMPM fees and variable PMPM fees in advance on a periodic basis, any required refund as a result of our failure to earn the performance-based revenue could have a negative impact on cash flows.

Investments in Technology

Significant investments in our technology platform have enhanced our capabilities with respect to how we engage with our members and deliver our solutions and care interventions. By leveraging our technology in areas such as machine learning, predictive analytics, and multimodal communication, we believe we can generate more efficiencies in our operating model while simultaneously improving our ability to deliver better health outcomes and lower costs for both our members and our customers. We will continue to invest in our technology platform to empower our Accolade Health Assistants, our clinicians, and our members to further improve and optimize efficiencies in our operating model. However, our investments in our technology platform may be more expensive or take longer to develop than we expect and may not result in operational efficiencies.

Basis of Presentation and Components of Revenue and Expenses

We operate our business through a single reportable segment. We operate on a fiscal year ending at the end of February of each year, and our fiscal quarters end on May 31, August 31, November 30, and the last day of February.

Revenue

We earn revenue from providing personalized health guidance solutions (advocacy), expert medical opinion services, virtual primary care services, and mental health support services to the members of our employer customers' health plans and to members of fully insured plans offered via health insurance companies. We also earn revenue from providing virtual primary care services and mental health support services directly to consumers. Our advocacy solutions are priced based on a recurring PMPM fee and frequently include both a base PMPM fee based on eligible members and a performance-based component. As a result, a portion of our potential fee is typically variable, subject to our achievement of performance metrics, the realization of savings in healthcare spend by our customers resulting from the utilization of our solutions, and the number of eligible members during the respective period. Our expert medical opinion services are typically charged on a PMPM or case rate basis, and our virtual primary care and mental health support services are typically priced on a fee per visit basis for consumers and a visit fee basis or PMPM plus visit fee basis for employer customers.

Cost of Revenue, Excluding Depreciation and Amortization

Our cost of revenue, excluding depreciation and amortization, consists primarily of personnel costs including salaries, wages, bonuses, stock-based compensation expense and benefits, as well as software and tools for telephony, workforce management, business analytics, allocated overhead costs, and other expenses related to delivery and implementation of our personalized technology-enabled solutions, expert medical opinion services, virtual primary care services, and mental health support.

Operating Expenses

Product and technology. Product and technology expenses include costs to build new offerings, add new features to our existing solutions, and to manage, operate, and ensure the reliability and scalability of our existing technology platform. Product and technology expenses consist of personnel expenses, including salaries, bonuses, stock-based compensation expense, and benefits for employees and contractors for our engineering, product, and design teams, and allocated overhead costs, as well as costs of software and tools for business analytics, data management, and IT applications that are not directly associated with delivery of our solutions to customers. We expect product and technology expenses to increase in absolute dollars but decrease as a percentage of revenue over time.

Sales and marketing. Sales and marketing expenses consist of personnel expenses, including sales commissions for our direct sales force and our market and business development workforce, as well as digital marketing costs, promotional costs, customer conferences, public relations, other marketing events, and allocated overhead costs. Personnel

expenses include salaries, bonuses, stock-based compensation expense, and benefits for employees and contractors. We expect sales and marketing expense to increase in absolute dollars but remain stable as a percentage of revenue over time.

General and administrative. General and administrative expenses consist of personnel expenses and related expenses for our executive, finance and accounting, human resources, legal, and corporate organizations. Personnel expenses include salaries, bonuses, stock-based compensation expense, and benefits for employees and contractors. In addition, general and administrative expenses include external legal, accounting, and other professional fees, as well as tools for financial and human capital management, and allocated overhead costs. We expect general and administrative expenses to increase in absolute dollars as we incur costs associated with being a public company, but decrease as a percentage of revenue over time.

Depreciation and amortization. Depreciation and amortization expenses are primarily attributable to our capital investments and consist of fixed asset depreciation, amortization of intangibles considered to have definite lives, and amortization of capitalized internal-use software costs.

Goodwill impairment. Goodwill impairment expense represents impairment charges incurred as a result of goodwill impairment testing.

Results of Operations

The following table presents a summary of our consolidated statements of operations for the periods indicated:

	For the three months ended November 30,		For the nine months ended November 30,	
	2022	2021	2022	2021
	(in thousands)		(in thousands)	
Revenue	\$ 90,946	\$ 83,450	\$ 264,117	\$ 216,265
Cost of revenue, excluding depreciation and amortization ⁽¹⁾	50,412	45,156	147,857	125,426
Operating expenses:				
Product and technology ⁽¹⁾	24,254	22,846	77,265	61,297
Sales and marketing ⁽¹⁾	25,023	24,616	75,573	63,134
General and administrative ⁽¹⁾	20,037	21,464	61,295	69,636
Depreciation and amortization	11,602	11,250	34,749	30,967
Goodwill impairment	—	—	299,705	—
Change in fair value of contingent consideration	—	(68,428)	—	(38,282)
Total operating expenses	80,916	11,748	548,587	186,752
Income (loss) from operations	(40,382)	26,546	(432,327)	(95,913)
Interest income (expense), net	386	(743)	(484)	(2,137)
Other income (expense)	201	25	21	(19)
Income (loss) before income taxes	(39,795)	25,828	(432,790)	(98,069)
Income tax benefit (expense)	(77)	(3,325)	3,573	9,501
Net income (loss)	\$ (39,872)	\$ 22,503	\$ (429,217)	\$ (88,568)

⁽¹⁾ The stock-based compensation expense included above was as follows:

	For the three months ended November 30,		For the nine months ended November 30,	
	2022	2021	2022	2021
	(in thousands)		(in thousands)	
Cost of revenue	\$ 1,247	\$ 949	\$ 3,645	\$ 2,331
Product and technology	5,930	5,303	19,045	13,491
Sales and marketing	4,513	3,608	12,772	9,035
General and administrative	6,216	8,517	19,347	20,970
Total stock-based compensation	\$ 17,906	\$ 18,377	\$ 54,809	\$ 45,827

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The following table sets forth our consolidated statements of operation data expressed as a percentage of revenue:

	For the three months ended November 30,		For the nine months ended November 30,	
	2022	2021	2022	2021
Revenue	100 %	100 %	100 %	100 %
Cost of revenue, excluding depreciation and amortization	55 %	54 %	56 %	58 %
Operating expenses:				
Product and technology	27 %	27 %	29 %	28 %
Sales and marketing	28 %	29 %	29 %	29 %
General and administrative	22 %	26 %	23 %	32 %
Depreciation and amortization	13 %	13 %	13 %	14 %
Goodwill impairment	— %	— %	113 %	— %
Change in fair value of contingent consideration	— %	(82)%	— %	(18)%
Total operating expenses	89 %	14 %	208 %	86 %
Income (loss) from operations	(44)%	32 %	(164)%	(44)%
Interest income (expense), net	0 %	(1)%	(0)%	(1)%
Other income (expense)	0 %	0 %	0 %	(0)%
Income (loss) before income taxes	(44)%	31 %	(164)%	(45)%
Income tax benefit (expense)	(0)%	(4)%	1 %	4 %
Net income (loss)	(44)%	27 %	(163)%	(41)%

Comparison of Three and Nine Months Ended November 30, 2022 and 2021

Revenue

	For the three months ended November 30,		Changes	
	2022	2021	Amount	%
Revenue	\$ 90,946	\$ 83,450	\$ 7,496	9 %

Revenue increased \$7.5 million, or 9%, to \$90.9 million for the three months ended November 30, 2022, as compared to \$83.5 million for the three months ended November 30, 2021. The increase was attributable to revenues derived from growth in the number of customers served during the third quarter of fiscal 2023 as compared to the prior year's corresponding period. Revenue from access fees increased \$0.9 million, or 1%, to \$70.0 million for the three months ended November 30, 2022 as compared to \$69.1 million for the three months ended November 30, 2021. Revenue from utilization-based fees increased \$6.6 million, or 46%, to \$21.0 million for the three months ended November 30, 2022 as compared to \$14.4 million for the three months ended November 30, 2021.

	For the nine months ended November 30,		Changes	
	2022	2021	Amount	%
Revenue	\$ 264,117	\$ 216,265	\$ 47,852	22 %

Revenue increased \$47.9 million, or 22%, to \$264.1 million for the nine months ended November 30, 2022, as compared to \$216.3 million for the nine months ended November 30, 2021. The increase was attributable primarily to revenues derived from the PlushCare acquisition (which occurred in the second quarter of fiscal 2022) and growth in the number of customers served during the nine months ended November 30, 2022, as compared to the prior year's corresponding period. Revenue from access fees increased \$20.0 million, or 11%, to \$206.0 million for the nine months ended November 30, 2022 as compared to \$186.0 million for the nine months ended November 30, 2021. Revenue from utilization-based fees increased \$27.9 million, or 92%, to \$58.1 million for the nine months ended November 30, 2022 as compared to \$30.3 million for the nine months ended November 30, 2021.

Cost of revenue, excluding depreciation and amortization

	For the three months ended			
	November 30,		Changes	
	2022	2021	Amount	%
Cost of revenue, excluding depreciation and amortization	\$ 50,412	\$ 45,156	\$ 5,256	12 %

(in thousands, except percentages)

Cost of revenue, excluding depreciation and amortization increased \$5.3 million, or 12%, to \$50.4 million for the three months ended November 30, 2022, as compared to \$45.2 million for three months ended November 30, 2021. The increase was primarily driven by \$3.3 million in increased personnel and related costs to serve the customer base and \$1.5 million in increased costs associated with third-party services and solutions from trusted suppliers.

	For the nine months ended			
	November 30,		Changes	
	2022	2021	Amount	%
Cost of revenue, excluding depreciation and amortization	\$ 147,857	\$ 125,426	\$ 22,431	18 %

(in thousands, except percentages)

Cost of revenue, excluding depreciation and amortization, increased \$22.4 million, or 18%, to \$147.9 million for the nine months ended November 30, 2022, as compared to \$125.4 million for the nine months ended November 30, 2021. The increase was primarily driven by \$15.5 million in increased personnel and related costs to serve the customer base and \$3.6 million associated with third-party services and solutions from trusted suppliers.

Operating expenses

	For the three months ended			
	November 30,		Changes	
	2022	2021	Amount	%
Operating expenses:				
Product and technology	\$ 24,254	\$ 22,846	\$ 1,408	6 %
Sales and marketing	25,023	24,616	407	2 %
General and administrative	20,037	21,464	(1,427)	(7)%
Depreciation and amortization	11,602	11,250	352	3 %
Change in fair value of contingent consideration	—	(68,428)	68,428	N/A
Total operating expenses	\$ 80,916	\$ 11,748	\$ 69,168	589 %

(in thousands, except percentages)

Product and technology. Product and technology expense increased \$1.4 million, or 6%, to \$24.3 million for the three months ended November 30, 2022, as compared to \$22.8 million for the three months ended November 30, 2021. The increase was primarily driven by increases in personnel and related costs of \$0.5 million and stock-based compensation of \$0.6 million.

Sales and marketing. Sales and marketing expense increased \$0.4 million, or 2%, to \$25.0 million for the three months ended November 30, 2022, as compared to \$24.6 million for the three months ended November 30, 2021. The increase was primarily driven by an increase in stock-based compensation of \$0.9 million, partially offset by timing of marketing event costs which were lower in the fiscal third quarter of 2023 by \$0.3 million.

General and administrative. General and administrative expense decreased \$1.4 million, or 7%, to \$20.0 million for the three months ended November 30, 2022, as compared to \$21.5 million for the three months ended November 30, 2021. The decrease was primarily due to a decrease in stock-based compensation of \$2.3 million, partially offset by increases in professional fees of \$0.6 million.

Depreciation and amortization. Depreciation and amortization expense increased \$0.4 million, or 3%, to \$11.6 million for the three months ended November 30, 2022, as compared to \$11.3 million for the three months ended November 30, 2021. The composition of depreciable and amortizable assets has not changed significantly since the third quarter of fiscal 2022.

Change in fair value of contingent consideration. This operating expense represents the change in the fair value of the contingent consideration liabilities associated with the 2nd.MD and PlushCare acquisitions. The contingent consideration was reclassified to equity in the fourth quarter of fiscal 2022.

	For the nine months ended November 30,		Changes	
	2022	2021	Amount	%
(in thousands, except percentages)				
Operating expenses:				
Product and technology	\$ 77,265	\$ 61,297	\$ 15,968	26 %
Sales and marketing	75,573	63,134	12,439	20 %
General and administrative	61,295	69,636	(8,341)	(12)%
Depreciation and amortization	34,749	30,967	3,782	12 %
Goodwill impairment	299,705	—	299,705	N/A
Change in fair value of contingent consideration	—	(38,282)	38,282	N/A
Total operating expenses	<u>\$ 548,587</u>	<u>\$ 186,752</u>	<u>\$ 361,835</u>	<u>194 %</u>

Product and technology. Product and technology expense increased \$16.0 million, or 26%, to \$77.3 million for the nine months ended November 30, 2022, as compared to \$61.3 million for the nine months ended November 30, 2021. The increase was primarily driven by increases in personnel and related costs of \$7.9 million, which included \$1.2 million of severance costs associated with workforce realignment actions taken by management, and stock-based compensation expense of \$5.6 million.

Sales and marketing. Sales and marketing expense increased \$12.4 million, or 20%, to \$75.6 million for the nine months ended November 30, 2022, as compared to \$63.1 million for the nine months ended November 30, 2021. The increase was primarily driven by increases in digital marketing costs of \$5.7 million, stock-based compensation expense of \$3.7 million, and \$1.0 million of severance costs associated with workforce realignment actions taken by management.

General and administrative. General and administrative expense decreased \$8.3 million, or 12%, to \$61.3 million for the nine months ended November 30, 2022, as compared to \$69.6 million for the nine months ended November 30, 2021. The decrease was primarily due to decreases in acquisition and integration-related costs of \$12.8 million and a decrease in stock-based compensation expense of \$1.6 million, partially offset by increases in personnel and related costs of \$4.0 million, which included \$1.0 million of severance costs associated with workforce realignment actions taken by management.

Depreciation and amortization. Depreciation and amortization expense increased \$3.8 million, or 12%, to \$34.7 million for the nine months ended November 30, 2022, as compared to \$31.0 million for the nine months ended November 30, 2021. The increase was primarily due to additional fiscal 2023 amortization of PlushCare intangible assets that were acquired during the second quarter of fiscal 2022.

Goodwill impairment. This operating expense represents the impairment charge taken as a result of the goodwill impairment test performed during the first quarter of fiscal 2023.

Change in fair value of contingent consideration. This operating expense represents the change in the fair value of the contingent consideration liabilities associated with the 2nd.MD and PlushCare acquisitions. The contingent consideration was reclassified to equity in the fourth quarter of fiscal 2022.

Interest expense, net

	For the three months ended			
	November 30,		Changes	
	2022	2021	Amount	%
	(in thousands, except percentages)			
Interest income (expense), net	\$ 386	\$ (743)	\$ 1,129	152 %

Interest income (expense), net increased \$1.1 million, or 152%, to \$0.4 million for the three months ended November 30, 2022, as compared to \$(0.7) million for the three months ended November 30, 2021. The increase was primarily due to an additional \$1.2 million of interest income generated from our cash and cash equivalents during the three months ended November 30, 2022 compared to the prior year period.

	For the nine months ended			
	November 30,		Changes	
	2022	2021	Amount	%
	(in thousands, except percentages)			
Interest income (expense), net	\$ (484)	\$ (2,137)	\$ 1,653	77 %

Interest income (expense), net increased \$1.7 million, or 77%, to \$(0.5) million for the nine months ended November 30, 2022, as compared to \$(2.1) million for the nine months ended November 30, 2021. The increase was primarily due to an additional \$2.1 million of interest income generated from our cash and cash equivalents during the nine months ended November 30, 2022 compared to the prior year period.

Certain Non-GAAP Financial Measures

We use the following non-GAAP financial measures to help us evaluate trends, establish budgets, measure the effectiveness and efficiency of our operations, and determine employee incentives.

	For the three months ended		For the nine months ended	
	November 30,		November 30,	
	2022	2021	2022	2021
	(in thousands, except percentages)		(in thousands, except percentages)	
Adjusted Gross Profit	\$ 41,781	\$ 39,243	\$ 120,019	\$ 93,170
Adjusted Gross Margin	45.9 %	47.0 %	45.4 %	43.1 %
Adjusted EBITDA	\$ (10,222)	\$ (11,944)	\$ (39,337)	\$ (44,193)

Adjusted Gross Profit and Adjusted Gross Margin

Adjusted Gross Profit is a non-GAAP financial measure that we define as revenue less cost of revenue, excluding depreciation and amortization, and excluding stock-based compensation and severance costs. We define Adjusted Gross Margin as our Adjusted Gross Profit divided by our revenue. We expect Adjusted Gross Margin to continue to improve over time to the extent that we are able to gain efficiencies through technology and successfully cross-sell and upsell our current and future offerings. However, our ability to improve Adjusted Gross Margin over time is not guaranteed and will be impacted by the factors affecting our performance discussed above and the risks outlined in the section titled “Risk Factors.” We believe Adjusted Gross Profit and Adjusted Gross Margin are useful to investors, as they eliminate the impact of certain non-cash expenses and allow a direct comparison of these measures between periods without the impact of non-cash expenses and certain other nonrecurring operating expenses.

Adjusted EBITDA

Adjusted EBITDA is a non-GAAP financial measure that we define as net income (loss) adjusted to exclude interest expense (income), net, income tax expense (benefit), depreciation and amortization, stock-based compensation, acquisition and integration-related costs, goodwill impairment, change in fair value of contingent consideration, severance costs, and other expense (income). We consider severance costs to include severance payments related to the realignment

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of our resources. Other expense (income) includes foreign exchange gain or loss. We believe Adjusted EBITDA provides investors with useful information on period-to-period performance as evaluated by management and comparison with our past financial performance. We believe Adjusted EBITDA is useful in evaluating our operating performance compared to that of other companies in our industry, as this measure generally eliminates the effects of certain items that may vary from company to company for reasons unrelated to overall operating performance.

Adjusted Gross Profit, Adjusted Gross Margin and Adjusted EBITDA have certain limitations, including that they exclude the impact of certain non-cash charges, such as depreciation and amortization, whereas underlying assets may need to be replaced and result in cash capital expenditures, and stock-based compensation expense, which is a recurring charge. These non-GAAP financial measures may also not be comparable to similarly titled measures of other companies because they may not calculate such measures in the same manner, limiting their usefulness as comparative measures. In evaluating these non-GAAP financial measures, you should be aware that in the future we expect to incur expenses similar to the adjustments in this presentation. Our presentation of non-GAAP financial measures should not be construed as an inference that our future results will be unaffected by these expenses or any unusual or nonrecurring items. When evaluating our performance, you should consider these non-GAAP financial measures alongside other financial performance measures, including the most directly comparable GAAP measures set forth in the reconciliation tables below and our other GAAP results. The following table presents, for the periods indicated, the calculation of our Adjusted Gross Profit and Adjusted Gross Margin:

	For the three months ended November 30,		For the nine months ended November 30,	
	2022 (in thousands, except percentages)	2021 (in thousands, except percentages)	2022 (in thousands, except percentages)	2021 (in thousands, except percentages)
Revenue	\$ 90,946	\$ 83,450	\$ 264,117	\$ 216,265
Less:				
Cost of revenue, excluding depreciation and amortization	(50,412)	(45,156)	(147,857)	(125,426)
Gross profit, excluding depreciation and amortization	40,534	38,294	116,260	90,839
Add:				
Stock-based compensation, cost of revenue	1,247	949	3,645	2,331
Severance costs, cost of revenue	—	—	114	—
Adjusted Gross Profit	\$ 41,781	\$ 39,243	\$ 120,019	\$ 93,170
Gross margin, excluding depreciation and amortization	44.6 %	45.9 %	44.0 %	42.0 %
Adjusted Gross Margin	45.9 %	47.0 %	45.4 %	43.1 %

Gross margin, excluding depreciation and amortization, for the three months ended November 30, 2022 and 2021, decreased to 44.6% from 45.9%, respectively, and Adjusted Gross Margin for the three months ended November 30, 2022 and 2021 decreased to 45.9% from 47.0%, respectively. The decreases in gross margin, excluding depreciation and amortization, and Adjusted Gross Margin are driven primarily by timing of revenue recognition with higher gross margins. Gross margin, excluding depreciation and amortization, for the nine months ended November 30, 2022 and 2021, increased to 44.0% from 42.0%, respectively, and Adjusted Gross Margin for the nine months ended November 30, 2022 and 2021, increased to 45.4% from 43.1%, respectively. The increases in gross margin, excluding depreciation and amortization, and Adjusted Gross Margin are driven primarily by higher margins in our virtual primary care offerings that were acquired during the second quarter of fiscal 2022 compared with the Company's other offerings.

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The following table presents, for the periods indicated, a reconciliation of our Adjusted EBITDA to our net income (loss):

	For the three months ended November 30,		For the nine months ended November 30,	
	2022	2021	2022	2021
	(in thousands)		(in thousands)	
Net income (loss)	\$ (39,872)	\$ 22,503	\$ (429,217)	\$ (88,568)
Adjusted for:				
Interest expense (income), net	(386)	743	484	2,137
Income tax (benefit) expense	77	3,325	(3,573)	(9,501)
Depreciation and amortization	11,602	11,250	34,749	30,967
Stock-based compensation	17,906	18,377	54,809	45,827
Acquisition and integration-related costs ⁽¹⁾	439	311	439	13,208
Goodwill impairment	—	—	299,705	—
Change in fair value of contingent consideration	—	(68,428)	—	(38,282)
Severance costs ⁽²⁾	213	—	3,288	—
Other expense (income)	(201)	(25)	(21)	19
Adjusted EBITDA	<u>\$ (10,222)</u>	<u>\$ (11,944)</u>	<u>\$ (39,337)</u>	<u>\$ (44,193)</u>

(1) For the three and nine months ended November 30, 2022, acquisition and integration-related costs represent expenses associated with litigation inherited through the PlushCare acquisition. Refer to Note 12 in our consolidated financial statements for further details. For the three and nine months ended November 30, 2021, acquisition and integration-related costs represent banking, legal, accounting, and consulting fees related to acquisitions.

(2) Severance costs represent expenses associated with workforce realignment actions taken by management.

Liquidity and Capital Resources

We had cash and cash equivalents of \$325.6 million as of November 30, 2022. Our cash equivalents are comprised of money market accounts held at banks.

Our Debt Arrangements

As of November 30, 2022, we had \$287.5 million in outstanding debt related to the Convertible Senior Notes issued in March 2021. We currently also have a revolving credit facility (2019 Revolver), which we entered into in July 2019.

On March 29, 2021, we issued an aggregate of \$287.5 million principal amount of 0.50% Convertible Senior Notes due 2026 (the Notes), including the exercise in full by the initial purchasers of their option to purchase up to an additional \$37.5 million aggregate principal amount of the Notes, pursuant to an Indenture dated as of March 29, 2021 (the Indenture), between us and U.S. Bank National Association, as trustee. The Notes will bear interest at a rate of 0.50% per annum, payable semiannually in arrears on April 1 and October 1 of each year, beginning on October 1, 2021. The Notes will mature on April 1, 2026, unless earlier converted, redeemed or repurchased. The Notes are convertible into cash, shares of our common stock or a combination of cash and shares of our common stock, at our election.

The 2019 Revolver provides for a senior secured revolving line of credit in the amount of up to \$80.0 million, with borrowing availability subject to certain monthly recurring revenue calculations. The interest rate on any outstanding borrowings are at the Bloomberg Short-Term Bank Yield Index rate (BSBY) plus 350 basis points or Base Rate (as defined) plus 250 basis points, with the BSBY rate and Base Rate subject to minimum levels, subject to certain floors, and interest payments are to be made in installments of one, two, or three months as chosen by us. We also have outstanding letters of credit to serve as office landlord security deposits in the amount of \$1.2 million. These letters of credit are secured through the revolving credit facility, thus reducing the capacity of the revolving credit facility to \$78.8 million. The 2019 Revolver expires in July 2024.

The 2019 Revolver contains a liquidity covenant calculated based on cash on hand plus available borrowings under the 2019 Revolver, a revenue covenant and certain reporting covenants. On August 21, 2020, we entered into an amendment to the 2019 Revolver which revised the terms of the revenue covenant and imposed minimum LIBOR and Base Rate levels. On September 11, 2020, we entered into another amendment to the 2019 Revolver which modified the allocation requirements of our cash to be held at each of the two lenders participating in the 2019 Revolver. On November 6, 2020, we entered into another amendment to the 2019 Revolver which increased the capacity from \$50.0 million to \$80.0 million. On March 2, 2021, we entered into another amendment to the 2019 Revolver in association with the acquisition of 2nd.MD and amended certain revenue covenants. On March 23, 2021, we entered into another amendment to the 2019 Revolver in association with the convertible senior notes offering. On May 26, 2021, we entered into another amendment to the 2019 Revolver in association with the acquisition of PlushCare which modified certain reporting covenants. On July 19, 2022, the Company entered into another amendment to the 2019 Revolver which extended the term until July 19, 2024, documented the transition from the LIBOR interest rate index to the BSBY rate, and established new minimum covenant revenue targets. The term will automatically be extended to July 19, 2025 if the Company has at least \$200,000 in consolidated net cash as of May 31, 2024.

We were in compliance with all such applicable covenants as of November 30, 2022, and believe we are in compliance as of the date of this Quarterly Report on Form 10-Q. We do not expect to need to draw on the 2019 Revolver, but our access to draw on the 2019 Revolver could be limited in the future if we do not have enough monthly recurring revenues to cover the borrowing availability calculations.

Cash Flows

The following table summarizes our cash flows for the periods indicated:

	For the nine months ended	
	November 30,	
	2022	2021
	(in thousands)	
Net cash used in operating activities	\$ (38,146)	\$ (60,066)
Net cash used in investing activities	(4,815)	(263,081)
Net cash provided by financing activities	2,745	255,245

Operating Activities. Net cash used in operating activities decreased by \$21.9 million to \$38.1 million during the nine months ended November 30, 2022 from \$60.1 million during the nine months ended November 30, 2021, primarily due to growth in the business resulting in decreased net loss net of non-cash items during the nine months ended November 30, 2021 that did not occur in the current period.

Investing Activities. Net cash used in investing activities decreased by \$258.3 million to \$4.8 million during the nine months ended November 30, 2022, from \$263.1 million during the nine months ended November 30, 2021, primarily due to cash paid for the acquisitions of 2nd.MD and PlushCare, totaling \$260.2 million, during the nine months ended November 30, 2021.

Financing Activities. Net cash provided by financing activities decreased by \$252.5 million to \$2.7 million during the nine months ended November 30, 2022 from \$255.2 million during the nine months ended November 30, 2021 primarily due to the proceeds from the issuance of the Convertible Senior Notes of \$287.5 million and payment for purchase of capped calls associated with the Convertible Senior Notes of \$(34.4) million during the nine months ended November 30, 2021.

Material Cash Requirements

As of November 30, 2022, our material cash requirements from known contractual and other obligations, which we expect to fund through available cash, future cash generated from operations, and our existing financing arrangements, are as follows:

- *Principal and interest obligations on convertible debt* – As discussed in detail above, the \$287.5 million principal amount of the Notes matures on April 1, 2026. See *Our Debt Arrangements* above and Note 8 to our consolidated financial statements for more details.
- *Operating leases* – We have entered into operating leases, primarily for office space. Liabilities associated with these leases totaled \$36.2 million as of November 30, 2022.
- *Other purchase obligations* – We have entered into certain arrangements that include obligations to make significant future purchases. The majority of these purchases are not expected to be made over the next 12 months. See Note 12 to our consolidated financial statements for more details.

Off-Balance Sheet Arrangements

We did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other purposes. We did not have any other off-balance sheet arrangements, except to the extent reflected under “— Material Cash Requirements” above and in our consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements are prepared in accordance with U.S. GAAP. The preparation of these condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses, as well as related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates.

There have been no significant changes in our critical accounting policies and estimates during the nine months ended November 30, 2022, as compared to the critical accounting policies and estimates described in our Annual Report on Form 10-K for the year ended February 28, 2022 filed with the SEC. We incurred a goodwill impairment charge during the nine months ended November 30, 2022, which is detailed below.

Accounting for Goodwill and Other Intangible Assets

Goodwill. Goodwill represents the excess of the cost of an acquired business over the fair value of the identifiable tangible and intangible assets acquired and liabilities assumed in a business combination. For the purposes of impairment testing, we have determined that we have one reporting unit. We perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If that is the case, we perform a quantitative impairment test. We test our goodwill for impairment on an annual basis in the fourth quarter of each fiscal year, or more frequently whenever an event or change in circumstances indicates that the asset may be impaired. In performing our evaluation, we assess qualitative factors such as overall financial performance of our reporting unit, anticipated changes in industry and market structure, and the competitive and regulatory environment.

As a result of sustained decreases in our stock price and market capitalization, we conducted an impairment test of our goodwill as of May 31, 2022 in connection with the preparation of the condensed consolidated financial statements included in the first quarter Quarterly Report on Form 10-Q. As a result of this testing, we recorded a \$299.7

million non-cash goodwill impairment charge (equivalent to \$4.24 per basic and diluted share for the nine months ended November 30, 2022) during the first quarter of fiscal 2023. Our May 31, 2022 goodwill impairment test reflected an allocation of 70% and 30% between the income and market-based approaches, respectively. We believe the 70% weighting to the income-based approach is appropriate as it more directly reflects our future growth and profitability expectations. Significant inputs into the valuation models included the discount rate, revenue market multiples, and estimated future cash flows. We used a discount rate of 11% and guideline peer group and public transaction revenue multiples between 1.1x and 1.8x current and forward-looking revenues in the goodwill impairment test. Subsequent to the impairment, there was no excess of reporting unit fair value over carrying value.

While we cannot predict if or when additional future goodwill impairments may occur, additional goodwill impairments could have material adverse effects on our operating income, net assets, and/or our cost of, or access to, capital.

Realizability of Long-Lived Assets. We assess the realizability of our long-lived assets and related intangible assets, other than goodwill, upon the occurrence of events or changes in circumstances indicating that the carrying values of such assets may not be recoverable. We consider the following factors important in determining when to perform an impairment review: significant under-performance of a business or product line relative to budget; shifts in business strategies which affect the continued uses of the assets; significant negative industry or economic trends; and the results of past impairment reviews. When such events or changes in circumstances occur, we assess recoverability of these assets.

We assess recoverability of these assets by comparing the carrying amounts to the future undiscounted cash flows the assets are expected to generate. If impairment indicators were present based on our undiscounted cash flow models, which include assumptions regarding projected cash flows, we would perform a discounted cash flow analysis to assess impairments on long-lived assets. Variances in these assumptions could have a significant impact on our conclusions as to whether an asset is impaired or the amount of any impairment charge. Impairment charges, if any, result in situations where any fair values of these assets are less than their carrying values. As a result of sustained decreases in our stock price and market capitalization, we conducted an impairment test of our intangible assets as of May 31, 2022. No impairments were recorded to intangible assets as a result of this testing.

In addition to our recoverability assessments, we routinely review the remaining estimated useful lives of our long-lived assets. Any reduction in the useful life assumption will result in increased depreciation and amortization expense in the quarter when such determinations are made, as well as in subsequent quarters.

We will continue to evaluate the values of our long-lived assets in accordance with applicable accounting rules. As changes in business conditions and our assumptions occur, we may be required to record impairment charges.

Recently Issued and Adopted Accounting Pronouncements

For more information on recently issued accounting pronouncements, see Note 2 in the accompanying Notes to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We had cash and cash equivalents of \$325.6 million as of November 30, 2022 and \$365.9 million as of February 28, 2022. Our cash equivalents are comprised primarily of money market accounts held at banks and United States treasury bills with original maturities of three months or less. Due to the short-term nature of these instruments, we believe that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. Declines in interest rates, however, would reduce future interest income.

Foreign Currency Exchange Risk

We have in the past and may in the future be exposed to foreign currency exchange risks in the ordinary course of our business, but that exposure is not currently material to our business or results of operations.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain “disclosure controls and procedures,” as defined in Rules 13a-15(e) and Rule 15d-15(e) under the Exchange Act that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of November 30, 2022. Based on the evaluation of our disclosure controls and procedures as of November 30, 2022, our Chief Executive Officer and Chief Financial Officer concluded that as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, believes that our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives and are effective at the reasonable assurance level. However, our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

We are from time to time subject to, and are presently involved in, litigation and other legal proceedings that arise in the ordinary course of business. Descriptions of certain legal proceedings to which we are a party are contained in Note 12, “Commitments and Contingencies,” to our condensed consolidated financial statements included in this Form 10-Q.

Item 1A. Risk Factors

You should consider carefully the risks and uncertainties described below, together with all of the other information in this Quarterly Report on Form 10-Q, including the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes. Our business, results of operations, financial condition, and prospects could also be harmed by risks and uncertainties that are not presently known to us or that we currently believe are not material. If any of the risks actually occur, our business, results of operations, financial condition, and prospects could be materially and adversely affected. Unless otherwise indicated, references in these risk factors to our business being harmed will include harm to our business, reputation, brand, financial condition, results of operations, and prospects. In such event, the market price of our common stock could decline.

Risks Related to Our Business and Industry

We have a history of net losses, we anticipate increasing expenses in the future, and we may not be able to achieve or maintain profitability.

We have incurred net losses in most periods since our inception and continue to have an accumulated deficit. We expect our costs will increase substantially in the foreseeable future and our losses will continue as we expect to invest significant additional funds towards growing our business and as we continue to invest in increasing our customer base, expanding our operations, hiring additional employees, and developing future offerings. These efforts may prove more expensive than we currently anticipate, and we may not succeed in increasing our revenue sufficiently to offset these higher expenses. We are unable to accurately predict when, or if, we will be able to achieve profitability. Even if we achieve profitability in the future, we may not be able to sustain profitability in subsequent periods. To date, we have financed our operations principally from the sale of our equity, revenue from sales of our offerings, and the incurrence of indebtedness. Our cash flow from operations was negative for the nine months ended November 30, 2022 and each of the last three fiscal years, and we may not generate positive cash flow from operations in any given period. If we are not able to achieve or maintain positive cash flow in the long term, we may require additional financing, which may not be available on favorable terms or at all and/or which may be dilutive to our stockholders. If we are unable to successfully address these risks and challenges as we encounter them, our business may be harmed. Our failure to achieve or maintain profitability or positive cash flow could negatively impact the value of our common stock.

We derive a significant portion of our revenue from our largest customers. The loss of any of these customers, or renegotiation of any of our contracts with these customers, could negatively impact our results.

While no customer represented 10% or more of our revenue for the three and nine months ended November 30, 2022, historically we have relied on a limited number of customers for a significant portion of our revenue. The loss of any of our largest customers or the renegotiation of any of our largest customer contracts has in the past, and could in the future, adversely affect our results of operations. For example, in April 2022, Comcast Cable notified us that it would be exercising its right to terminate our contract “for convenience” effective at the end of the current calendar year ending December 31, 2022, subject to a right to elect to receive transition services for a period post-termination. Comcast accounted for less than 10%, 16%, and 24% of our revenue for the fiscal years ended February 28(29), 2022, 2021, and 2020, respectively. The loss of another significant customer, if we are not able to replace such revenue from other existing or new customers, could harm our business and our financial results. Although we typically enter into

three-year contracts with our customers, certain of these contracts, including existing contracts with some of our largest customers, are terminable for convenience by our customers after an initial period and a notice period has passed. In the ordinary course of business, including in connection with renewals or extensions of these agreements, we engage in active discussions and renegotiations with our customers in respect of the solutions we provide and the terms of our customer agreements, including our fees. In addition, as our customers' businesses respond to market dynamics and financial pressures, and as our customers make decisions with respect to the health and other benefits they provide to their employees, our customers may seek to renegotiate or terminate their agreements with us, or may stage competitive request for proposal processes, any of which could result in the loss or reduced profitability of such customers' agreements with us. Macroeconomic factors including the COVID-19 pandemic, rising inflation, and geopolitical risk may affect our customers' desire to renew their contracts, or if they undergo layoffs or reductions in force then our membership numbers would decrease, which would reduce our revenues. For example, during the initial year of the pandemic, customers in the airline industry had significant headcount reductions, which resulted in a reduction of revenues associated with these customers. We may not experience the impact of changes to our customers' headcount immediately because employees that are on furlough or are receiving continuing health coverage pursuant to the Consolidated Omnibus Budget Reconciliation Act (COBRA) may still have access to our services during such period and be included in our member count, although our member counts will be reduced upon completion of these members' COBRA access, and there can be no guarantee that all such members will elect COBRA in lieu of alternative healthcare options. In addition, there is substantial uncertainty about further disruption due to macroeconomic factors including the COVID-19 pandemic, rising inflation, and geopolitical risk. Any of these factors could result in reductions to the fees and changes to the scope of offerings contemplated by our original customer contracts and consequently could negatively impact our business. Because we rely on a limited number of customers for a significant portion of our revenue, delayed payments by a few of our largest customers could result in a reduction in, and greater volatility of, our free cash flow and available cash. We also depend on the creditworthiness of these customers. If the financial condition of one or more of our largest customers declines, our credit risk could increase. Should one or more of our largest customers declare bankruptcy, it could adversely affect the collectability of our accounts receivable and affect our bad debt reserves, net income, free cash flow, and available cash.

We have a limited operating history with our current offerings, which makes it difficult to evaluate our current and future business prospects and increases the risk of your investment.

While we served our first customer in 2009, we have significantly altered our offerings and executive management team since 2015. Our limited operating history with respect to our current offerings and current executive management team makes it difficult to effectively assess or forecast our future prospects. For example, with the acquisitions of 2nd.MD and PlushCare, and any new integrated offerings Accolade may offer in connection therewith, our sales efforts with respect to these offerings may not be as successful as our sales of Accolade Total Health and Benefits – our historical primary offering. You should consider our business and prospects in light of the risks and difficulties we encounter or may encounter. These risks and difficulties include our ability to cost-effectively acquire new customers, retain existing customers and expand the scope of solutions we sell to new and existing customers. Furthermore, in pursuit of our growth strategy, we may enter into new partnerships to further penetrate our targeted markets and adoption of our solutions, but it is uncertain whether these efforts will be successful. If we fail to address the risks and difficulties that we face, including those associated with the challenges listed above, our business may be harmed.

Our business, results of operations, and financial condition may fluctuate on a quarterly and annual basis, which may result in a decline in our stock price if such fluctuations result in a failure to meet any projections that we may provide or the expectations of securities analysts or investors.

Our operating results have in the past and could in the future vary significantly from quarter-to-quarter and year-to-year and may fail to match our past performance, our projections or the expectations of securities analysts because of a variety of factors, many of which are outside of our control and, as a result, should not be relied upon as an indicator of future performance. As a result, we may not be able to accurately forecast our operating results and growth rate. Any of

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these events could cause the market price of our common stock to fluctuate. Factors that may contribute to the variability of our operating results include:

- our ability to attract new customers and engage new members, and retain and engage with existing customers and members;
- achievement of performance metrics and the realization of savings in healthcare spend by our customers resulting from the utilization of our solutions;
- the upfront costs in our customer, member and trusted supplier relationships;
- the enrollment cycles and employee benefit practices of our customers;
- the financial condition of our current and potential customers;
- changes in our sales and implementation cycles;
- introductions and expansions of our offerings, or challenges with their introduction;
- changes in our pricing or fee structures or those of our competitors;
- the timing and success of new offering introductions by us or our competitors or any other change in the competitive landscape of our industry, including consolidation among our competitors;
- increases in operating expenses that we may incur to grow and expand our operations and to remain competitive;
- our ability to successfully expand our business;
- breaches of information security or privacy;
- changes in stock-based compensation expenses;
- the amount and timing of operating costs and capital expenditures related to the expansion of our business;
- adverse litigation judgments, settlements, or other litigation-related costs;
- changes in the structure of healthcare provider and payment systems;
- changes in the legislative or regulatory environment, including with respect to healthcare, privacy, or data protection, or enforcement by government regulators, including fines, orders, or consent decrees;
- the cost and potential outcomes of ongoing or future regulatory investigations or examinations, or of future litigation;
- changes in our effective tax rate;
- our ability to make accurate accounting estimates and appropriately recognize revenue for our existing and future offerings;
- changes in accounting standards, policies, guidance, interpretations, or principles;

- instability in the financial markets;
- general economic conditions, both domestic and international;
- volatility in the global financial markets;
- political, economic, and social instability, including terrorist activities, the ongoing conflict between Ukraine and Russia, and outbreaks of public health threats, such as coronavirus, influenza, or other highly communicable diseases or viruses, and any disruption these events may cause to the global economy; and
- changes in business or macroeconomic conditions.

The impact of one or more of the foregoing and other factors may cause our operating results to vary significantly. As such, we believe that quarter-to-quarter and year-to-year comparisons of our operating results may not be meaningful and should not be relied upon as an indication of future performance.

Our sales cycle can be long and unpredictable and requires considerable time and expense. As a result, our sales, revenue, and cash flows are difficult to predict and may vary substantially from period to period, which may cause our results of operations to fluctuate significantly.

The timing of our sales, revenue, and cash flows is difficult to predict because of the length and unpredictability of our sales cycle. The sales cycle for our solutions from initial contact to launch varies widely by potential customer. Some of our potential customers, especially in the case of our prospective strategic and enterprise customers, undertake a significant and prolonged evaluation process, including to determine whether our solutions meet the specific needs of their group health plan, employee benefits programs, corporate budgets, and other goals, which frequently involves evaluation of not only our solutions but also an evaluation of other available solutions. Such evaluations have in the past resulted in extended sales cycles that, due to changes in corporate objectives, leadership involved in the selection process, and other factors, may result in delayed or suspended decision-making in awarding the sale. In addition, our sales cycle may become more lengthy and difficult as a result of macroeconomic factors including the COVID-19 pandemic, rising inflation, and geopolitical risk. During the sales cycle, we expend significant time and money on sales and marketing activities, which lowers our operating margins, particularly if no sale occurs. For example, there may be unexpected delays in a potential customer's internal procurement processes, which involve intensive financial, operational, and security reviews, and for which our solutions represent a significant purchase. In addition, the significance and timing of our offering enhancements, and the introduction of new products by our competitors, may also affect our potential customers' purchases. For all of these reasons, it is difficult to predict whether a sale will be completed, the particular period in which a sale will be completed, or the period in which revenue from a sale will be recognized.

Certain of our operating results and financial metrics may be difficult to predict as a result of seasonality.

We believe there are significant seasonal factors that may cause us to record higher revenue in some quarters compared with others. We believe this variability is largely due to our focus on the healthcare industry. For example, with respect to our customers, in particular our Accolade Total Health and Benefits customers with contract years commencing at the beginning of a calendar year, we record a disproportionate amount of revenue from such customers during the fourth quarter of our fiscal year relative to the first three quarters of our fiscal year. This timing is caused, in part, by the measurement, achievement, and associated revenue recognition of performance metrics and healthcare costs savings components of certain of our customer contracts during the fourth quarter of each fiscal year. While we believe we have visibility into the seasonality of our business, our rapid growth rate over the last several years may have made seasonal fluctuations more difficult to detect. If our rate of growth slows over time, seasonal or cyclical variations in our operations may become more pronounced, and our business may be harmed.

The recognition of a portion of our revenue is subject to the achievement of performance metrics and healthcare cost savings and may not be representative of revenue for future periods.

We price the majority of our services based upon a per-member-per-month (PMPM) fee times the number of eligible members, typically with a portion of the PMPM fee fixed (base PMPM fee) and the remainder of the fee variable (variable PMPM fee). Revenue from variable PMPM fees can be earned through either, or a combination of, the achievement of certain performance metrics or the realization of healthcare savings resulting from the utilization of our services. Although we have typically achieved these performance metrics and realization in savings of healthcare spend, resulting in our earning over 90% of the aggregate maximum potential revenue under our customer contracts (measured on the corresponding calendar year basis in fiscal years 2022, 2021, and 2020), our revenue and financial results in the future may be variable based on whether we earn this performance-based revenue. For example, lower healthcare utilization could result in lower engagement with Accolade services than expected and put our ability to meet certain performance metrics at risk. In addition, since our customers typically pay the full PMPM fee in advance on a periodic basis, any required refund as a result of our failure to earn the performance-based revenue could have a negative impact on cash flows. Under U.S. generally accepted accounting principles (GAAP), we recognize revenue when control of the promised services is transferred to our customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those services. The majority of the fees we earn are considered to be variable consideration under GAAP. We typically invoice our customers on a periodic basis for the base PMPM fees and variable PMPM fees in advance of performing the services, and these advances are classified as deferred revenue on our consolidated balance sheet until such time that the associated revenue can be recognized. Due to the need for us to satisfy performance metrics and healthcare savings requirements, deferred revenue at any particular date may not be representative of actual revenue for any current or future period.

If we fail to effectively manage our growth and organizational change, our mission-driven culture could be impacted, and our business could be harmed.

We have experienced, and may continue to experience, growth and organizational change, which has placed, and may continue to place, significant demands on our management, operational, and financial resources. For example, our headcount was approximately 2,350 as of February 28, 2022. Most of our employees have been with us for fewer than three years as a result of our rapid growth. We believe that our mission-driven culture has been an important contributor to our success, which we believe fosters empathy, innovation, teamwork, and passion for providing high levels of customer satisfaction and member engagement. If we fail to successfully integrate, develop, and motivate new employees, it could harm our mission-driven culture. In addition, as we grow and develop the infrastructure of a public company, we may find it difficult to maintain the important aspects of our mission-driven culture, which could limit our ability to innovate and operate effectively. Any failure to preserve our culture could also negatively affect our ability to retain and recruit personnel, maintain our performance, or execute on our business strategy.

To manage our current and anticipated future growth and organizational change effectively, we must also continue to maintain, and may need to enhance, our information technology infrastructure and financial and accounting systems and controls, as well as manage expanded operations in geographically distributed locations, which will place additional demands on our resources and operations. Failure to manage our growth and organizational change effectively could lead us to over-invest or under-invest in technology and operations; result in weaknesses in our infrastructure, systems, or controls; give rise to operational mistakes, losses, or loss of productivity or business opportunities; reduce customer or member satisfaction; limit our ability to respond to competitive pressures; and result in loss of team members and reduced productivity of remaining team members. Our growth and organization change could require significant capital expenditures and may divert financial resources and management attention from other projects, such as the development of new or enhanced solutions or the acquisition of suitable businesses or technologies. If our management is unable to effectively manage our growth and organizational change, our expenses may increase more than expected, our revenue could decline or may grow more slowly than expected, and we may be unable to implement our business strategy.

If we are unable to attract, integrate, and retain additional qualified personnel, especially for Accolade Health Assistants, clinical, including primary care physicians and medical specialists, and various product and technology roles, our business could be adversely affected.

Our future success depends in part on our ability to identify, attract, integrate, and retain empathetic and knowledgeable Accolade Health Assistants and clinicians, as well as highly qualified and motivated product developers and engineers, who embody our mission-driven culture. We seek to employ Accolade Health Assistants and clinicians who demonstrate empathy and problem-solving skills and hire from diverse professional backgrounds, including social work, teaching, customer care, and benefits. 2nd.MD's service relies on the attraction of and engagement with medical specialists to support its business operations, and PlushCare, via the associated medical practices, seeks to engage high quality primary care physicians. We have from time to time in the past experienced, and may in the future experience, difficulty in hiring and retaining employees with appropriate qualifications. Qualified individuals in the regions where we have offices are in high demand, and we may incur significant costs to attract them. For example, the market for software engineers in the Seattle area is particularly competitive. In addition, with a current shortage of certain qualified nurses in many areas of the United States, competition for the hiring of these professionals remains intense. Similarly, with the expansion of adoption of telehealth generally, and specifically virtual primary care, competition remains intense for qualified primary care physicians. We compete for qualified individuals with numerous other companies, many of whom have greater financial and other resources than we do. In addition, in the future, we may experiment with different staffing and scheduling models to help attract and retain qualified personnel, including hiring individuals that work remotely, incorporating more flexible work schedules, or deploying a temporary workforce. If we fail to effectively manage our hiring needs or successfully integrate new hires, our employee morale and retention could suffer. Any of these events could also adversely affect our customer and member satisfaction and harm our business.

Attracting, integrating, and retaining personnel will require us to invest in and commit significant financial, operational, and management resources to grow and change in these areas without undermining the mission-driven culture that has been critical to our growth so far. For example, newly hired Accolade Health Assistants and clinicians require significant training and, in many cases, take significant time before they achieve full productivity. We train Accolade Health Assistants and clinicians in our proprietary engagement approach and integrated technology platform to provide data-informed, personalized health and benefit support to members in friendly, straightforward terms. This new hire training process lasts approximately one month, including classroom sessions and supervised live call training. If we do not achieve the benefits anticipated from these investments, or if the realization of these benefits is delayed, our results of operations may be adversely affected and our reputation could suffer.

We may also incur significant costs to attract and retain qualified personnel, including significant expenditures related to salaries and benefits and compensation expenses related to equity awards, and we may lose new employees to our competitors or other companies before we realize the benefit of our investment in recruiting and training them. Additionally, we have granted certain, but not all of, our employees equity-based awards under our equity incentive plans and expect to continue this practice. However, if we do not grant equity awards, or if we reduce the value of the equity awards we grant, we may not be able to attract and retain key personnel. Volatility in the price of our common stock underlying equity awards may adversely affect our ability to attract or retain key personnel. If we grant more equity awards to attract and retain key personnel, the expenses associated with such additional equity awards could affect our results of operations.

Further, as of February 28, 2022, approximately 50% of our U.S. based labor force were hourly employees, including Accolade Health Assistants and certain clinicians, who are paid wage rates that currently are above the applicable U.S. federal and state minimum wage requirements. These employees are classified as non-exempt, overtime eligible under U.S. federal and state law. If we fail to effectively manage these hourly employees, then we may face claims alleging violations of wage and hour employment laws, including claims of back wages, unpaid overtime pay, and missed meal and rest periods. Any such employee litigation could be attempted on a class or representative basis. Such litigation can be expensive and time-consuming regardless of whether the claims against us are valid or whether we are ultimately determined to be liable and could divert management's attention from our business. We also could be adversely affected by negative publicity, litigation costs resulting from the defense of these claims, and the diversion of time and resources from our operations. Although we have historically maintained a good relationship with our employees, our employees

could unionize or any of our employees could engage in a strike, work stoppage, or other slowdown that would adversely affect our operations and could result in higher labor costs, which would harm our business.

We may face intense competition, which could limit our ability to maintain or expand market share within our industry, and if we do not maintain or expand our market share our business and operating results will be harmed.

The market for our offerings is underpenetrated, competitive, and characterized by rapidly evolving technology standards, customer and member needs, and the frequent introduction of new products and services. Our competitors range from smaller niche companies to large, well-financed health plans. As costs fall and technology improves, increased market saturation may change the competitive landscape in favor of competitors with greater scale than we currently possess. We compete on the basis of several factors, including level of member engagement, ability to influence members to improve health and financial incomes, customer and member satisfaction, and price. Some of our competitors have greater name recognition, longer operating histories, and significantly greater resources than we do. As a result, our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards, or customer requirements.

In addition to new niche vendors, who offer stand-alone products and services, we also face competition from health plans, which may have existing systems in place at customers in our target market. These competitors may now, or in the future, offer or promise products or services similar to ours, and which offer ease of integration with existing systems and which leverage existing customer and vendor relationships.

In addition, current and potential competitors have established, and may in the future establish, cooperative relationships with vendors of complementary products, our trusted suppliers, or other third parties, technologies, or services to increase the availability of their products to the marketplace. For example, our current competitors may persuade our trusted suppliers to terminate their relationship with us and engage exclusively with our competitors. Accordingly, new competitors or alliances may emerge that have greater market share, larger customer bases, more widely adopted proprietary technologies, greater marketing expertise, greater financial resources, and larger sales forces than we have, which could put us at a competitive disadvantage. Further, in light of these advantages, even if our offerings are more effective than the product or service offerings of our competitors, current or potential customers might accept competitive products and services in lieu of purchasing our solutions.

Our partners, including our trusted suppliers, could become our competitors by offering similar services. Some of our partners may begin to offer services in the same or similar manner as we do. For example, a trusted supplier may expand their business model from a point solution into an engagement model similar to ours. Although there are many potential opportunities for, and applications of, these services, our partners may seek opportunities or target new customers in areas that may overlap with those that we have chosen to pursue. In such cases, we may potentially compete against our partners. Competition from our partners may adversely affect our business and results from operations. In addition, some of the terms of our partner relationships may include exclusivity or other restrictive clauses. Any agreements with partners that include exclusivity or other restrictive provisions may limit our ability to partner with or provide services to potential customers or other third parties, which could harm our business.

We also compete on the basis of price. We may be subject to pricing pressures as a result of, among other things, competition within the industry, practices of managed care organizations, government action, and financial stress experienced by our customers. Many customers stage regular request for proposal processes as a matter of procurement policy, which enables competitors to bid aggressively to try to capture such customers' business, and such competitors may submit bids incorporating pricing or other terms that we are unable or unwilling to match. If our pricing experiences significant downward pressure, our business will be less profitable, and our results of operations will be adversely affected. We cannot be certain that we will be able to retain our current customers or expand our customer base in this competitive environment. If we do not retain current customers or expand our customer base, or if we have to renegotiate existing contracts, our business will be harmed.

Moreover, we expect that competition will continue to increase as a result of consolidation in both the healthcare information technology and healthcare industries. If one or more of our competitors or potential competitors were to merge or partner with another of our competitors or one of our trusted suppliers, the change in the competitive landscape could

also adversely affect our ability to compete effectively and could harm our business. In addition, as the healthcare industry consolidates, competition to provide services to this segment will become more intense. These healthcare industry participants may try to use their market power to negotiate price reductions for our existing and future offerings. If we reduce our prices because of consolidation in the healthcare industry, our revenue would decrease, which could harm our business.

The growth of our business relies, in part, on the growth and success of our customers and the number of members with access to our offerings, which are difficult to predict and are affected by factors outside of our control.

We enter into agreements with our customers under which our fees are generally dependent upon the number of their employees enrolled in in-scope health plans and those employees' enrolled dependents each month. If the number of members covered by one or more of our customers' health and other benefits programs were to decline, such decrease would lead to a decrease in our revenue. Any reductions in headcount for our customers may result in a decrease in our revenue. Some of our fees are also subject to credits if certain performance criteria are not met, which in some cases depend on the behavior of our members, such as their continued engagement with our existing and future offerings, and other factors outside of our control. The recognition of a portion of our revenue is subject to achievement of performance metrics and healthcare cost savings and may not be representative of revenue for future periods. In addition, some of our customers' members may request to opt out of our service, which could cause our customers to only pay for those members that have not opted out, and as a result, may result in utilization-based pricing, which could lead to a decrease in revenue from that customer and harm our business.

We may be unable to successfully execute on our growth initiatives, business strategies, or operating plans.

We are continually executing on growth initiatives, strategies, and operating plans designed to enhance our business and extend our existing and future offerings to address evolving needs. For example, we developed add-on offerings that target specific challenges faced by our customers, including Accolade COVID Response Care, Accolade Boost, the Trusted Supplier Program, and Mental Health Integrated Care. The anticipated benefits from these efforts are based on several assumptions that may prove to be inaccurate. Moreover, we may not be able to successfully complete these growth initiatives, strategies, and operating plans and realize all of the benefits, including growth targets and cost savings, that we expect to achieve, or it may be more costly to do so than we anticipate. A variety of risks could cause us not to realize some or all of the expected benefits. These risks include, among others, delays in the anticipated timing of activities related to such growth initiatives, strategies, and operating plans, increased difficulty and cost in implementing these efforts, including difficulties in complying with new regulatory requirements, the incurrence of other unexpected costs associated with operating our business, and lack of acceptance by our customers. Moreover, our continued implementation of these programs may disrupt our operations and performance. As a result, we cannot assure you that we will realize these benefits. If, for any reason, the benefits we realize are less than our estimates or the implementation of these growth initiatives, strategies, and operating plans adversely affect our operations or cost more or take longer to effectuate than we expect, or if our assumptions prove inaccurate, our business may be harmed.

We may acquire other companies or technologies, which could divert our management's attention, result in dilution to our stockholders, and otherwise disrupt our operations, and we may have difficulty integrating any such acquisitions successfully or realizing the anticipated benefits therefrom, any of which could have an adverse effect on our business, financial condition, and results of operations.

We may seek to acquire or invest in businesses, applications, services, or technologies that we believe could complement or expand our existing and future offerings, enhance our technical capabilities, or otherwise offer growth opportunities. The pursuit of potential acquisitions may divert the attention of management and cause us to incur various expenses in identifying, investigating, and pursuing suitable acquisitions, whether or not they are consummated. In addition, we have limited experience in acquiring other businesses and may have difficulty integrating acquired businesses. For example, in March 2021 we acquired 2nd.MD, in June 2021 we acquired PlushCare, and in September 2021 we acquired substantially all the assets of HealthReveal which we are in the process of integrating with our offerings. If we acquire additional businesses, we may not be able to integrate the acquired operations and technologies successfully, or effectively manage the combined business following the acquisition. Integration may prove to be difficult due to the necessity of integrating personnel with disparate business backgrounds and accustomed to different corporate cultures.

We also may not achieve the anticipated benefits from any acquired business due to a number of factors, including:

- inability to integrate or benefit from acquired technologies or services in a profitable manner;
- unanticipated costs or liabilities, including legal liabilities, associated with the acquisition;
- difficulties and additional expenses associated with supporting legacy products and hosting infrastructure of the acquired business;
- difficulty converting the customers of the acquired business into our current and future offerings and contract terms, including disparities in the revenue model of the acquired company;
- diversion of management's attention or resources from other business concerns;
- adverse effects on our existing business relationships with customers, members, or strategic partners as a result of the acquisition;
- the potential loss of key employees; and
- use of substantial portions of our available cash to consummate the acquisition.

We may issue equity securities or incur indebtedness to pay for any such acquisition or investment, which could adversely affect our business, results of operations, or financial condition. Any such issuances of additional capital stock may cause stockholders to experience significant dilution of their ownership interests and the per share value of our common stock to decline. In addition, a significant portion of the purchase price of any companies we acquire may be allocated to acquired goodwill and other intangible assets, which must be assessed for impairment annually and upon the identification of a triggering event, such as sustained declines in our stock price or market capitalization. For example, in the first quarter of fiscal 2023, the Company recorded a material impairment charge against goodwill. In the future, if our acquisitions do not yield expected returns, we may be required to take further charges to our results of operations based on this impairment assessment process, which could adversely affect our results of operations.

If we do not continue to innovate and provide offerings that are useful to customers and members that achieve and maintain market acceptance, we may not remain competitive, and our revenue and results of operations could suffer.

Our success depends on our ability to keep pace with technological developments, satisfy increasingly sophisticated customer and member requirements, and achieve and maintain market acceptance on our existing and future offerings in the rapidly evolving market for healthcare and benefits in the United States. In addition, market acceptance and adoption of our existing and future offerings depends on the acceptance by employers, payors, health plans, and government entities as to the distinct features, cost savings, and other perceived benefits of our existing and future offerings as compared to competitive solutions. Our competitors are constantly developing products and services that may become more efficient or appealing to our customers or members. As a result, we must continue to invest significant resources in research and development in order to enhance our existing offerings and introduce new offerings that customers and members will want, while offering our existing and future offerings at competitive prices. If we are unable to predict customer and member preferences or industry changes, or if we are unable to modify our existing and future offerings on a timely or cost-effective basis, we may lose customers. If we are not successful in demonstrating to existing and potential customers the benefits of our existing and future offerings, or if we are not able to achieve the support of employers, healthcare providers, and insurance carriers for our existing and future offerings, our revenue may decline or we may fail to increase our revenue in line with our forecasts. Our results of operations also would suffer if our innovations are not responsive to the needs of our customers and members, are not timed to match the corresponding market opportunity, or are not effectively brought to market, including as the result of delayed releases or releases that are ineffective or have errors or defects.

The growth of our business and future success relies in part on our partnerships and other relationships with third parties and our business could be harmed if we fail to maintain or expand these relationships.

We selectively form partnerships and engage with a range of third parties, including brokers, agents, benefits consultants, carriers, third-party administrators, trusted suppliers, and co-marketing and co-selling partners to grow our customer base and adoption of our offerings. We may fail to retain and expand these partnerships and other third-party relationships for various reasons, and any such failure could harm our relationship with our customers, our reputation and brand, our prospects, and our business.

In order to grow our business, we anticipate that we will continue to depend on our relationships with our partners. As we seek to form additional partnerships and other third-party relationships, it is uncertain whether these efforts will be successful, or that these relationships will result in increased customer or member use of our solutions or increased revenue. In the event that we are unable to effectively utilize, maintain, and expand these partnerships and other third-party relationships, our revenue growth could slow. Additionally, our partnerships and other third-party relationships may demand, or demand greater, referral fees or commissions.

If the estimates and assumptions we use to determine the size of our total addressable market are inaccurate, our future growth rate may be impacted and our business would be harmed.

Market estimates and growth forecasts are subject to significant uncertainty and are based on assumptions and estimates that may prove to be inaccurate. Even if the market in which we compete meets our size estimates and forecasted growth, our business could fail to grow at similar rates, if at all. Our market opportunity is based on the assumption that our existing and future offerings will be more attractive to our customers and potential customers than competing solutions. If these assumptions prove inaccurate, our business, financial condition, and results of operations could be adversely affected.

We depend on our senior management team, and the loss of one or more of these employees, or an inability to attract and retain qualified key personnel, could adversely affect our business.

Our success depends, in part, on the skills, working relationships and continued services of Rajeev Singh (Chief Executive Officer), other senior management team members and other key personnel. We do not currently maintain key-person insurance on the lives of any of our key personnel. From time to time, there may be changes in our senior management team resulting from the hiring or departure of executives, which could disrupt our business. The replacement of one or more of our executive officers or other key employees would likely involve significant time and costs and may significantly delay or prevent the achievement of our business objectives.

While we have entered into offer letters or employment agreements with certain of our executive officers, all of our employees are “at-will” employees, and their employment can be terminated by us or them at any time, for any reason and without notice, subject, in certain cases, to severance payment rights. In order to retain valuable employees, in addition to salary and cash incentives, we may provide equity awards that vest over time or based on performance. The value to employees of equity awards that vest over time or based on performance will be significantly affected by movements in our stock price that are beyond our control and may at any time be insufficient to counteract offers from other organizations. The departure of key personnel could adversely affect the conduct of our business. In such event, we would be required to hire other personnel to manage and operate our business, and there can be no assurance that we would be able to employ a suitable replacement for the departing individual, or that a replacement could be hired on terms that are favorable to us. In addition, volatility or lack of performance in our stock price may affect our ability to attract and retain replacements should key personnel depart. If we are not able to retain any of our key personnel, our business could be harmed.

If we are not able to maintain and enhance our reputation and brand recognition, our business and results of operations will be harmed.

We believe that maintaining and enhancing our reputation and brand recognition is critical to our relationships with our existing customers and partners, including our trusted suppliers, and to our ability to attract new customers and

partners. The promotion of our brand may require us to make substantial investments and we anticipate that, as our market becomes increasingly competitive, these marketing initiatives may become increasingly difficult and expensive. Brand promotion and marketing activities may not be successful or yield increased revenue, and to the extent that these activities yield increased revenue, the increased revenue may not offset the expenses we incur and our results of operations could be harmed. In addition, any factor that diminishes our reputation or that of our management, including failing to meet the expectations of customers, members, and partners, and failure to maintain high-quality support, could harm our reputation and brand and make it substantially more difficult for us to attract new customers and trusted suppliers or form new partnerships. Additionally, the performance of third parties with whom we have a relationship, including our trusted suppliers, may also affect our brand and reputation, particularly if our customers and members do not have a positive experience with our trusted suppliers or other third parties. In addition, our sales process is highly dependent on the reputation of our offerings and business and on positive recommendations from our existing customers. If we do not successfully maintain and enhance our reputation and brand recognition, our business may not grow and we could lose our relationships with existing and prospective customers, which would harm our business.

Any failure to offer high-quality customer and member support services could adversely affect our relationships with our customers and partners and our operating results.

Our customers and members depend on our support to assist members with their healthcare and other benefits needs. We may be unable to accurately predict our members' demand for services or respond quickly enough to accommodate short-term increases in customer or member demand for services. Increased customer or member demand for services, without a corresponding increase in productivity or revenue, could increase costs and adversely affect our operating results. Any failure to maintain high-quality support, or a market perception that we do not maintain high-quality support, could adversely affect our reputation, our ability to sell our solutions to existing and prospective customers, our relationships with third parties and our ability to form new partnerships, and our business and operating results.

If our existing customers do not continue to renew their contracts with us, renew at lower fee levels, decline to purchase additional offerings from us, or terminate their contracts for convenience, our business could be harmed.

We expect to derive a significant portion of our revenue from the renewal of existing customers' contracts and sales of additional solutions to existing customers. As part of our growth strategy, for instance, we have recently focused on expanding our solutions among current customers. For example, with the acquisitions of 2nd.MD and PlushCare, we introduced our expert medical opinion and virtual primary care offerings to our customers. In 2020, as the pandemic proliferated, we launched Accolade COVID Response Care, a service that helps employers manage their return to work programs. We also launched Mental Health Integrated Care, which expands our members' access to mental health coaching, virtual therapy, and virtual psychiatry and deeply integrates these services with the physical health support provided by the Accolade care team. Achieving a high customer retention rate and selling additional applications and solutions are critical to our future business, revenue growth, and results of operations. Factors that may affect our retention rate and our ability to sell additional applications and solutions include the following:

- the price, performance, and functionality of our existing and future offerings;
- the availability, price, performance, and functionality of competing solutions;
- our ability to develop and sell complementary applications and solutions;
- changes in healthcare laws, regulations, or trends; and
- the business environment of our customers.

We typically enter into contracts with our customers with a stated initial term of three years and various termination rights, which if invoked may cause such contracts to be terminated before the term expires. For example, after a specified period, certain of these contracts are terminable for convenience by our customers after a notice period has passed, including existing contracts with some of our largest customers. In connection with the COVID-19 pandemic,

macroeconomic factors may affect our customers' desire to renew their contracts, or even if they do renew, if they undergo layoffs or reductions in force, then our membership numbers would decrease which would reduce our revenues. If any of our contracts with our customers is terminated, we may not be able to recover all fees due under the terminated contract, which may adversely affect our operating results. Should any of our customers terminate their relationship with us after implementation of our solutions has begun, we not only would lose our time, effort, and resources invested in that implementation, but also we would have lost the opportunity to leverage those resources to build a relationship with other customers over that same period of time. Our customers may negotiate terms less advantageous to us upon renewal, which may reduce our revenue from these customers and may decrease our annual revenue. Mergers and acquisitions involving our customers have in the past and may in the future lead to non-renewal or termination of our contracts with those customers or by the acquiring or combining companies. If our customers fail to renew their contracts, renew their contracts upon less favorable terms or at lower fee levels, or fail to purchase new solutions from us, our revenue may decline or our future revenue growth may be constrained.

The healthcare industry is rapidly evolving and the market for technology-enabled solutions that empower healthcare consumers is relatively immature and unproven. If we are not successful in promoting the benefits of our existing and future offerings, our growth may be limited.

The market for our solutions is subject to rapid and significant changes. The market for technology-enabled solutions that empower healthcare consumers is characterized by rapid technological change, new product and service introductions, increasing consumer financial responsibility, consumerism and engagement, and the entrance of non-traditional competitors. In addition, there may be a limited-time opportunity to achieve and maintain a significant share of this market due in part to the rapidly evolving nature of the healthcare and technology industries and the substantial resources available to our existing and potential competitors. The market for technology-enabled solutions that empower healthcare consumers is relatively new and unproven, and it is uncertain whether this market will achieve and sustain high levels of demand and market adoption. In order to remain competitive, we are continually involved in a number of projects to compete with new market entrants by developing new offerings, growing our customer base, and expanding into adjacent markets. For example, with the acquisitions of 2nd.MD and PlushCare, we introduced our expert medical opinion, virtual primary care, and mental health support offerings to our customers, including integrated offerings with our core navigation services referred to as Accolade One (an offering combining navigation, expert medical opinion services, and virtual primary care and mental health support), and Accolade Care (an offering combining our virtual primary care and mental health support with elements of our navigation capabilities). Further, the Accolade Boost solution and our Trusted Supplier Program are examples of add-on offerings we have deployed to complement our traditional offerings and generate additional value to our customers. These projects carry risks, such as cost overruns, delays in delivery, performance problems, and lack of acceptance by our customers. If we cannot adapt to rapidly evolving industry standards, technology, and increasingly sophisticated customers and their employees, our existing technology could become undesirable, obsolete, or harm our reputation.

We must continue to invest significant resources in our personnel and technology in a timely and cost-effective manner in order to enhance our existing offerings and introduce new offerings that existing customers and potential new customers will want. If our new or modified offerings are not responsive to the preferences of customers and their employees, emerging industry standards, or regulatory changes, are not appropriately timed with market opportunity, or are not effectively brought to market, we may lose existing customers or be unable to obtain new customers, and our results of operations may suffer.

Our success also depends to a substantial extent on the ability of our existing and future offerings to increase member engagement and our ability to demonstrate the value of our existing and future offerings to customers. If our existing customers do not recognize or acknowledge the benefits of our existing and future offerings or our offerings do not increase member engagement, then the market for our solutions might not develop at all, or it might develop more slowly than we expect, either of which could adversely affect our operating results. In addition, we have limited insight into trends that might develop and affect our business, which could lead to errors in our predicting and reacting to relevant business, legal, and regulatory trends and healthcare reform. If any of these events occur, it could harm our business.

Our marketing efforts for the direct-to-consumer virtual primary care portion of our business may not be successful or may become more expensive, either of which could increase our costs and adversely affect our business, financial condition, results of operations and cash flows.

With the acquisition of PlushCare, direct-to-consumer virtual primary care and mental health support represents a material portion of our overall business. We spend significant resources marketing this service. We rely on relationships for our direct-to-consumer virtual business with a wide variety of third parties, including Internet search providers such as Google, social networking platforms such as Facebook, Internet advertising networks, co-registration partners, retailers, distributors, television advertising agencies and direct marketers, to source new members and to promote or distribute our services and products. In addition, in connection with the launch of new services or products for our direct-to-consumer virtual primary care and mental health support business, we may spend a significant amount of resources on marketing. If our marketing activities are inefficient or unsuccessful, if important third-party relationships or marketing strategies, such as Internet search engine marketing and search engine optimization, become more expensive or unavailable, or are suspended, modified or terminated, for any reason, if there is an increase in the proportion of consumers visiting our websites or purchasing our services by way of marketing channels with higher marketing costs as compared to channels that have lower or no associated marketing costs or if our marketing efforts do not result in our services being prominently ranked in Internet search listings, our business, financial condition, results of operations and cash flows could be materially and adversely impacted.

We have been and may in the future become subject to litigation, which could harm our business.

Our business entails the risk of liability claims against us, and we have been and may in the future become subject to litigation. Claims against us may be asserted by or on behalf of a variety of parties, including our customers, our members, vendors of our customers, government agencies, our current or former employees, or our stockholders. Litigation may result related to employer practices and healthcare in connection with the COVID-19 pandemic, including as to one or more of our service offerings. The expansion of Accolade's services to include expert consultations and primary care services, via the acquisition of 2nd.MD and PlushCare, also may increase our risk of litigation related to such services. Some of these claims may result in significant defense costs and potentially significant judgments against us, some of which are not, or cannot be, covered by adequate insurance. Although we carry professional liability insurance in amounts that we believe are appropriate in light of the risks attendant to our business, successful claims could result in substantial damage awards that exceed the limits of our insurance coverage. In addition, any determination that certain non-medical services are acting in the capacity of a healthcare provider, or exercising undue influence or control over a healthcare provider, may subject us to claims not covered by our professional liability insurance coverage, or could result in significant sanctions against us and our clinicians, additional compliance requirements, expense, and liability to us. If our medical care services are found to cause harm to an individual or otherwise constitute malpractice, we may be subject to claims exceeding our coverage limits and cause reputational harm. If we make errors in the billing and the coding for such services, we may be subject to claims exceeding our coverage limits and cause reputational harm. In addition, professional liability insurance is expensive and insurance premiums may increase significantly in the future, particularly as we expand our solutions. As a result, adequate professional liability insurance may not be available to us or to our partners in the future at acceptable costs or at all. We generally intend to defend ourselves vigorously; however, we cannot be certain of the ultimate outcomes of any claims that may arise in the future. Resolution of some of these types of matters against us may result in our having to pay significant fines, judgments, or settlements, which, if uninsured, or if the fines, judgments, and settlements exceed insured levels, could adversely impact our earnings and cash flows, thereby harming our business and per share trading price of our common stock. For example, fines or assessments could be levied against us under domestic or foreign data privacy laws (such as the Health Insurance Portability and Accountability Act of 1996, as amended by the Health Information Technology for Economic and Clinical Health Act (collectively, HIPAA), the General Data Protection Regulation (GDPR), or the California Consumer Privacy Act of 2018 (CCPA)) or under authority of privacy enforcing governmental entities (such as the Federal Trade Commission (FTC), or the U.S. Department of Health and Human Services (HHS)) or as a result of private actions, such as class actions based on data breaches or based on private rights of action (such as that contained in the CCPA). Certain litigation or the resolution of certain litigation may affect the availability or cost of some of our insurance coverage, which could adversely impact our results of operations and cash flows, expose us to increased risks that would be uninsured and adversely impact our ability to attract directors and officers. In addition, such litigation could result in increased scrutiny by government authorities having authority over our business, such as the FTC, the HHS, Office for Civil Rights (OCR), and state attorneys general.

If our information technology systems or data, or those of third parties upon which we rely, are or were compromised, we could experience adverse consequences resulting from such compromise, including but not limited to regulatory investigations or actions; litigation; fines and penalties; disruptions of our business operations; reputational harm; loss of revenue or profits; loss of customers or sales; and other adverse consequences.

In the ordinary course of our business, we may collect, store, use, disclose, or otherwise process proprietary, confidential, and sensitive information, including personal data (such as health-related data), intellectual property, and trade secrets. We manage and maintain our technology platform and data utilizing a combination of on-site systems, mobile applications, managed data center systems, and cloud-based computing center systems. We are highly dependent on information technology networks, mobile applications, and systems, including the Internet, to securely process, transmit, and store this critical information. We utilize third-party service providers, including business associates as defined under HIPAA, for important aspects of the collection, storage, and transmission of customer and member information, and other confidential and sensitive information, and therefore rely on third parties to manage functions that have material cybersecurity risks. Our technology platform also utilizes artificial intelligence and machine learning technology to provide services, and despite our defense in depth security, this technology may be susceptible to cybersecurity threats, as PHI, PII, and other confidential and sensitive information may be integrated into the platform. Because of the sensitivity of the PHI, other PII, and other confidential information we and our service providers collect, store, transmit, and otherwise process, the security of our technology platform and other aspects of our solutions, including those provided or facilitated by our third-party service providers, are important to our operations and business strategy. While we use various information security techniques and tools to secure our platforms, and require our third party service providers to adhere to substantially similar standards, our ability to monitor these third parties' cybersecurity practices is limited, and these third parties may not have adequate information security measures in place.

Cyberattacks, malicious internet-based activity, and online and offline fraud are prevalent and continue to increase. These threats are becoming increasingly difficult to detect. These threats come from a variety of sources, including traditional computer "hackers," threat actors, personnel (such as through theft or misuse), sophisticated nation states, and nation-state-supported actors. Some actors now engage and are expected to continue to engage in cyberattacks, including without limitation nation-state actors for geopolitical reasons and in conjunction with military conflicts and defense activities. We and the third parties upon which we rely may be subject to a variety of evolving threats, including but not limited to social-engineering attacks (including through phishing attacks), malicious code (such as computer viruses and worms), malware (including as a result of advanced persistent threat intrusions), denial-of-service attacks (such as credential stuffing), employee or contractor misconduct or error, ransomware attacks, supply-chain attacks, software bugs, system disruptions, shutdowns, or unauthorized disclosure or modifications of confidential information, server malfunctions, software or hardware failures, loss of data or other information technology assets, adware, telecommunications failures, and other similar threats.

Ransomware attacks, including by organized criminal threat actors, nation-states, and nation-state-supported actors, are becoming increasingly prevalent and severe and can lead to significant interruptions in our operations, loss of data and income, reputational harm, and diversion of funds. Extortion payments may alleviate the negative impact of a ransomware attack, but we may be unwilling or unable to make such payments due to, for example, applicable laws or regulations prohibiting such payments. Similarly, supply-chain attacks have increased in frequency and severity, and we cannot guarantee that third parties and infrastructure in our supply chain or our third-party partners' supply chains have not been compromised or that they do not contain exploitable defects or bugs that could result in a breach of or disruption to our information technology systems (including our services) or the third-party information technology systems that support us and our services. Our hybrid workforce poses increased risks to our information technology systems and data, as many of our employees work from home, at least part of the time, utilizing network connections outside our premises. Future or past business transactions (such as acquisitions or integrations) could expose us to additional cybersecurity risks and vulnerabilities, as our systems could be negatively affected by vulnerabilities present in acquired or integrated entities' systems and technologies.

Any of the previously identified or similar threats could cause a security incident or other interruption. A security incident or other interruption could result in unauthorized, unlawful, or accidental acquisition, modification, destruction, loss, alteration, encryption, disclosure of, or access to data. A security incident or other interruption could disrupt our ability (and that of third parties upon whom we rely) to provide our services.

We may expend significant resources or modify our business activities in an effort to protect against security incidents. Certain data privacy and security obligations may require us to implement and maintain specific security measures, industry standards or reasonable security measures to protect our information technology systems and data. We take certain administrative, physical, and technological safeguards to address these risks, such as by requiring outsourcing subcontractors and partners, including trusted suppliers, who handle customer and member information for us to enter into agreements that contractually obligate those subcontractors and partners to comply with applicable privacy laws, such as HIPAA, and otherwise use reasonable efforts to safeguard PHI, other PII, and other sensitive information. For those subcontractors and partners who handle PHI on our behalf, we enter into business associate agreements as required by HIPAA. Measures taken to protect our systems, those of our subcontractors and partners, or the PHI, other PII, or other sensitive information we, our subcontractors, or our partners process or maintain, may not adequately protect us from the risks associated with the collection, storage, and transmission of such information.

Although we have implemented security measures designed to protect against security incidents and help protect confidential and other sensitive information (including PHI and PII), there can be no assurance that these measures will be effective. We may be unable to detect vulnerabilities in our information technology systems because such threats and techniques change frequently, are often sophisticated in nature, and may not be detected until after a security incident has occurred. In addition, security incidents and other inappropriate access to, or acquisition or processing of, information can be difficult to detect or may occur outside of our network (such as in our supply chain or at our customers or trusted suppliers), and any delay in identifying or responding to such incidents or in providing any notification of such incidents may lead to increased harm. Any such breach or interruption of our systems, or the systems of any of our third-party information technology partners, could compromise our networks or data security processes and sensitive information could be inaccessible or could be accessed by unauthorized parties, publicly disclosed, lost, or stolen. Any such interruption in access, improper access, disclosure, or other loss of information could result in legal claims or proceedings, liability under laws and regulations that protect the privacy of member information or other personal data. Despite our efforts to identify and address vulnerabilities, if any, in our information technology systems (including our products), our efforts may not be successful. Further, we may experience delays in developing and deploying remedial measures designed to address any such identified vulnerabilities.

Applicable data privacy and security obligations may require us to notify relevant stakeholders of security incidents. Such disclosures are costly, and the disclosures or the failure to comply with such requirements could lead to adverse consequences. If we (or a third party upon whom we rely) experience a security incident or are perceived to have experienced a security incident, we may experience adverse consequences. These consequences may include: government enforcement actions (for example, investigations, fines, penalties, audits, and inspections); additional reporting requirements and/or oversight; restrictions on processing data (including personal data); litigation (including class claims); indemnification obligations; negative publicity; harm to our reputation; monetary fund diversions; interruptions in our operations (including availability of data); financial loss; and other similar harms. Security incidents and attendant consequences may cause customers to stop using our services, deter new customers from using our services, and negatively impact our ability to grow and operate our business.

Our contracts may not contain limitations of liability, and even where they do, there can be no assurance that limitations of liability in our contracts are sufficient to protect us from liabilities, damages, or claims related to our data privacy and security obligations. Although we maintain insurance covering certain security and privacy damages and claim expenses, we may not carry insurance or maintain coverage sufficient to compensate for all liability and, in any event, insurance coverage would not address the reputational damage that could result from a security incident. We cannot be sure that such coverage will continue to be available on commercially reasonable terms or at all, or that such coverage will pay future claims. Additionally, our contracts may not contain limitations of liability, and even where they do, there can be no assurance that limitations of liability in our contracts are sufficient to protect us from liabilities, damages, or claims related to our data privacy and security obligations.

If we fail to provide accurate and timely information, or if our personnel, including Accolade Health Assistants and clinicians, our content, or any other element of our existing and future offerings is associated with faulty administrative or clinical decisions or treatment, we could have liability to customers or members, which could adversely affect our results of operations.

Our Accolade Health Assistants and clinicians, our member web portal, and our mobile application all use our technology platform to support our members in making healthcare and benefits-related decisions. In addition, our Accolade Health Assistants and clinicians use our technology platform to help guide interactions with members. Our technology platform applies artificial intelligence and machine learning tactics to generate predictive insights about our members, which are then translated into recommended interventions for our Accolade Health Assistants and clinicians and used to enhance our member self-service capabilities. Our services, including personalized recommendations and interventions, center around engagement with our members to provide members with better understanding of their benefits, assist with access to care, and provide options for choosing quality providers and care. For example, our Accolade Health Assistants can leverage our technology platform to provide quotes to a member about that member's healthcare benefits, including in-network services, balance billing, or claims quotes. If we fail to provide accurate and timely information regarding these benefits or if the data generated by our technology platform (including the artificial intelligence and machine learning components) are inaccurate, fail, or are subject to security incidents, this could lead to claims against us that could result in substantial costs to us or cause demand for our solutions to decline. If our Accolade Health Assistants, clinicians, or technology platform guide people to care settings and providers resulting in faulty clinical decisions or treatment, then our customers or our members could assert claims against us that could result in substantial costs to us, harm our reputation in the industry, and cause demand for our existing and future offerings to decline. For example, our nurses have access to extensive intelligence on provider quality and cost, which allows them to present various options to members when they are selecting a primary care physician or specialist. If the member relies on this provider recommendation, and that provider subsequently makes faulty clinical decisions or treatment recommendations, we could be subject to claims by such member. In addition, if our Accolade Health Assistants or clinicians make recommendations outside of our standard protocol that result in faulty clinical decisions or treatments, then our customers or our members could assert claims against us.

In May 2020, we announced Accolade COVID Response Care to provide a comprehensive solution for current and ongoing needs of our customers as they reopen and rebuild their businesses. We may be subject to increased liability exposure from our customers or their members as we assist our customers in managing our customers' return to workplace programs, including programs related to diagnostic and antibody testing. Accordingly, there is the potential for increased liability exposure to Accolade, including as related to an employer's decision not to permit an employee to return to the workplace based on our service or if one of our customers has an outbreak of COVID-19 despite using our solution to plan their reopening.

The assertion of such claims and ensuing litigation, regardless of its outcome, could result in substantial cost to us, divert management's attention from operations, damage our reputation, and decrease market acceptance of our existing and future offerings. We maintain general liability and professional liability insurance coverage, but this coverage may not continue to be available on acceptable terms, may not be available in sufficient amounts to cover one or more large claims against us, or may not provide coverage if our Accolade Health Assistants or clinicians were to engage in the unlicensed practice of medicine. In addition, the insurer might disclaim coverage as to any future claim. One or more large claims could exceed our available insurance coverage. Adequate professional liability insurance may not be available to our clinicians or to us in the future at acceptable costs or at all. Any claims made against us that are not fully covered by insurance could be costly to defend against, result in substantial damage awards against us, and divert the attention of our management and our providers from our operations, which may harm our business. In addition, any claims may adversely affect our business or reputation.

Our technology platform may contain errors or failures that are not detected until after the software is introduced or updates and new versions are released. From time to time, we have discovered defects or errors in our software, and such defects or errors can be expected to appear in the future. Defects and errors that are not timely detected and remedied could expose us to risk of liability to customers and members and cause delays in introduction of new solutions, result in increased costs and diversion of development resources, require design modifications, or decrease market acceptance or customer satisfaction with our solutions. If any of these risks occur, they could harm our business.

In March 2021, we acquired 2nd.MD, which provides a service that allows members to access board-certified national specialists across the country for second opinion consultations in a real-time video call or by phone in order to provide the member with a rapid second opinion on their medical condition enabling the member to better understand a diagnosis and treatment options to help them make more informed decisions on their healthcare regarding significant and high-cost care decisions. While we believe that these specialists do not create a physician-patient relationship with the member and are not practicing medicine in these engagements, if the information provided is not accurate or timely, we could incur liability, which could adversely affect our operations.

In June 2021, we acquired PlushCare, which acts as a managed service provider to several medical practices, including PlushCare of California, that provide virtual primary care and mental health support to individuals. The physicians employed by or contracted with PlushCare of California or other PlushCare associated medical practices could misdiagnose or treat a patient, and/or the services and technology provided by PlushCare to the medical practices could malfunction, which could cause us to incur liability, which could adversely affect our operations.

We rely on Internet infrastructure, bandwidth providers, data center providers, other third parties, and our own systems for providing solutions to our customers, and any failure or interruption in the services provided by these third parties or our own systems could expose us to litigation and negatively impact our relationships with customers, adversely affecting our brand and our business.

Our ability to deliver our solutions is dependent on the development and maintenance of the infrastructure of the Internet and other telecommunications services by third parties. We currently host our technology platform, serve our customers and members, and support our operations primarily using third-party data centers and telecommunications solutions, including cloud infrastructure services such as Amazon Web Services (AWS) and Google Cloud. We also use a third-party call center for off-hours clinical support. We do not have control over the operations of the facilities of our data and call center providers, AWS, or Google Cloud. These facilities are vulnerable to damage or interruption from earthquakes, hurricanes, floods, fires, cyber security attacks, terrorist attacks, power losses, telecommunications failures, and similar events. The occurrence of a natural disaster or an act of terrorism, a decision to close the facilities without adequate notice, or other unanticipated problems could result in lengthy interruptions in our solution. The facilities also could be subject to break-ins, computer viruses, sabotage, intentional acts of vandalism, and other misconduct. Any errors, failures, interruptions, or delays experienced in connection with these third-party technologies and information services or our own systems could negatively impact our relationships with customers and adversely affect our business and could expose us to third-party liabilities.

For some of these services, we may not maintain redundant systems or facilities. Our technology platform's continuing and uninterrupted performance is critical to our success. Members may become dissatisfied by any system failure that interrupts our ability to provide our solutions to them. We may not be able to easily switch our AWS and Google Cloud operations to another cloud service provider if there are disruptions or interference with our use of AWS or Google Cloud. Sustained or repeated system failures would reduce the attractiveness of our technology platform to customers and members and result in contract terminations, thereby reducing revenue. Moreover, negative publicity arising from these types of disruptions could damage our reputation and may adversely impact use of our existing and future offerings. We may not carry sufficient business interruption insurance to compensate us for losses that may occur as a result of any events that cause interruptions in our service. Neither our third-party data and call center providers nor AWS or Google Cloud have an obligation to renew their agreements with us on commercially reasonable terms, or at all. If we are unable to renew our agreements with these providers on commercially reasonable terms, if our agreements with our providers are prematurely terminated, or if in the future we add additional data or call center providers or cloud service providers, we may experience costs or downtime in connection with the transfer to, or the addition of, new providers. If these providers were to increase the cost of their services, we may have to increase the price of our existing and future offerings, and our business may be harmed.

The evolving effects of the COVID-19 pandemic and associated global economic instability may have adverse effects on our operations and negatively impact our business, financial condition, and results of operations.

Our business, financial condition, and results of operations could be materially and adversely affected by the effects of a widespread outbreak of a contagious disease, including the COVID-19 pandemic. The COVID-19 pandemic

continues to affect various industries, the financial markets globally, which may lead to a further economic downturn and increased market volatility, as well as renewed orders to shelter in place, travel restrictions, and mandated business closures. It has also disrupted the normal operations of many businesses, including ours, and has continued for significantly longer than originally expected, resulting in greater potential impacts on the economy and our business. We have taken measures in response to the COVID-19 pandemic, including permitting employees to work from home, at least in part. If there are resurgences of the COVID-19 pandemic, including, for example, due to existing or new variants, we may experience increased demand on our Accolade Health Assistants and clinical specialists if our members are impacted by a contagious disease in large numbers. This increased demand could result in our failing to meet certain performance metrics set forth in contracts with our customers. Collectively or alone, these conditions could cause (1) increased absenteeism among our workforce (including resulting from sick time or increased use of Family Medical Leave Act and other leave) that could negatively affect our ability to provide our service despite our deployment of business continuity and disaster recovery plans enabling our workforce to work fully remotely from our offices, and/or (2) our customers or prospective customers decreasing headcount, benefits, or budgets, which could decrease corporate spending on our products and services, resulting in delayed sales cycles, a decrease in new customer acquisition, and/or loss of customers. Any layoffs or reductions in employee headcounts by our employer customers would result in a reduction in our base and variable PMPM fees. If our existing customers do not continue to renew their contracts with us, renew at lower fee levels, decline to purchase additional offerings from us, or terminate their contracts for convenience, our business could be harmed. While these risks may be offset by the value that Accolade can provide to customers and members during a health crisis, the impact on our business is still highly uncertain.

In addition, as we and other businesses consider the return of certain of our employees to our offices, the continued impact of the pandemic may increase employee concern about returning to work, which could lead to increased employee churn, dissatisfaction with our workplace, and potential litigation related to return to office mandates.

The effects of the COVID-19 pandemic continue to rapidly evolve. These effects have increased market volatility and could result in a significant long-term disruption of global financial markets, reducing our ability to access capital, which could in the future negatively affect our liquidity. In addition, economic instability resulting from the effects of the COVID-19 pandemic could materially affect our business and the value of our common stock.

Risks Related to Governmental Regulation

Changes in the health insurance market, ERISA laws, state insurance laws, or other laws could harm our business.

The market for private health insurance in the United States is evolving and, as our customers are primarily employers that deploy our offerings to employees and their families, our future financial performance will depend in part on the growth in this market. Changes and developments in the health insurance system in the United States could reduce demand for our existing and future offerings and harm our business. For example, there has been an ongoing national debate relating to the healthcare reimbursement system in the United States. Some elected officials have introduced proposals that would create a new single payor national health insurance program for all United States residents; others have proposed more incremental approaches, such as creating a new public health insurance plan option as a supplement to private sources of coverage. In the event that laws, regulations or rules that eliminate or reduce private sources of health insurance or require such benefits to be taxable are adopted, the subsequent impact on the workplace benefits provided by our customers may in turn have an adverse effect on our business and results of operations.

In addition, changes in laws or regulations regarding the Employee Retirement Income Security Act of 1974 (ERISA), changes in state insurance laws, or other changes in laws could materially impact the self-insured employer healthcare and benefits markets, or the markets in which our other existing or potential customers procure and provide benefits.

If we fail to comply with healthcare laws and regulations, we could face substantial penalties and our business could be harmed.

Our existing and future offerings, as well as our business activities, including our relationships with our commercial partners and customers, are or may be in the future subject to a complex set of regulations and rigorous enforcement, including by the HHS, Office of the Inspector General and Office of Civil Rights, U.S. Food and Drug Administration (FDA), U.S. Department of Justice, and numerous other federal and state governmental authorities. There is also rapidly changing COVID-19 guidance from the Centers for Disease Control and Prevention (CDC), state health organizations, the U.S. Equal Employment Opportunity Commission, the Department of Labor, the Occupational Safety and Health Administration, and others, especially as it relates to our new offering, Accolade COVID Response Care. In addition, our employees, consultants, and commercial partners may engage in misconduct or other improper activities, including non-compliance with regulatory standards and requirements. Certain aspects of our business model may also trigger scrutiny under healthcare and related laws. Federal and state healthcare and related laws and regulations that may now or in the future affect our ability to conduct business include:

- laws that regulate how businesses operate online, including measures relating to privacy and data security and how such information is communicated to customers (a) under the FTC's unfair and deceptive trade practice authority from the FTC Act and (b) from state attorneys general under state consumer protection laws and data privacy laws;
- federal and state laws governing (i) the corporate practice of medicine and other healthcare professions and related fee-splitting laws, including the provision of management or administrative services in connection with practice of medicine and other health care professions, employment of professionals by non-professionals; (ii) professional licensing and standards of professional conduct; (iii) the provision of telemedicine, telehealth or other health care services, including medical record retention requirements; and (iv) the billing, submission, or collection of claims or payments for healthcare services;
- the federal Anti-Kickback Statute, which prohibits, among other things, any person from knowingly and willfully offering, soliciting, receiving or providing remuneration, directly or indirectly, in exchange for or to induce either the referral of an individual for, or the purchase, order or recommendation of, any good or service for which payment may be made under federal healthcare programs, such as the Centers for Medicare and Medicaid Services (CMS) programs, including Medicare and Medicaid;
- the federal civil false claims laws, including the federal False Claims Act, and federal Civil Monetary Penalties Law, which prohibit, among other things, individuals or entities from knowingly presenting, or causing to be presented, false claims, or knowingly using false statements, to obtain payment from the federal government;
- federal criminal laws that prohibit executing a scheme to defraud any healthcare benefit program or making false statements relating to healthcare matters;
- the federal Physician Payments Sunshine Act, or Open Payments, created under the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act (collectively, the Affordable Care Act), and its implementing regulations, which requires certain manufacturers of drugs, medical devices, biologicals and medical supplies for which payment is available under Medicare, Medicaid, or the Children's Health Insurance Program to report annually to CMS information related to payments or other transfers of value made to physicians (defined to include doctors, dentists, optometrists, podiatrists and chiropractors), certain other healthcare professionals (e.g. physician assistants and nurse practitioners), and teaching hospitals, as well as ownership and investment interests held by physicians and their immediate family members; and
- state law equivalents of each of the above federal laws, such as anti-kickback and false claims laws which may apply to items or services reimbursed by any third-party payor, including commercial insurers.

In addition, we are subject to laws that regulate how businesses operate online, including measures relating to privacy and data security and how such information is communicated to customers (a) under the FTC's unfair and deceptive trade practices authority from the FTC Act and (b) from state attorneys general under state consumer protection laws and data privacy laws.

The Affordable Care Act, among other things, amended the intent requirement of the federal Anti-Kickback Statute and criminal healthcare fraud statutes. A person or entity no longer needs to have actual knowledge of this statute or specific intent to violate it. In addition, the Affordable Care Act provides that the government may assert that a claim including items or services resulting from a violation of the federal Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the federal False Claims Act.

Because of the breadth of these laws and the narrowness of available statutory and regulatory exemptions, it is possible that some of our activities could be subject to challenge under one or more of such laws. For example, there is a risk that regulatory authorities in some states may find that certain of our contractual relationships with healthcare providers are in violation of state anti-kickback, corporate practice of health care professions, or fee-splitting laws. Any action brought against us for violations of these laws or regulations, even if successfully defended, could cause us to incur significant legal expenses and divert our management's attention from the operation of our business. We may be subject to private "qui tam" actions brought by individual whistleblowers on behalf of the federal or state governments, with potential liability under the federal False Claims Act including mandatory treble damages and significant per-claim penalties.

Although we have adopted policies and procedures designed to comply with these laws and regulations and conduct internal reviews of our compliance with these laws, our compliance is also subject to governmental review. The growth of our business and sales organization may increase the potential of violating these laws or our internal policies and procedures. The risk of our being found in violation of these or other laws and regulations is further increased by the fact that many have not been fully interpreted by the regulatory authorities or the courts, and their provisions are open to a variety of interpretations. Any action brought against us for violation of these or other laws or regulations, even if we successfully defend against it, could cause us to incur significant legal expenses and divert our management's attention from the operation of our business. If our operations are found to be in violation of any of the federal, state and foreign laws described above or any other current or future fraud and abuse or other healthcare laws and regulations that apply to us, we may be subject to penalties, including significant criminal, civil and administrative penalties, damages and fines, disgorgement, additional reporting requirements and oversight if we become subject to a corporate integrity agreement or similar agreement to resolve allegations of noncompliance with these laws, imprisonment for individuals and exclusion from participation in government programs, such as Medicare and Medicaid, as well as contractual damages and reputational harm. We could also be required to curtail or cease our operations. Any of the foregoing consequences could seriously harm our business and our financial results.

In our virtual care business, we are dependent on our relationships with affiliated professional entities, which we do not own, to provide physician services, and our business would be adversely affected if those relationships were disrupted or if our arrangements with our providers or our members are found to violate state laws prohibiting the corporate practice of medicine or fee splitting.

The laws of many states, including states in which our members are located, prohibit us from exercising control over the medical judgments or decisions of physicians and from engaging in certain financial arrangements, such as splitting professional fees with physicians. These laws and their interpretations vary from state to state and are enforced by state courts and regulatory authorities, each with broad discretion, and are subject to change and to evolving interpretations by state boards of medicine and state attorneys general, among others. We enter into agreements with professional associations, PlushCare of California, Inc. (a California professional corporation) and others, which enter into contracts with our providers pursuant to which they render professional medical services. In addition, we enter into contracts with our members to deliver professional services in exchange for fees. These contracts include management services agreements with our affiliated physician organizations pursuant to which the physician organizations reserve exclusive control and responsibility for all aspects of the practice of medicine and the delivery of medical services. Although we seek to substantially comply with applicable state prohibitions on the corporate practice of medicine and fee splitting, changes in, or subsequent interpretations of, the corporate practice of medicine laws could circumscribe our

business operations, and state officials who administer these laws or other third parties may successfully challenge our existing organization and contractual arrangements. If such a claim were successful, we could be subject to civil and criminal penalties and could be required to restructure or terminate the applicable contractual arrangements. A determination that these arrangements violate state statutes, or our inability to successfully restructure our relationships with our providers to comply with these statutes, could eliminate our ability to acquire members located in certain states from the market for our services, which would have a materially adverse effect on our business, financial condition and results of operations. State corporate practice of medicine doctrines also often impose penalties on physician themselves for aiding the corporate practice of medicine, which could discourage physicians from participating in our network of providers.

We do not own PlushCare of California, Inc. (a California professional corporation) or other medical groups with which we contract. These medical groups are 100% physician owned and independent. The professional corporations with which we contract are owned by Dr. James Wantuck, one of our providers, and the professional corporations are owned by physicians licensed in their respective states. While we expect that these relationships will continue, we cannot guarantee that they will. A material change in our relationship with the medical groups that support our virtual care services, whether resulting from a dispute among the entities, a change in government regulation, or the loss of these affiliations, could impair our ability to provide services to our members and could have a material adverse effect on our business, financial condition and results of operations. In addition, the arrangement in which we have entered to comply with state corporate practice of medicine doctrines could subject us to additional scrutiny by federal and state regulatory bodies regarding federal and state fraud and abuse laws. Any scrutiny, investigation, or litigation with regard to such arrangements with the medical groups could have a material adverse effect on our business, financial condition and results of operations.

We are subject to stringent and evolving U.S. and foreign laws, regulations, rules, contractual obligations, policies and other obligations related to data privacy and security. Our actual or perceived failure to comply with such obligations could lead to regulatory investigations or actions; litigation; fines and penalties; disruptions of our business operations; reputational harm; loss of revenue or profits; loss of customers or sales; and other adverse business consequences.

In the ordinary course of business, we process personal data and other sensitive information, including proprietary and confidential business information, trade secrets, intellectual property, sensitive third-party information, primary member demographic information (e.g. name, address, date of birth, etc.), benefit plan eligibility information, and health information (including medical claims and other health records). Our data processing activities subject us to numerous data privacy and security obligations, such as various laws, regulations, guidance, industry standards, external and internal privacy and security policies, contracts, and other obligations that govern the processing of personal data by us and on our behalf.

In the United States, state, federal, and local governments have enacted numerous data privacy and security laws, including data breach notification laws, personal data privacy laws, and consumer protection laws. These laws and regulations include HIPAA, which establishes a set of national privacy and security standards for the protection of PHI by health plans, healthcare clearinghouses and certain healthcare providers, referred to as covered entities, and individuals and entities that perform services for them which involve the use, or disclosure of, individually identifiable health information, known as business associates and their subcontractors. As a healthcare technology company, we are considered a business associate under HIPAA, and with the acquisition of PlushCare, our associated medical practices are considered HIPAA covered entities. As such, we execute business associate agreements with our customers, subcontractors, and trusted suppliers. HIPAA requires covered entities and business associates, such as us, and their covered subcontractors to develop and maintain policies and procedures with respect to PHI that is used or disclosed, including the adoption of administrative, physical and technical safeguards to protect such information.

Some of our business activities require that we or our partners obtain permissions consistent with HIPAA to provide certain marketing and data aggregation services as well as those activities that require the creation and use of de-identified information. Similarly, our new offering, Accolade COVID Response Care requires us to obtain express authorizations from members, which may result in an increased risk of compliance with such authorizations. We may also require large sets of de-identified information to enable us to continue to develop and enhance our data and analytics

platform. If we or our partners are unable to secure these rights, or if there is a future change in law, we may face limitations on the use of PHI and our ability to provide marketing services and use de-identified information, which could harm our business or subject us to potential government actions or penalties. Also, there are ongoing public policy discussions regarding whether the standards for de-identified, anonymous or pseudonomized health information are sufficient, and the risk of re-identification sufficiently small, to adequately protect patient privacy. These discussions may lead to further restrictions on the use of such information or create additional regulatory burdens. There can be no assurance that these initiatives or future initiatives will not adversely affect our ability to access and use data or to develop or market current or future services.

Additionally, through our third-party telehealth partners, we provide COVID-19 testing services to consumers on behalf of certain of our employer customers. Such testing services and the related contract tracing activities related to such testing may be subject to the aforementioned laws, including HIPAA.

In addition, we could be subject to periodic audits for compliance with the HIPAA Privacy and Security Standards by HHS and our customers. HIPAA also implemented the use of standard transaction code sets and standard identifiers that covered entities must use when submitting or receiving certain electronic healthcare transactions, including activities associated with the billing and collection of healthcare claims. HIPAA imposes mandatory penalties for certain violations and a single breach incident can result in violations of multiple standards. HIPAA also authorizes state attorneys general to file suit on behalf of their residents. Courts may award damages, costs and attorneys' fees related to violations of HIPAA in such cases. While HIPAA does not create a private right of action allowing individuals to sue us in civil court for violations of HIPAA, its standards have been used as the basis for duty of care in state civil suits such as those for negligence or recklessness in the misuse or breach of PHI.

In addition to HIPAA, the Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003 (CAN-SPAM) and the Telephone Consumer Protection Act (TCPA) imposes specific requirements on communications with customers. For example, the TCPA imposes various consumer consent requirements and other restrictions on certain telemarketing activity and other communications with consumers by phone, fax, or text message. TCPA violations can result in significant financial penalties, including penalties or criminal fines imposed by the Federal Communications Commission or fines up to \$1,500 per violation imposed through private litigation or by state authorities. Furthermore, the California Consumer Privacy Act of 2018 (CCPA) imposes obligations on businesses to which it applies. These obligations include, but are not limited to, providing specific disclosures in privacy notices and affording California residents certain rights related to their personal data. The CCPA allows for statutory fines for noncompliance (up to \$7,500 per violation). In addition, it is anticipated that the California Privacy Rights Act of 2020 (CPRA), effective January 1, 2023, will expand the CCPA. For example, the CPRA establishes a new California Privacy Protection Agency to implement and enforce the CPRA, which could increase the risk of an enforcement action. Other states have enacted data privacy laws. For example, Virginia passed the Consumer Data Protection Act, Colorado passed the Colorado Privacy Act, and Utah passed the Consumer Privacy Act, all of which become effective in 2023. Additionally, several states and localities have enacted measures related to the use of artificial intelligence and machine learning in products and services. In addition, data privacy and security laws have been proposed at the federal, state, and local levels in recent years, which could further complicate compliance efforts.

Outside the United States, an increasing number of laws, regulations, and industry standards apply to data privacy and security. For example, the European Union's General Data Protection Regulation (EU GDPR) and, the United Kingdom's GDPR (UK GDPR) impose strict requirements for processing the personal data of individuals. For example, under the EU GDPR, government regulators may impose temporary or definitive bans on data processing, as well as fines of up to 20 million euros or 4% of annual global revenue, whichever is greater. Further, individuals may initiate litigation related to our processing of their personal data. Furthermore, in Europe, there is a proposed regulation related to artificial intelligence (AI) that, if adopted, could impose onerous obligations related to the use of AI-related systems. We may have to change our business practices to comply with such obligations. In addition to data privacy and security laws, we may be contractually subject to data privacy and security obligations, including industry standards adopted by industry groups and may become subject to new data privacy and security obligations in the future. For example, certain privacy laws, such as the GDPR and the CCPA, require our customers to impose specific contractual restrictions on their service providers.

These laws and regulations may also require additional compliance obligations relating to the transfer of data between Accolade and its subsidiaries. For example, absent appropriate safeguards or other circumstances, the EU GDPR generally restricts the transfer of personal data to countries outside of the European Economic Area (EEA), such as the United States, which the European Commission does not consider to provide an adequate level of data privacy and security. The European Commission released a set of “Standard Contractual Clauses” (SCCs) that are designed to be a valid mechanism by which entities can transfer personal data out of the EEA to jurisdictions that the European Commission has not found to provide an adequate level of protection. Currently, these SCCs are a valid mechanism to transfer personal data outside of the EEA but there exists some uncertainty regarding whether the SCCs will remain a valid mechanism. Additionally, the SCCs impose additional compliance burdens, such as conducting transfer impact assessments to determine whether additional security measures are necessary to protect the at-issue personal data. In addition, Switzerland and the UK similarly restrict personal data transfers outside of those jurisdictions to countries such as the United States that do not provide an adequate level of personal data protection, and certain countries outside Europe (e.g. China) have also passed or are considering laws requiring local data residency or otherwise impeding the transfer of personal data across borders, any of which could increase the cost and complexity of doing business.

If we cannot implement a valid compliance mechanism for cross-border data transfers, we may face increased exposure to regulatory actions, substantial fines, and injunctions against processing or transferring personal data from Europe or other foreign jurisdictions. Inability to transfer personal data from the European Union, Switzerland or United Kingdom to the United States or elsewhere, may restrict our activities in those jurisdictions and limit our ability to provide our products and services in those jurisdictions. Our response to these requirements globally may not meet the expectations of individual customers, affected data subjects, or other stakeholders, which could reduce the demand for our services. Some customers or other service providers may respond to these evolving laws and regulations by asking us to make certain privacy or data-related contractual commitments that we are unable or unwilling to make. This could lead to the loss of current or prospective customers or other business relationships.

This complex, dynamic legal landscape regarding data privacy and security creates significant compliance issues for us and our customers and potentially exposes us to additional expense, adverse publicity and liability. Additionally, these obligations may be subject to differing applications and interpretations, which may be inconsistent or in conflict among jurisdictions. Preparing for and complying with these obligations requires us to devote significant resources (including, without limitation, financial and time-related resources). These obligations may necessitate changes to our information technologies, systems, and practices and to those of any third parties that process personal data on our behalf. In addition, these obligations may require us to change our business model.

Although we endeavor to comply with all applicable data privacy and security obligations, we may at times fail (or be perceived to have failed) to do so. Moreover, despite our efforts, our personnel or third parties upon whom we rely may fail to comply with such obligations, which could negatively impact our business operations and compliance posture. For example, any failure by a third-party processor to comply with applicable law, regulations, or contractual obligations could result in adverse effects, including inability to operate our business and proceedings against us by governmental entities or others. If we fail, or are perceived to have failed, to address or comply with data privacy and security obligations, we could face significant consequences. These consequences may include, but are not limited to, government enforcement actions (e.g., investigations, fines, penalties, audits, inspections, and similar); litigation (including class-related claims); additional reporting requirements and/or oversight; bans on processing personal data; orders to destroy or not use personal data; and imprisonment of company officials.

We also publish statements to our customers and members that describe how we handle and protect PHI (for example, through our privacy policies connected with our website, mobile applications and other digital tools). If federal or state regulatory authorities, such as the FTC or state attorneys general, or private litigants consider any portion of these statements to be untrue, we may be subject to claims of deceptive practices, which could lead to significant liabilities and consequences, including costs of responding to investigations, defending against litigation, settling claims, and complying with regulatory or court orders.

Any of the foregoing consequences could have a material adverse effect on our reputation, business and our financial condition, including but not limited to: interruptions or stoppages in our business operations; interruptions or stoppages of data collection needed to train our algorithms; inability to process personal data or to operate in certain

jurisdictions; limited ability to develop or commercialize our products; expenditure of time and resources to defend any claim or inquiry; adverse publicity; or revision or restructuring of our operations. Furthermore, the costs of compliance with, and other burdens imposed by, the laws, regulations and policies that are applicable to the businesses of our customers may limit the use and adoption of, and reduce the overall demand for, our existing and future offerings. Any of the foregoing consequences could harm our business.

Our employment and use of nurses, physician medical directors and our other clinicians and our engagement of physicians may subject us to licensing and other regulatory risks.

Our employment and use of nurses, physician medical directors, and our other clinicians and our engagement of physicians may subject us to state and other licensing and regulatory risks. In addition, our subcontracts with clinicians to provide telehealth services related to COVID-19 testing may also subject us to certain licensing and regulatory risks. For example, there may be restrictions on the ability of our employed and contracted clinicians to provide services to our members residing in states outside of the state or states in which such clinicians are licensed or registered. The services provided by our clinicians may be subject to review by state or other regulatory bodies. In addition, any activities conducted by our clinicians that are in violation of practice rules could subject us to fines or other penalties. While we do not believe that we provide medical care or establish patient relationships with our members, our clinicians could be found to be in violation of applicable laws. Further, in March 2021, we acquired 2nd.MD, which provides a service that allows members to access board-certified national specialists across the country for second opinion consultations in a real-time video call or by phone. This provides the member with a rapid second opinion on their medical condition, enabling the member to better understand a diagnosis and treatment options, which helps them make more informed decisions on their healthcare regarding significant and high-cost care decisions. While we believe that these experts do not create a physician-patient relationship with the member and are not practicing medicine, state medical boards may disagree with our position, which could result in significant liability and may require the restructuring of such operations. As a result of our acquisition of PlushCare, in June 2021, our associated medical practices employ and engage clinicians as permitted under state law, and maintain physician-patient relationships with members. Further, if one of our clinicians is found to be acting outside the scope of their professional license or otherwise violated the applicable state's practice laws, such activity could result in disciplinary action against the clinician by the applicable licensing agency. The definition of what constitutes the practice of medicine, nursing or other health professions varies by state.

In addition, there is a risk that we may be found in violation of the prohibition of the corporate practice of a health profession under certain state laws, which may result in the imposition of civil or criminal penalties. Certain states prevent corporations from being licensed as practitioners and prohibit physicians from practicing medicine in partnership with non-physicians, such as business corporations. Activities other than those directly related to the delivery of healthcare may be considered an element of the practice of medicine in certain states. These laws, which vary by state, may also prevent the sharing of professional services income with non-professional or business interests. Any determination that we are acting in the capacity as a healthcare provider, exercising undue influence or control over a healthcare provider or impermissibly sharing fees with a healthcare provider, may result in significant sanctions against us and our clinicians, including civil and criminal penalties and fines, additional compliance requirements, expense, and liability to us, and require us to change or terminate some portions of our contractual arrangements or business.

Evolving government regulations may require increased costs or adversely affect our results of operations.

In a regulatory climate that is uncertain, our operations may be subject to direct and indirect adoption, expansion, or reinterpretation of various laws and regulations. Compliance with these future laws and regulations may require us to change our practices at an undeterminable and possibly significant initial monetary and annual expense. These additional monetary expenditures may increase future overhead, which could harm our business. For example, since the Affordable Care Act was enacted, there have been executive, judicial and Congressional challenges to certain aspects of the law. For example, President Trump signed several Executive Orders and other directives designed to delay the implementation of certain provisions of the Affordable Care Act or otherwise circumvent some of the requirements for health insurance mandated by the Affordable Care Act. Concurrently, prior sessions of Congress considered legislation to repeal or repeal and replace all or part of the Affordable Care Act. While Congress has not passed comprehensive repeal legislation, several bills affecting the implementation of certain taxes under the Affordable Care Act have been signed into law. The Tax Cuts and Jobs Act of 2017 (Tax Act), included a provision which repealed, effective January 1, 2019, the tax-based shared

responsibility payment imposed by the Affordable Care Act on certain individuals who fail to maintain qualifying health coverage for all or part of a year that is commonly referred to as the “individual mandate.”

The Bipartisan Budget Act of 2018, among other things, amended the Affordable Care Act, effective January 1, 2019, to close the coverage gap in most Medicare drug plans, commonly referred to as the “donut hole.” In addition, the 2020 federal spending package permanently eliminated, effective January 1, 2020, the “Cadillac” tax on high-cost employer-sponsored health coverage and medical device tax that were mandated by the Affordable Care Act and, effective January 1, 2021, also eliminated the health insurer tax. On June 17, 2021, the U.S. Supreme Court dismissed a challenge on procedural grounds that argued the Affordable Care Act is unconstitutional in its entirety because the “individual mandate” was repealed by Congress. Thus, the Affordable Care Act will remain in effect in its current form. Further, prior to the U.S. Supreme Court ruling, on January 28, 2021, President Biden issued an executive order that initiated a special enrollment period for purposes of obtaining health insurance coverage through the Affordable Care Act marketplace, which began on February 15, 2021 and remained open through August 15, 2021. The executive order also instructed certain governmental agencies to review and reconsider their existing policies and rules that limit access to healthcare, including among others, reexamining Medicaid demonstration projects and waiver programs that include work requirements, and policies that create unnecessary barriers to obtaining access to health insurance coverage through Medicaid or the Affordable Care Act. It is possible that the Affordable Care Act will be subject to judicial or Congressional challenges in the future. It is unclear how any such challenges and the healthcare reform measures of the Biden administration will impact the Affordable Care Act. We continue to evaluate the potential impact of such healthcare reform measures on our business.

There could be laws and regulations applicable to our business that we have not identified or that, if changed, may be costly to us, and we cannot predict all the ways in which implementation of such laws and regulations may affect us. In the states in which we operate, we believe we are in compliance with all applicable material regulations, but, due to the uncertain regulatory environment, certain states may determine that we are in violation of their laws and regulations. In the event that we must remedy such violations, we may be required to modify our existing and future offerings and solutions in such states in a manner that undermines our existing and future offerings’ attractiveness to partners, customers or members, we may become subject to fines or other penalties or, if we determine that the requirements to operate in compliance in such states are overly burdensome, we may elect to terminate our operations in such states. In each case, our revenue may decline and our business, financial condition, and results of operations could be adversely affected.

Additionally, the introduction of new solutions may require us to comply with additional, yet undetermined, laws and regulations. Compliance may require obtaining appropriate state medical board licenses or certificates, increasing our security measures and expending additional resources to monitor developments in applicable rules and ensure compliance. The failure to adequately comply with these future laws and regulations may delay or possibly prevent our existing and future offerings from being offered to partners, customers and members, which could significantly harm our business. Further, we expect that additional healthcare reform measures will be adopted in the future, which could impact our business. For example, it is possible that additional governmental action is taken in response to the COVID-19 pandemic. In addition, Congress is considering additional health reform measures.

Individuals may claim our outbound engagement techniques, including outbound telephone calls and digital outreach, are not compliant with HIPAA or federal marketing laws.

Several federal laws are designed to protect consumers from various types and modes of marketing. HIPAA prohibits certain types of marketing to individuals using PHI, except for certain treatment and healthcare operations, including communications made to describe a health-related product or service (or payment for such product or service) that is provided by, or included in, a plan of benefits. Our solutions may be subject to review by OCR and deemed in violation of HIPAA, which could subject us to significant fines or other penalties. In addition, the Telephone Consumer Protection Act (TCPA), is a federal statute that protects consumers from unwanted telephone calls and faxes. Since its inception, the TCPA’s purview has extended to text messages sent to consumers. We may communicate with and perform outreach to members through multiple modes of communication, including phone, email, and secure messaging. We must ensure that our solutions that leverage telephone and secure messaging comply with TCPA regulations and agency guidance. While we strive to adhere to strict policies and procedures, the Federal Communications Commission (FCC), as the agency that implements and enforces the TCPA, may disagree with our interpretation of the TCPA and subject us to

penalties and other consequences for noncompliance. Determination by a court or regulatory agency that our solutions violate the TCPA could subject us to civil penalties, could invalidate all or portions of some of our customer contracts, could require us to change or terminate some portions of our offerings, could require us to refund portions of our fees, and could have an adverse effect on our business. Even an unsuccessful challenge by consumers or regulatory authorities of our activities could result in adverse publicity and could require a costly response from us. Other laws focus on unsolicited email, such as the Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003, (CAN-SPAM Act), which establishes requirements for the transmission of commercial email messages and specifies penalties for unsolicited commercial email messages that follow a recipient's opt-out request or deceive the receiving consumer.

In addition, some of our marketing activities require that we obtain permissions consistent with HIPAA and applicable state health information privacy laws. If we are unable to secure such permissions, or if there is a future change in law, we may face limitations on the use of such information, which may harm our business.

Our direct-to-consumer virtual care business leverages revenue from member subscriptions, which, if we do not comply with various state and federal laws relating to the collection of auto-renewing subscription fees, could result in significant liability or reputational harm and, in turn, a material adverse effect on our member base and revenue.

Various state and federal laws require disclosures to be made to consumers prior to collecting periodic subscription fees that will automatically renew without further action by the consumer. One such example is the California Automatic Renewal Law (California ARL) pursuant to which PlushCare, Inc. and PlushCare of California were recently sued by a purported class (*Robbins v. PlushCare, Inc. et al.*) in the United States District Court for the Northern District of California alleging, *inter alia*, that PlushCare violated the California ARL by failing to provide adequate disclosures to members. The lawsuit seeks restitution of subscription fees, statutory damages for each violation, subject to trebling, reasonable attorneys' fees, and injunctive relief. We will vigorously defend the lawsuit and any potential loss to the Company is currently deemed to be immaterial.

With the acquisition of PlushCare, direct-to-consumer virtual care represents a material portion of our overall business. If we are required to change our automatically renewing subscription fee practices, our business, financial condition, results of operations and cash flows could be materially and adversely impacted.

The FDA may in the future determine that our technology solutions are subject to the Federal Food, Drug, and Cosmetic Act, and we may face additional costs and risks as a result.

There is a risk that our existing and future offerings, including the operational/technical component of our business model, such as our decision support software incorporating machine learning, meet the definition of a medical device under the Federal Food, Drug, and Cosmetic Act (FDCA). Medical devices are subject to extensive regulation by the FDA under the FDCA. Under the FDCA, medical devices include any instrument, apparatus, machine, contrivance, or other similar or related articles that is intended for use in the diagnosis of disease or other conditions, or in the cure, mitigation, treatment, or prevention of disease. FDA regulations govern among other things, product development, testing, manufacture, packaging, labeling, storage, clearance or approval, advertising and promotion, sales and distribution, and import and export.

Failure to appropriately seek FDA approval or noncompliance with applicable FDA requirements can result in, among other things, public warning letters, fines, injunctions, civil penalties, recall or seizure of products, total or partial suspension of production, failure of the FDA to grant marketing approvals, withdrawal of marketing approvals, a recommendation by the FDA to disallow us from entering into government contracts, and criminal prosecutions. The FDA also has the authority to request repair, replace, or refund of the cost of any device.

Taxing authorities may successfully assert that we should have collected or in the future should collect sales and use, value-added, or similar taxes, and we could be subject to liability with respect to past or future sales, which could adversely affect our results of operations.

We do not collect sales and use, value-added, and similar taxes in all jurisdictions in which we have sales, based on our understanding that such taxes are not applicable. Sales and use, value-added, and similar tax laws and rates vary

greatly by jurisdiction. Certain jurisdictions in which we do not collect such taxes may assert that such taxes are applicable, or jurisdictions in which we collect sales tax may assert that we have under-collected sales tax, either of which could result in tax assessments, penalties, and interest, and we may be required to collect such taxes in the future. Although our customer contracts typically provide that our customers must pay all applicable sales and similar taxes, our customers may be reluctant to pay back-taxes and associated interest and penalties, or we may determine that it would not be commercially feasible to seek reimbursement from such customers, in which event any such tax assessments, penalties, and interest, or future requirements may adversely affect our results of operations.

Our ability to use our net operating loss carryforwards and certain other tax attributes may be limited.

As of February 28, 2022, we had U.S. federal net operating loss carryforwards (NOLs) of \$422.5 million and state NOLs of \$373.0 million. Under the Tax Act, as modified by the CARES Act, unused NOLs for the tax year ended February 28, 2018 and prior tax years will carry forward to offset future taxable income, if any, until such unused losses expire. Unused losses generated in tax years beginning after December 31, 2017, which would be our tax year ended February 28, 2018 and thereafter, pursuant to the Tax Act, will not expire and may be carried forward indefinitely but will only be deductible in the case of NOLs arising in taxable years ending after 2020 to the extent of 80% of current year taxable income in any given year. It is uncertain if and to what extent various states will conform to the Tax Act, as modified by the CARES Act. As a result, if we earn net taxable income in future years, our NOLs arising in tax years ended February 28, 2018 and earlier may expire prior to being used, and our NOLs generated in later tax years will be subject to a percentage limitation. Under Sections 382 and 383 of the Code, if a corporation undergoes an “ownership change,” the corporation’s ability to use its pre-change NOLs and other tax attributes and to offset its post-change income and taxes may be limited. In general, an “ownership change” occurs if there is a cumulative change in our ownership by “5% stockholders” that exceed 50 percentage points over a rolling three-year period. Our existing NOLs may be subject to limitations arising from previous ownership changes, and if we undergo an ownership change in connection with or after our initial public offering or as a result of future events, our ability to utilize NOLs could be further limited by Section 382 of the Code. Future changes in our stock ownership, some of which are outside of our control, could result in an ownership change under Section 382 of the Code. The existing NOLs of one of our subsidiaries may be subject to limitations arising from ownership changes prior to, or in connection with, their acquisition by us. Furthermore, our ability to utilize NOLs of companies that we may acquire in the future may be subject to limitations. There is also a risk that due to regulatory changes, such as suspensions on the use of NOLs or other unforeseen reasons, our existing NOLs could expire or otherwise be unavailable to reduce future income tax liabilities, including for state tax purposes. For these reasons, we may not be able to utilize some portion of our NOLs, none of which are currently reflected on our balance sheet, even if we attain profitability.

Risks Related to our Intellectual Property

Failure to protect or enforce our intellectual property rights could harm our business and results of operations.

Our intellectual property includes our processes, methodologies, algorithms, applications, technology platform, software code, website content, user interfaces, graphics, registered and unregistered copyrights, trademarks, trade dress, databases, domain names, and patents and patent applications. We believe that our intellectual property is an essential asset of our business. If we do not adequately protect our intellectual property, our brand and reputation could be harmed and competitors may be able to use our technologies and erode or negate any competitive advantage we may have, which could harm our business, negatively affect our position in the marketplace, limit our ability to commercialize our technology, and delay or render impossible our achievement of profitability. A failure to protect our intellectual property in a cost-effective and meaningful manner could have a material adverse effect on our ability to compete. We regard the protection of our trade secrets, copyrights, trademarks, trade dress, databases, domain names, and patents as critical to our success.

We strive to protect our intellectual property rights by relying on federal, state, and common law rights and other rights provided under foreign laws. These laws are subject to change at any time and could further restrict our ability to protect or enforce our intellectual property rights. In addition, the existing laws of certain foreign countries in which we operate may not protect our intellectual property rights to the same extent as do the laws of the United States.

We generally enter into confidentiality and invention assignment agreements with our employees and contractors, and confidentiality agreements with other parties, with whom we conduct business in order to limit access to, and disclosure and use of, our proprietary information. However, we may not be successful in executing these agreements with every party who has access to our confidential information or contributes to the development of our intellectual property.

The agreements that we execute may be breached, and we may not have adequate remedies for any such breach. These contractual arrangements and the other steps we have taken to protect our intellectual property may not prevent the misappropriation of our intellectual property or deter independent development of similar intellectual property by others.

Obtaining and maintaining effective intellectual property rights is expensive, including the costs of monitoring unauthorized use of our intellectual property and defending our rights. We make business decisions about when to seek patent protection for a particular technology and when to rely upon trade secret protection, and the approach we select may ultimately prove to be inadequate. We strive to protect certain of our intellectual property rights through filing applications for trademarks, patents, and domain names in a number of jurisdictions, a process that is expensive and may not be successful in all jurisdictions. However, there is no assurance that any resulting patents or other intellectual property rights will adequately protect our intellectual property, or provide us with any competitive advantages. Moreover, we cannot guarantee that any of our pending patent or trademark applications will issue or be approved. Even where we have intellectual property rights, they may later be found to be unenforceable or have a limited scope of enforceability. In addition, we may not seek to pursue such protection in every jurisdiction. The United States Patent and Trademark Office also requires compliance with a number of procedural, documentary, fee payment, and other similar provisions during the patent application process and after a patent has issued. Noncompliance with such requirements and processes may result in abandonment or lapse of the patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. In such an event, our competitors might be able to develop and commercialize substantially similar and competing applications, which would harm our business.

We believe it is important to maintain, protect and enhance our brands. Accordingly, we pursue the registration of domain names and our trademarks and service marks in the United States. Third parties may challenge our use of our trademarks, oppose our trademark applications, or otherwise impede our efforts to protect our intellectual property in certain jurisdictions. In the event that we are unable to register our trademarks in certain jurisdictions, we could be forced to rebrand our solutions, which would result in loss of brand recognition and could require us to devote resources to advertising and marketing new brands. Our competitors and others could also attempt to capitalize on our brand recognition by using domain names or business names similar to ours. Domain names similar to ours have been registered in the United States and elsewhere. We may be unable to prevent third parties from acquiring or using domain names and other trademarks that infringe on, are similar to, or otherwise decrease the value of, our brands, trademarks, or service marks. We also may incur significant costs in enforcing our trademarks against those who attempt to imitate our brand and other valuable trademarks and service marks.

In order to protect our intellectual property rights, we may be required to spend significant resources to monitor and protect these rights. We may not be able to detect infringement or unauthorized use of our intellectual property rights, and defending or enforcing our intellectual property rights, even if successfully detected, prosecuted, enjoined, or remedied, could result in the expenditure of significant financial and managerial resources. Litigation has in the past and may be necessary in the future to enforce our intellectual property rights, protect our proprietary rights, or determine the validity and scope of proprietary rights claimed by others. Any litigation of this nature, regardless of outcome or merit, could result in substantial costs and diversion of management and technical resources, any of which could harm our business. Furthermore, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims, countersuits, and adversarial proceedings such as oppositions, inter partes review, post-grant review, re-examination, or other post-issuance proceedings, that attack the validity and enforceability of our intellectual property rights. An adverse determination of any litigation proceedings could put our patents at risk of being invalidated or interpreted narrowly and could put our related pending patent applications at risk of not issuing. Further, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential or sensitive information could be compromised by disclosure in the event of litigation. In addition, during the course of litigation there could be public announcements of the results of hearings, motions, or other interim proceedings or developments. If securities analysts or investors perceive these results to be negative, it could have a substantial adverse

effect on the price of our common stock. If we fail to maintain, protect, and enhance our intellectual property rights, our business may be harmed and the market price of our common stock could decline.

Our competitors also may independently develop similar technology that does not infringe on or misappropriate our intellectual property rights. The laws of some foreign countries may not be as protective of intellectual property rights as those in the United States, and mechanisms for enforcement of intellectual property rights may be inadequate. Effective patent, trademark, copyright, and trade secret protection may not be available to us in every country in which our solutions or technology are developed. Further, legal standards relating to the validity, enforceability, and scope of protection of intellectual property rights are uncertain. The laws in the United States and elsewhere change rapidly, and any future changes could adversely affect us and our intellectual property. Our failure to meaningfully protect our intellectual property could result in competitors offering solutions that incorporate our most technologically advanced features, which could seriously reduce demand for existing and future offerings.

Third parties may initiate legal proceedings alleging that we are infringing or otherwise violating their intellectual property rights, the outcome of which would be uncertain and could harm our business.

Our success depends in part on our ability to develop and commercialize our offerings and use our proprietary technology without infringing the intellectual property or proprietary rights of third parties. Intellectual property disputes can be costly to defend and may cause our business, operating results, and financial condition to suffer. As the market for healthcare in the United States expands and more patents are issued, the risk increases that there may be patents issued to third parties that relate to our offerings and technology of which we are not aware or that we must challenge to continue our operations as currently contemplated. Whether merited or not, we may face allegations that we, our partners, our licensees, or parties indemnified by us have infringed or otherwise violated the patents, trademarks, copyrights, or other intellectual property rights of third parties. Such claims may be made by competitors seeking to obtain a competitive advantage or by other parties.

Additionally, in recent years, individuals and groups have begun purchasing intellectual property assets for the purpose of making claims of infringement and attempting to extract settlements from companies like ours. We may also face allegations that our employees have misappropriated the intellectual property or proprietary rights of their former employers or other third parties. We have in the past initiated, and it may in the future be necessary for us to initiate, litigation to defend ourselves in order to determine the scope, enforceability, and validity of third-party intellectual property or proprietary rights, or to establish our respective rights. Regardless of whether claims that we are infringing patents or other intellectual property rights have merit, such claims can be time-consuming, divert management's attention and financial resources, and can be costly to evaluate and defend. Results of any such litigation are difficult to predict and may require us to stop commercializing or using our solutions or technology, obtain licenses, modify our solutions and technology while we develop non-infringing substitutes, or incur substantial damages, settlement costs, or face a temporary or permanent injunction prohibiting us from marketing or providing the affected solutions. If we require a third-party license, it may not be available on reasonable terms or at all, and we may have to pay substantial royalties, upfront fees, or grant cross-licenses to intellectual property rights for our solutions. We may also have to redesign our solutions so that they do not infringe third-party intellectual property rights, which may not be possible or may require substantial monetary expenditures and time, during which our technology and solutions may not be available for commercialization or use. Even if we have an agreement to indemnify us against such costs, the indemnifying party may be unable to uphold its contractual obligations. If we cannot or do not obtain a third-party license to the infringed technology, license the technology on reasonable terms, or obtain similar technology from another source, our revenue and earnings could be adversely impacted.

From time to time, we have been and may be subject to legal proceedings and claims in the ordinary course of business with respect to intellectual property. Some third parties may be able to sustain the costs of complex litigation more effectively than we can because they have substantially greater resources. Even if resolved in our favor, litigation or other legal proceedings relating to intellectual property claims may cause us to incur significant expenses and could distract our technical and management personnel from their normal responsibilities. In addition, there could be public announcements of the results of hearings, motions, or other interim proceedings or developments, and if securities analysts or investors perceive these results to be negative, it could have a material adverse effect on the price of our common stock. Moreover, any uncertainties resulting from the initiation and continuation of any legal proceedings could have a material

adverse effect on our ability to raise the funds necessary to continue our operations. Assertions by third parties that we violate their intellectual property rights could therefore harm our business.

Our use of open source software could adversely affect our ability to offer our solutions and subject us to possible litigation.

We use open source software in connection with our existing and future offerings. Some of these licenses contain requirements that we make available source code for modifications or derivative works we create based upon the open source software, and that we license such modifications or derivative works under the terms of a particular open source license or other license granting third-parties certain rights of further use. By the terms of certain open source licenses, we could be required to release the source code of our proprietary software and to make our proprietary software available under open source licenses, if we combine and/or distribute our proprietary software with open source software in certain manners. Although we monitor our use of open source software, we cannot be sure that all open source software is reviewed prior to use in our proprietary software, that our programmers have not incorporated open source software into our proprietary software, or that they will not do so in the future. Additionally, the terms of many open source licenses to which we are subject have not been interpreted by U.S. or foreign courts.

There is a risk that open source software licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to provide our existing and future offerings to our customers and members. In addition, the terms of open source software licenses may require us to provide software that we develop using such open source software, to others, including our competitors, on unfavorable license terms. As a result of our current or future use of open source software, we may face claims or litigation, be required to release our proprietary source code, pay damages for breach of contract, re-engineer our technology, discontinue sales in the event re-engineering cannot be accomplished on a timely basis, or take other remedial action that may divert resources away from our development efforts, any of which could harm our business.

Any restrictions on our ability to obtain or use data could harm our business.

Our business depends in part on data provided to us by, among other sources, health plans, benefits administrators, data warehouses, electronic data interchange (EDI) transaction data providers, and our trusted suppliers. Any errors or defects in any third-party data or other technology could result in errors in our existing and future offerings that could harm our business and damage our reputation and cause losses in revenue, and we could be required to spend significant amounts of additional resources to fix any problems. In addition, certain of our offerings, including Accolade Total Care and Accolade Total Health and Benefits, depend on maintaining our data and analytics technology platform, which is populated with data provided by third parties. While our existing agreements with these data providers have multiple-year terms, these providers could become our competitors in the future. Any loss of the right to use of data provided by any health plan providers, benefits administrators, or other entities that provide us data, could result in delays in producing or delivering our solutions until equivalent data, other technology, or intellectual property is identified and integrated, which delays could harm our business. In this situation we would be required to either redesign our solutions to function with technology, data, or intellectual property available from other parties or to develop these components ourselves, which would result in increased costs. Furthermore, we might be forced to limit the features available in our existing or future offerings. If we fail to maintain or renegotiate any of these technology or intellectual property licenses, we could face significant delays and diversion of resources in attempting to develop similar or replacement offerings or to license and integrate a functional equivalent of the technology or intellectual property. The occurrence of any of these events may harm our business.

In addition, some of our business activities require that we obtain permissions consistent with HIPAA to provide certain marketing and data aggregation solutions as well as those activities that require the creation and use of de-identified information. We also require large sets of de-identified information to enable us to continue to develop and enhance our data and analytics platform. If we are unable to secure these rights, or if there is a future change in law, we may face limitations on the use of PHI and our ability to use de-identified information that could harm our business. There is also a risk that we may fail to properly de-identify PHI and/or PII under applicable state laws, some of which impose different standards for de-identification than those imposed by HIPAA.

Risks Related to Ownership of Our Common Stock

We have in the past experienced a material weakness in our internal controls over financial reporting, and if we experience additional material weaknesses in the future or if we otherwise fail to maintain an effective system of disclosure controls and internal control over financial reporting, our ability to produce timely and accurate financial statements or comply with applicable regulations could be impaired.

We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act), the Sarbanes-Oxley Act, and the rules and regulations of the applicable listing standards of the Nasdaq Stock Market (Nasdaq). The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. We have developed and refined our disclosure controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file with the SEC is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms and that information required to be disclosed in reports under the Exchange Act is accumulated and communicated to our principal executive and financial officers. If any of our controls and systems do not perform as expected, we may experience additional material weaknesses in our controls. Our current controls and any new controls that we develop may become inadequate because of changes in conditions in our business. Further, additional material weaknesses in our disclosure controls and internal control over financial reporting may be discovered in the future.

Any failure to develop or maintain effective controls or any difficulties encountered in their implementation or improvement could harm our results of operations or cause us to fail to meet our reporting obligations and may result in a restatement of our financial statements for prior periods. Any failure to implement and maintain effective internal control over financial reporting also could adversely affect the results of periodic management evaluations and annual independent registered public accounting firm attestation reports regarding the effectiveness of our internal control over financial reporting that we will eventually be required to include in our periodic reports that will be filed with the SEC. Ineffective disclosure controls and procedures and further ineffective internal control over financial reporting could also cause investors to lose confidence in our reported financial and other information, which would likely have a negative effect on the trading price of our common stock. In addition, if we are unable to continue to meet these requirements, we may not be able to remain listed on Nasdaq. We are required to comply with the SEC rules that implement Section 404 of the Sarbanes-Oxley Act and are required to make a formal assessment of the effectiveness of our internal control over financial reporting for that purpose. We are required to provide an annual management report on the effectiveness of our internal control over financial reporting, and our independent registered public accounting firm is also required to formally attest to the effectiveness of our internal control over financial reporting. Our independent registered public accounting firm may issue reports that are adverse in the event it is not satisfied with the level at which our internal control over financial reporting is documented, designed, or operating, or if it is not satisfied with our remediation of any identified material weaknesses. Any failure to maintain effective disclosure controls and internal control over financial reporting could have an adverse effect on our business and results of operations and could cause a decline in the price of our common stock.

Sales of substantial amounts of our common stock in the public markets, or the perception that such sales could occur, could reduce the price that our common stock might otherwise attain.

Sales of a substantial number of shares of our common stock in the public market, or the perception that such sales could occur, could adversely affect the market price of our common stock and may make it more difficult for you to sell your common stock at a time and price that you deem appropriate.

Moreover, we have in the past and may in the future grant rights to some of our stockholders that require us to register the resale of our common stock or other securities on behalf of these stockholders and/or facilitate public offerings of our securities held by these stockholders, including in connection with potential future acquisition or capital-raising transactions. Stockholders owning an aggregate of up to approximately 5.4 million shares are entitled, under our registration rights agreement, to require us to register shares owned by them for public sale in the United States.

Sales of our shares as restrictions end or pursuant to registration rights may make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. These sales also could cause the trading price of our common stock to fall and make it more difficult for you to sell shares of our common stock.

In order to support the growth of our business, we may need to incur additional indebtedness under our current credit facility or seek capital through new equity or debt financings, which sources of additional capital may not be available to us on acceptable terms or at all.

Our operations have consumed substantial amounts of cash since inception, and we intend to continue to make significant investments to support our business growth, respond to business challenges or opportunities, develop new applications and solutions, enhance our existing solutions, enhance our operating infrastructure, and potentially acquire complementary businesses and technologies. Our future capital requirements may be significantly different from our current estimates and will depend on many factors, including the need to:

- finance unanticipated working capital requirements;
- develop or enhance our technological infrastructure and our existing solutions;
- fund strategic relationships, including joint ventures and co-investments;
- fund additional implementation engagements;
- respond to competitive pressures; and
- acquire complementary businesses, technologies, products, or services.

Accordingly, we may need to engage in equity or debt financings to secure additional funds. Additional financing may not be available on terms favorable to us, or at all. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences, and privileges superior to those of holders of our common stock. Any debt financing secured by us in the future could involve additional restrictive covenants relating to our capital-raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. In addition, during times of economic instability, it has been difficult for many companies to obtain financing in the public markets or to obtain debt financing, and we may not be able to obtain additional financing on commercially reasonable terms, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us, it could harm our business.

If securities or industry analysts publish reports that are interpreted negatively by the investment community or publish negative or inaccurate research reports about our business, our share price and trading volume could decline.

The trading market for our common stock depends, to some extent, on the research and reports that securities or industry analysts publish about us or our business. We do not have any control over these analysts or the information contained in their reports. Securities and industry analysts may cease to publish research on our business or publish negative coverage. If one or more analysts commence coverage of us and publish research reports that are interpreted negatively by the investment community, or have a negative tone regarding our business, financial condition, operating performance, industry, or end-markets, or downgrade our common stock, our share price could decline. In addition, if a significant number of these analysts ceases coverage of our company or fails to regularly publish reports about us, we could lose visibility in the financial markets, which could cause our share price or trading volume to decline.

We do not currently intend to pay dividends on our common stock and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.

We have never declared or paid any cash dividends on our common stock and do not currently intend to do so for the foreseeable future. We currently intend to invest our future earnings, if any, to fund our growth. In addition, the terms of our credit agreement with Comerica Bank and the related collateral documents contain, and any future indebtedness would likely contain, prohibitions on our paying any cash dividends without the consent of the lenders. Therefore, you are

not likely to receive any dividends on your common stock for the foreseeable future and the success of an investment in shares of our common stock will depend upon any future appreciation in its value. There is no guarantee that shares of our common stock will appreciate in value or even maintain the price at which our stockholders have purchased their shares.

Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of us more difficult, limit attempts by our stockholders to replace or remove our current management, and may limit the market price of our common stock.

Provisions in our amended and restated certificate of incorporation and amended and restated bylaws may have the effect of rendering more difficult, delaying, or preventing a change of control or changes in our management. Among other things, our amended and restated certificate of incorporation and amended and restated bylaws include provisions:

- creating a classified board of directors whose members serve staggered three-year terms;
- authorizing "blank check" preferred stock, which could be issued by our board of directors without stockholder approval and may contain voting, liquidation, dividend, and other rights superior to our common stock;
- limiting the liability of, and providing indemnification to, our directors and officers;
- specifying that special meetings of our stockholders can be called only by our board of directors, the Chair of our board of directors, or our Chief Executive Officer;
- requiring advance notice of stockholder proposals for business to be conducted at meetings of our stockholders and for nominations of candidates for election to our board of directors;
- prohibiting cumulative voting in the election of directors;
- providing that our directors may be removed only for cause and by a two-thirds majority vote of the stockholders;
- providing that vacancies on our board of directors may be filled only by a majority of directors then in office, even though less than a quorum; and
- requiring the approval of our board of directors or the holders of at least 66% of our outstanding shares of capital stock to amend our amended and restated bylaws and certain provisions of our amended and restated certificate of incorporation.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management. In addition, institutional stockholder representative groups, stockholder activists, and others may disagree with our corporate governance provisions or other practices, including anti-takeover provisions, such as those listed above. We generally will consider recommendations of institutional stockholder representative groups, but we will make decisions based on what our board and management believe to be in the best long-term interests of our company and stockholders; however, these groups could make recommendations to our stockholders against our practices or our board members if they disagree with our positions.

Finally, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any "interested" stockholder for a period of three years following the date on which the stockholder became an "interested" stockholder.

Any of the foregoing provisions could limit the price that investors might be willing to pay in the future for shares of our common stock, and they could deter potential acquirers of our company, thereby reducing the likelihood that you would receive a premium for your shares of our common stock in an acquisition.

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware and, to the extent enforceable, the federal district courts of the United States of America, will be the exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, or employees.

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware and, to the extent enforceable, the federal district courts of the United States of America, will be the exclusive forum for the following types of actions or proceedings under Delaware statutory or common law:

- any derivative action or proceeding brought on our behalf;
- any action asserting a claim of breach of a fiduciary duty or other wrongdoing by any of our directors, officers, employees or agents to us or our stockholders;
- any action asserting a claim against us arising pursuant to any provision of the Delaware General Corporation Law or our certificate of incorporation or bylaws;
- any action to interpret, apply, enforce or determine the validity of our certificate of incorporation or bylaws;
- any action or proceeding as to which the Delaware General Corporation Law confers jurisdiction to the Court of Chancery of the State of Delaware; or
- any action asserting a claim governed by the internal affairs doctrine.

This provision would not apply to suits brought to enforce a duty or liability created by the Securities Act or the Exchange Act or any claim for which the U.S. federal courts have exclusive jurisdiction. Our amended and restated certificate of incorporation will provide that the federal district courts of the United States of America will be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act.

These exclusive-forum provisions may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, or other employees, which may discourage lawsuits against us and our directors, officers, and other employees. If any other court of competent jurisdiction were to find either exclusive-forum provision in our amended and restated certificate of incorporation to be inapplicable or unenforceable, we may incur additional costs associated with resolving the dispute in other jurisdictions, which could seriously harm our business. For example, the Court of Chancery of the State of Delaware determined that a provision stating that U.S. federal district courts are the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act is not enforceable. However, this decision was recently reviewed and ultimately overturned by the Delaware Supreme Court in March 2020.

Our issuance of additional capital stock in connection with financings, acquisitions, investments, our stock incentive plans, or otherwise will dilute all other stockholders.

We expect to issue additional capital stock in the future that will result in dilution to all other stockholders. We expect to grant equity awards to employees, directors, and consultants under our stock incentive plans. We also may raise capital through equity financings in the future. As part of our business strategy, we may acquire or make investments in complementary companies, products, or technologies and issue equity securities to pay for any such acquisition or investment. Any such issuances of additional capital stock may cause stockholders to experience significant dilution of their ownership interests and the per share value of our common stock to decline.

Risks Related to Our Debt

Our credit agreement contains certain restrictions that may limit our ability to operate our business.

The terms of our existing credit agreement with Comerica Bank and the related collateral documents contain, and any future indebtedness would likely contain, a number of restrictive covenants that impose significant operating and financial restrictions on us, including restrictions on our ability, and the ability of our subsidiaries, to take actions that may be in our best interests, including, among others, disposing of assets, entering into change of control transactions, mergers or acquisitions, incurring additional indebtedness, granting liens on our assets, declaring and paying dividends, and agreeing to do any of the foregoing. These agreements require us to satisfy a specified minimum liquidity level at all times and to achieve certain minimum covenant revenue, as defined, on a trailing six-month basis. Our ability to meet financial covenants can be affected by events beyond our control, including as a result of economic downturns, and we may not be able to continue to meet these covenants. A breach of any of these covenants or the occurrence of other events (including a material adverse effect) specified in these agreements and/or the related collateral documents would result in an event of default under such agreements. Upon the occurrence of an event of default, Comerica Bank as administrative agent for the revolving lenders could elect to declare all amounts outstanding, if any, under the credit agreement to be immediately due and payable and terminate all commitments to extend further credit. If we were unable to repay those amounts, Comerica Bank as administrative agent for the revolving lenders could proceed against the collateral granted to them to secure such indebtedness. We have pledged substantially all of our assets as collateral under the loan documents. If Comerica Bank as administrative agent for the revolving lenders accelerates the repayment of borrowings, if any, we may not have sufficient funds to repay our existing debt.

We have a significant amount of debt and may incur additional debt in the future. We may not have sufficient cash flow from our business to pay our substantial debt when due.

Our ability to pay our debt when due or to refinance our indebtedness, including the 0.50% Convertible Senior Notes due 2026 we issued in March 2021 (the Notes), depends on our future performance, which is subject to economic, financial, competitive, and other factors beyond our control. Our business may not generate cash flow from operations in the future sufficient to service our debt and make necessary capital expenditures. In most instances it is at our discretion to settle the Notes for cash or the distribution of common stock; however, any required repurchase of the Notes for cash as a result of a fundamental change would lower our current cash on hand such that we would not have those funds available for us in our business. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations.

We and our subsidiaries may incur substantial additional debt in the future, subject to the restrictions contained in our future debt instruments, some of which may be secured debt. We are not restricted under the terms of the indenture governing the Notes from incurring additional debt, securing existing or future debt, recapitalizing our debt or taking a number of other actions that could have the effect of diminishing our ability to make payments on the Notes when due. Furthermore, the indenture prohibits us from engaging in certain mergers or acquisitions unless, among other things, the surviving entity assumes our obligations under the Notes and the indenture. These and other provisions in the indenture could deter or prevent a third party from acquiring us even when the acquisition may be favorable to holders of the Notes.

Transactions relating to our Notes may affect the value of our common stock.

The conversion of some or all of the Notes would dilute the ownership interests of existing stockholders to the extent we satisfy our conversion obligation by delivering shares of our common stock upon any conversion of such Notes. Our Notes may become in the future convertible at the option of their holders under certain circumstances. If holders of our Notes elect to convert their notes, we may settle our conversion obligation by delivering to them a significant number of shares of our common stock, which would cause dilution to our existing stockholders. In addition, the existence of the Notes may encourage short selling by market participants because the conversion of the Notes could be used to satisfy

short positions, or anticipated conversion of the Notes into shares of our common stock could depress the price of our common stock.

In addition, in connection with the issuance of the Notes, we entered into capped call transactions with certain financial institutions (Option Counterparties). The capped call transactions are expected generally to reduce the potential dilution to our common stock upon any conversion or settlement of the Notes and/or offset any cash payments we are required to make in excess of the principal amount of converted Notes, as the case may be, with such reduction and/or offset subject to a cap. From time to time, the Option Counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivative transactions with respect to our common stock and/or purchasing or selling our common stock or other securities of ours in secondary market transactions prior to the maturity of the Notes. This activity could cause a decrease in the market price of our common stock.

General Risk Factors

Changes in tax laws or regulations that are applied adversely to us or our customers may have a material adverse effect on our business, cash flow, financial condition, or results of operations.

New income, sales, use, or other tax laws, statutes, rules, regulations, or ordinances could be enacted at any time, which could adversely affect our business operations and financial performance. Further, existing tax laws, statutes, rules, regulations, or ordinances could be interpreted, changed, modified, or applied adversely to us. For example, the Tax Act enacted many significant changes to the U.S. tax laws. Future guidance from the Internal Revenue Service and other tax authorities with respect to the Tax Act may affect us, and certain aspects of the Tax Act could be repealed or modified in future legislation. In addition, in response to the COVID-19 pandemic, the CARES Act was signed into law in March 2020, and subsequently in December 2020, the Continued Assistance for Unemployed Workers Act of 2020 (CARES Act II) was signed into law, extending certain provisions of the CARES Act and making other changes to the Tax Act. The CARES Act and CARES Act II modify certain of the changes made by the Tax Act. Changes in corporate tax rates, the realization of net deferred tax assets relating to our U.S. operations, and the deductibility of expenses under the Tax Act, as amended by the CARES Act and CARES Act II, or future tax reform legislation could have a material impact on the value of our deferred tax assets, could result in significant one-time charges in the current or future taxable years, and could increase our future U.S. tax expense. The foregoing items, as well as any other future changes in tax laws, could have a material adverse effect on our business, cash flow, financial condition, or results of operations. In addition, it is uncertain if and to what extent various states will conform to the Tax Act, as amended by the CARES Act and CARES Act II, or any newly enacted federal tax legislation.

Natural or man-made disasters, events outside our reasonable control, and other similar events may significantly disrupt our operations and negatively impact our business, financial condition, and results of operations.

Our offices, third-party data and call centers, or cloud infrastructure services may be harmed or rendered inoperable by natural or man-made disasters, including earthquakes, power outages, fires, floods, nuclear disasters, acts of terrorism or other criminal activities, or other events or business continuity problems outside our reasonable control such as a general and widespread failure of the Internet or telecommunications or outbreaks of public health threats, such as the novel coronavirus, which may render it difficult or impossible for us to operate our business for some period of time. Any disruptions in our operations related to the repair or replacement of our offices, third-party data and call centers, or cloud infrastructure services could negatively impact our business and results of operations and harm our reputation. Insurance may not be sufficient to compensate for losses that may occur. Any such losses or damages could harm our business.

We have incurred and will incur increased costs and demands upon management as a result of complying with the laws and regulations affecting public companies, which could adversely affect our business, results of operations, and financial condition.

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act), the listing standards of the Nasdaq Stock Market (Nasdaq) and other applicable securities rules and regulations. We expect that the requirements of these rules and regulations will continue to increase our legal, accounting, and financial compliance costs, make some activities more difficult, time-consuming and costly, and place

significant strain on our personnel, systems and resources. For example, the Exchange Act requires, among other things, that we file annual, quarterly, and current reports with respect to our business and results of operations. As a result of the complexity involved in complying with the rules and regulations applicable to public companies, our management's attention may be diverted from other business concerns, which could harm our business, results of operations, and financial condition. Although we have already hired additional employees and engaged outside consultants to assist us in complying with these requirements, we will need to hire more employees in the future or may need to engage additional outside consultants, which will increase our operating expenses. In addition, changing laws, regulations, and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs, and making some activities more time-consuming. These laws, regulations, and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. These factors could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest substantial resources to comply with evolving laws, regulations, and standards, and this investment may result in increased general and administrative expenses and a diversion of management's time and attention from business operations to compliance activities. If our efforts to comply with new laws, regulations, and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to their application and practice, regulatory authorities may initiate legal proceedings against us and our business may be harmed. As a result of disclosure of information in our public company filings, our business and financial condition will become more visible, which may result in pricing pressure from customers or an increased risk of threatened or actual litigation, including by competitors and other third parties. If such claims are successful, our business and results of operations could be harmed, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and harm our business, results of operations, and financial condition.

The trading price of our common stock could be volatile, and you could lose all or part of your investment.

Our stock price has been volatile, and it is likely that the trading price of our common stock may fluctuate substantially, depending on a number of factors, including those described in this "Risk Factors" section, many of which are beyond our control and may not be related to our operating performance. These fluctuations could cause you to lose all or part of your investment in our common stock. Factors that could cause fluctuations in the trading price of our common stock include the following:

- price and volume fluctuations in the overall stock market from time to time;
- volatility in the market prices and trading volumes of healthcare technology company stocks;
- changes in operating performance and stock market valuations of other healthcare technology companies generally, or those in our industry in particular;
- sales of shares of our common stock by us or our stockholders;
- failure of securities analysts to initiate or maintain coverage of us, changes in financial estimates by securities analysts who follow our company, or our failure to meet these estimates or the expectations of investors;
- the financial projections we may provide to the public, any changes in those projections, or our failure to meet those projections;
- new product announcements by us or our competitors;
- the public's reaction to our press releases, other public announcements, and filings with the SEC;
- changes in how customers perceive the benefits of our solutions, and future offerings;

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- changes in the structure of healthcare provider and payment systems;
- rumors and market speculation involving us, our customers, our competitors, or other companies in our industry;
- actual or anticipated changes in our results of operations or fluctuations in our results of operations;
- actual, rumored, or anticipated developments in our business, our competitors' businesses, or the competitive landscape generally;
- litigation involving us, our industry or both, or investigations by regulators into our operations or those of our competitors;
- developments or disputes concerning our intellectual property or other proprietary rights;
- any significant data breach involving our technology platform or data stored by us or on our behalf;
- announced or completed acquisitions of businesses, commercial relationships, strategic partnerships, products, services, significant contracts or customers, or technologies by us or our competitors;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- changes in accounting standards, policies, guidelines, interpretations, or principles;
- “flash crashes,” “freeze flashes,” or other glitches that disrupt trading on the securities exchange on which we are listed;
- any significant change in our management; and
- general economic, social, or political conditions and slow or negative growth of our markets.

Accordingly, we cannot assure you of the liquidity of an active trading market, your ability to sell your shares of our common stock when desired, or the prices that you may obtain for your shares of our common stock. An inactive market may also impair our ability to raise capital to continue to fund operations by selling shares of our common stock and may impair our ability to acquire or make investments in complementary companies, products, or technologies by using shares of our common stock as consideration.

In addition, if the market for healthcare technology stocks or the stock market in general experiences a loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, financial condition, or results of operations. The trading price of our common stock might also decline in reaction to events that affect other companies in our industry even if these events do not directly affect us. In the past, following periods of volatility in the trading price of a company's securities, securities class action litigation has often been brought against that company. If our stock price is volatile, we may become the target of securities litigation. Securities litigation could result in substantial costs and divert our management's attention and resources from our business. This could harm our business.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(a) Unregistered Sales of Equity Securities

Not applicable.

(b) Use of Proceeds

On July 7, 2020, we closed on our IPO in which we issued and sold 11,526,134 shares (inclusive of the underwriters' over-allotment option to purchase 1,503,408 shares) of common stock at a price of \$22.00 per share pursuant to a Registration Statement on Form S-1, as amended (File No. 333-236786). The aggregate net proceeds to us from the offering were \$231.2 million, after deducting underwriting discounts and commissions of \$17.8 million and net offering expenses of approximately \$4.6 million. There has been no material change in the planned use of proceeds from our IPO from those disclosed in the Final Prospectus for our IPO dated as of July 1, 2020 and filed with the SEC pursuant to Rule 424(b)(4) on July 2, 2020.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

See Exhibit Index for documents filed or furnished herewith and incorporated herein by reference.

Exhibit Number	Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
2.1†	Agreement and Plan of Merger, dated January 14, 2021, by and among Registrant, Maestro Merger Sub, LLC, Innovation Specialists LLC d/b/a 2nd.MD, and Shareholder Representative Services LLC, as Member Representative	8-K	001-39348	2.1	March 4, 2021	
2.2†	Agreement and Plan of Merger, dated April 22, 2021, by and among Registrant, Panda Merger Sub, Inc., PlushCare, Inc., and Fortis Advisors LLC, as stockholder representative, as amended	8-K	001-39348	2.1	June 10, 2021	
3.1	Amended and Restated Certificate of Incorporation of Accolade, Inc.	8-K	001-39348	3.1	July 10, 2020	
3.2	Amended and Restated Bylaws of Accolade, Inc.	S-1/A	333-236786	3.4	February 28, 2020	
4.1	Form of common stock certificate of the Registrant	S-1	333-236786	4.1	February 28, 2020	
4.2	Fifth Amended and Restated Registration Rights Agreement by and between the Registrant and Certain of Its Stockholders, dated October 2, 2019	S-1	333-236786	4.2	February 28, 2020	
4.3	Indenture, dated as of March 29, 2021, by and between Registrant and U.S. Bank National Association, as Trustee	8-K	001-39348	4.1	March 29, 2021	
4.4	Form of Global Note, representing Registrant's 0.50% Convertible Senior Notes due 2026 (included as Exhibit A to the Indenture filed as Exhibit 4.2)	8-K	001-39348	4.2	March 29, 2021	
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X

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32.1*	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X
101	Inline Interactive Data Files	X
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101).	X

† We have omitted schedules and similar attachments to the subject agreement pursuant to Item 601 of Regulation S-K. We will furnish a copy of any omitted schedule or similar attachment to the Securities and Exchange Commission upon request.

*This certification is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of the Form 10-Q, irrespective of any general incorporation language contained in such filing.

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Rajeev Singh, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Accolade, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 9, 2023

/s/ Rajeev Singh
Rajeev Singh
Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Stephen Barnes, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Accolade, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 9, 2023

/s/ Stephen Barnes
Stephen Barnes
Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the “Exchange Act”) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), Rajeev Singh, Chief Executive Officer of Accolade, Inc. (the “Company”), and Stephen Barnes, Chief Financial Officer of the Company, each hereby certifies that, to the best of his knowledge:

1. The Company’s Quarterly Report on Form 10-Q for the period ended November 30, 2022, to which this Certification is attached as Exhibit 32.1 (the “**Periodic Report**”), fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and
2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: January 9, 2023

IN WITNESS WHEREOF, the undersigned have set their hands hereto as of the 9th day of January, 2023.

/s/ Rajeev Singh
Rajeev Singh
Chief Executive Officer

/s/ Stephen Barnes
Stephen Barnes
Chief Financial Officer

“This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Accolade, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.”
