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 August 31, 2023

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:

Title of each class	Trading symbol	Name of each exchange on which registered
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	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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

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 September 30, 2023, 76,232,192 shares of the registrant's common stock were outstanding.

ACCOLADE, INC.

INDEX

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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.

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)

	August 31, 2023	February 28, 2023
Assets		
Current assets:		
Cash and cash equivalents	$ 292,187	$ 321,083
Accounts receivable, net	22,114	23,435
Unbilled revenue	3,200	3,260
Current portion of deferred contract acquisition costs	4,474	4,022
Prepaid and other current assets	14,286	14,149
Total current assets	336,261	365,949
Property and equipment, net	17,823	14,763
Operating lease right-of-use assets	26,617	29,525
Goodwill	278,191	278,191
Intangible assets, net	183,689	203,202
Deferred contract acquisition costs	9,077	9,815
Other assets	2,662	1,624
Total assets	$ 854,320	$ 903,069
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 7,098	$ 10,155
Accrued expenses and other current liabilities	12,575	11,744
Accrued compensation	25,325	39,346
Due to customers	10,128	15,694
Current portion of deferred revenue	47,522	35,191
Current portion of operating lease liabilities	6,355	7,284
Total current liabilities	109,003	119,414
Loans payable, net of unamortized issuance costs	283,162	282,323
Operating lease liabilities	24,249	27,189
Other noncurrent liabilities	165	203
Deferred revenue	97	154
Total liabilities	416,676	429,283
Commitments and Contingencies (note 10)		
Stockholders' equity		
Common stock par value $0.0001; 500,000,000 shares authorized; 76,081,370 and 73,089,075 shares issued and outstanding at August 31, 2023 and February 28, 2023, respectively	8	7
Additional paid-in capital	1,463,164	1,428,073
Accumulated deficit	(1,025,528)	(954,294)
Total stockholders' equity	437,644	473,786
Total liabilities and stockholders' equity	$ 854,320	$ 903,069

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)

	Three months ended August 31,		Six months ended August 31,	
	2023	2022	2023	2022
Revenue	$ 96,864	$ 87,643	$ 190,090	$ 173,171
Cost of revenue, excluding depreciation and amortization	55,317	49,830	109,520	97,445
Operating expenses:				
Product and technology	25,602	26,194	51,501	53,011
Sales and marketing	24,076	24,936	49,109	50,550
General and administrative	16,259	21,020	32,339	41,258
Depreciation and amortization	10,818	11,571	22,458	23,147
Goodwill impairment	—	—	—	299,705
Total operating expenses	76,755	83,721	155,407	467,671
Loss from operations	(35,208)	(45,908)	(74,837)	(391,945)
Interest income (expense), net	1,714	(236)	2,635	(870)
Other income (expense)	753	(130)	1,143	(180)
Loss before income taxes	(32,741)	(46,274)	(71,059)	(392,995)
Income tax benefit (expense)	(84)	(249)	(175)	3,650
Net loss	$ (32,825)	$ (46,523)	$ (71,234)	$ (389,345)
Net loss per share, basic and diluted	$ (0.43)	$ (0.66)	$ (0.96)	$ (5.54)
Weighted-average common shares outstanding, basic and diluted	75,487,717	70,475,778	74,334,111	70,251,890

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		Additional	Accumulated	
	Shares	Amount	paid-in capital	deficit	Total
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

	Stockholders' Equity (Deficit)				
	Common stock		Additional	Accumulated	
	Shares	Amount	paid-in capital	deficit	Total
Balance, February 28, 2023	73,089,075	7	1,428,073	(954,294)	473,786
Exercise of stock options and vesting of restricted stock units	1,895,163	1	2,530	—	2,531
Issuance of common stock in connection with the employee stock purchase plan	280,162	—	1,992	—	1,992
Stock-based compensation expense	—	—	14,278	—	14,278
Net loss	—	—	—	(38,409)	(38,409)
Balance, May 31, 2023	75,264,400	$ 8	$ 1,446,873	$ (992,703)	$ 454,178
Exercise of stock options and vesting of restricted stock units	788,881	—	565	—	565
Release of indemnity shares in connection with acquisition	28,089	—	—	—	—
Stock-based compensation expense	—	—	15,726	—	15,726
Net loss	—	—	—	(32,825)	(32,825)
Balance, August 31, 2023	76,081,370	$ 8	$ 1,463,164	$ (1,025,528)	$ 437,644

See accompanying notes to condensed consolidated financial statements

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

	Six months ended August 31,	
	2023	2022
Cash flows from operating activities:		
Net loss	$ (71,234)	$ (389,345)
Adjustments to reconcile net loss to net cash used in		
Operating activities:		
Goodwill impairment	—	299,705
Depreciation and amortization expense	22,458	23,147
Amortization of deferred contract acquisition costs	2,368	1,713
Deferred income taxes	—	(3,859)
Noncash interest expense	839	838
Stock-based compensation expense	30,004	36,903
Changes in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable and unbilled revenue	1,381	193
Accounts payable and accrued expenses	(1,565)	3,623
Deferred contract acquisition costs	(2,082)	(3,730)
Deferred revenue and due to customers	6,707	6,403
Accrued compensation	(14,020)	(8,249)
Other liabilities	(1,000)	(474)
Other assets	(1,181)	(322)
Net cash used in operating activities	(27,325)	(33,454)
Cash flows from investing activities:		
Capitalized software development costs	(4,698)	(1,499)
Purchases of property and equipment	(1,965)	(1,405)
Net cash used in investing activities	(6,663)	(2,904)
Cash flows from financing activities:		
Proceeds from stock option exercises	3,100	1,178
Proceeds from employee stock purchase plan	1,992	1,788
Payment of contingent consideration for acquisition	—	(1,828)
Net cash provided by financing activities	5,092	1,138
Net decrease in cash and cash equivalents	(28,896)	(35,220)
Cash and cash equivalents, beginning of period	321,083	365,853
Cash and cash equivalents, end of period	$ 292,187	$ 330,633
Supplemental cash flow information:		
Interest paid	$ 820	$ 820
Fixed assets and capitalized software included in accounts payable	$ 99	$ 429
Other receivable related to stock option exercises	$ 4	$ 4
Income taxes paid	$ 303	$ 22

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 an advocacy-led, nationwide care delivery service comprised of 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 deploy Accolade solutions in order to provide employees and their families (the members) a single place to turn for their health, healthcare, and benefits needs. The Company also offers expert medical opinion services to commercial customers (which includes employers, health plans, and governmental entities) and virtual primary care both directly to consumers and to commercial customers. These services are designed to improve the member experience, encourage better healthcare outcomes, and lower costs for both members and customers. 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, 2023 appearing in the Company's Annual Report on Form 10-K and filed with the Securities and Exchange Commission (the SEC) on April 28, 2023.

(a) Basis of Presentation and Principles of Consolidation

Accolade's condensed 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.

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.

(b) Unaudited Interim Financial Statements

The accompanying condensed consolidated financial statements and the related footnote disclosures are unaudited. The unaudited condensed 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 condensed consolidated financial position as of August 31, 2023, the results of its operations for the three and six months ended August 31, 2023 and 2022, and its cash flows for the six months ended August 31, 2023 and 2022. The results for the three and six months ended August 31, 2023 are not necessarily indicative of results to be expected for the year ending February 29, 2024, 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, 2023.

(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 August 31, 2023 and 2022, the Company capitalized $1,765 and $733, respectively, for internal-use software. For the six months ended August 31, 2023 and 2022, the Company capitalized $4,175 and $1,499, respectively, for internal-use software. Amortization expense related to capitalized internal-use software during the three months ended August 31, 2023 and 2022 was $785 and $289, respectively. Amortization expense related to capitalized internal-use software during the six months ended August 31, 2023 and 2022 was $1,131 and $579, 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.

(e) Intangible Assets

The Company has acquired intangible assets 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 evaluations of its recoverability annually and upon the identification of a triggering event. 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. If the fair value of the reporting unit is less than its carrying value, an impairment loss is recorded.

(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 services, as well as through utilization of its expert medical opinion and virtual primary care services. Contracts with customers that include expert medical opinion or virtual primary care 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.

Access Fees

The Company generates revenue primarily from contracts with customers to access the Company's advocacy, expert medical opinion, and virtual primary care 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 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 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 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 commercial customers as well as any non-insured consultations or visits related to virtual primary care 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 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 and cash equivalents. 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 and U.S. treasury bills with original maturities of three months or less. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents and performs periodic evaluations of the credit standing of such institutions.

(i) Leases

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.

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 Company has elected, for all of its leases, to not separate lease and non-lease components. 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.

(in thousands except share and per share data) (continued)

(3) Revenue

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

	Three Months Ended August 31, 2023	Three Months Ended August 31, 2022	Six Months Ended August 31, 2023	Six Months Ended August 31, 2022
Access fees	$ 70,897	$ 67,878	$ 137,494	$ 136,003
Utilization-based fees	25,967	19,765	52,596	37,168
Total	$ 96,864	$ 87,643	$ 190,090	$ 173,171

As of August 31, 2023, revenue is expected to be recognized from remaining performance obligations as follows:

Fiscal year ending February 28(29),	
Remainder of 2024	$ 105,469
2025	83,146
2026	22,972
2027	6,058
2028	94
Total	$ 217,739

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 six months ended August 31, 2023 and 2022 were the result of revenue recognized and net cash received. Significant changes in the deferred revenue balances during the six months ended August 31, 2023 and 2022 were the result of recognized revenue of $34,232 and $29,550, respectively, that were previously included in deferred revenue. In addition, significant changes to the contract asset balances during the six months ended August 31, 2023 and 2022 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 August 31, 2023 and 2022 was $1,533 and $794, respectively. Revenue related to performance obligations satisfied in prior periods that was recognized during the six months ended August 31, 2023 and 2022 was $2,966 and $2,623, 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 condensed consolidated balance sheets. The Company capitalized commission costs of $1,144 and $2,662 for the three months ended August 31, 2023 and 2022, respectively. The Company capitalized commission costs of $1,786 and $3,500 for the six months ended August 31, 2023 and 2022, respectively. 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.

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 condensed consolidated statements of operations and totaled $821 and $672 for the three months ended August 31, 2023 and 2022, respectively, and $1,659 and $1,264 for the six months ended August 31, 2023 and 2022, 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.

(in thousands except share and per share data) (continued)

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 $167 and $144 for the three months ended August 31, 2023 and 2022, respectively, and $274 and $230 for the six months ended August 31, 2023 and 2022, 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 revenue in the Company's condensed consolidated statements of operations and totaled $252 and $223 for the three months ended August 31, 2023 and 2022, respectively, and $530 and $448 for the six months ended August 31, 2023 and 2022, respectively.

(4) Goodwill and Intangible Assets

The Company's goodwill balance at August 31, 2023 and February 28, 2023 was $278,191. The Company recorded a goodwill impairment loss of $299,705 during the prior fiscal year.

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. 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.

Intangible assets consisted of the following:

		As of August 31, 2023			
	Useful Life	**Gross Value**	**Accumulated Amortization**	**Net Carrying Value**	**Weighted Average Remaining Useful Life (Years)**
Customer relationships	2 to 20 years	$ 124,050	$ (18,875)	$ 105,175	17.5
Technology	2 to 5 years	111,526	(56,561)	54,965	2.5
Supplier-based network	5 years	25,000	(12,500)	12,500	2.5
Trade name	10 years	13,700	(3,167)	10,533	7.7
Non-compete agreement	2 to 3 years	9,300	(8,784)	516	0.5
		$ 283,576	$ (99,887)	$ 183,689	

Amortization expense for intangible assets was $9,141 and $10,372 during the three months ended August 31, 2023 and 2022, respectively, and $19,513 and $20,744 during the six months ended August 31, 2023 and 2022, respectively.

(in thousands except share and per share data) (continued)

(5) Fair Value Measurements

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

	August 31, 2023			
	Level 1	Level 2	Level 3	Fair Value
Assets				
Cash equivalents:				
Money market funds	$ 112,365	$ —	$ —	$ 112,365

	February 28, 2023			
	Level 1	Level 2	Level 3	Fair Value
Assets				
Cash equivalents:				
Money market funds	$ 99,861	$ —	$ —	$ 99,861
United States treasury bills	$ 39,995	$ —	$ —	$ 39,995

The estimated fair value of the convertible senior notes (Note 6) was $239,344 as of August 31, 2023, 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.

(6) Debt

(a) Convertible Senior Notes and Capped Call Options

Convertible Senior Notes

The Notes consisted of the following:

	August 31, 2023	February 28, 2023
Principal	$ 287,500	$ 287,500
Unamortized issuance costs	(4,338)	(5,177)
Net carrying amount	$ 283,162	$ 282,323

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 August 31, 2023 and 2022, the Company recorded interest expense of $781 and $779, respectively, of which $420 and $417, respectively, was associated with the amortization of the debt discount. For the six months ended August 31, 2023 and 2022, the Company recorded interest expense of $1,562 and $1,558, respectively, of which $839 and $834, respectively, was associated with the amortization of 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 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 August 31, 2023, 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 August 31, 2023, 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.

(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 August 31, 2023, the Company had outstanding letters of credit to serve as office landlord security deposits in the amount of $1,311, which are secured through the revolving credit facility and reduce our borrowing capacity. The capacity of the revolving credit facility was $68,165 as of August 31, 2023. No amounts are outstanding as of August 31, 2023.

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 August 31, 2023 and 2022, the Company recorded interest expense of $51 and $158, respectively, related to the revolving credit facility. During the six months ended August 31, 2023 and 2022, the Company recorded interest expense of $102 and $210, respectively, related to the revolving credit facility.

On July 19, 2022, the Company entered into an 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.

(in thousands except share and per share data) (continued)

(c) Letter of Credit

In addition to the letters of credit outstanding under the 2019 Revolver, the Company had a letter of credit outstanding as of August 31, 2023 to serve as an office landlord security deposit in the amount of $1,170. This letter of credit expires on June 30, 2024.

(7) Stock-based Compensation

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

	Three months ended August 31,		Six months ended August 31,	
	2023	2022	2023	2022
Cost of revenue, excluding depreciation and amortization	$ 1,202	$ 1,270	$ 2,113	$ 2,398
Product and technology	7,643	5,625	14,609	13,115
Sales and marketing	3,876	4,270	7,702	8,259
General and administrative	3,005	6,349	5,580	13,131
Total stock-based compensation	$ 15,726	$ 17,514	$ 30,004	$ 36,903

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 August 31, 2023, there was a total of 12,135,039 shares of common stock authorized for issuance under the Incentive Plan, of which 1,006,028 were available for future grants.

(a) Stock Options

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

	Stock Options	Weighted average exercise price	Weighted remaining contractual life in years	Aggregate intrinsic value
Balance, February 28, 2023	8,050,519	$ 10.52		
Granted	10,792	14.25		
Exercised	(566,940)	5.26		
Forfeited	(233,850)	18.07		
Balance, August 31, 2023	7,260,521	$ 10.69	4.4	$ 39,596

For the three months ended August 31, 2023 and 2022, the Company recognized $1,765 and $2,531 in compensation expense related to stock options, respectively. For the six months ended August 31, 2023 and 2022, the Company recognized $3,980 and $5,223 in compensation expense related to stock options, respectively. As of August 31, 2023, approximately $8,394 of unrecognized compensation expense related to our stock options is expected to be recognized over a weighted average period of 1.4 years. The aggregate intrinsic value of stock options exercised was $366 and $796 for the three months ended August 31, 2023 and 2022, respectively, and $3,498 and $1,145 for the six months ended August 31, 2023 and 2022, respectively.

(in thousands except share and per share data) (continued)

(b) PlushCare Stock Options

In connection with the acquisition of PlushCare, Inc. (PlushCare) on June 9, 2021, 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:

	Stock Options	Weighted average exercise price	Weighted remaining contractual life in years	Aggregate intrinsic value
Balance, February 28, 2023	153,608	$ 1.63		
Exercised	(49,944)	$ 2.12		
Forfeited	(1,505)	$ 2.88		
Balance, August 31, 2023	102,159	$ 1.37	6.0	$ 1,238

For the three months ended August 31, 2023 and 2022, the Company recognized $720 and $1,212, respectively, in compensation expense related to PlushCare stock options. For the six months ended August 31, 2023 and 2022, the Company recognized $2,060 and $2,456, respectively, in compensation expense related to PlushCare stock options. As of August 31, 2023, approximately $499 of unrecognized compensation expense related to PlushCare stock options is expected to be recognized over a weighted average period of 1.0 years. The aggregate intrinsic value of stock options exercised was $14 and $222 for the three months ended August 31, 2023 and 2022, respectively, and $549 and $483 for the six months ended August 31, 2023 and 2022, respectively.

(c) Restricted Stock Units

Time-based restricted stock units have generally been subject to a vesting period of two to four years. For two-year grants, one-eighth of an award generally vests quarterly for the first year after the grant with the remainder vesting ratably on a monthly basis over the subsequent year. For three-year grants, one-third of an award generally vests one year after grant with the remainder vesting ratably on a monthly basis over the subsequent two years. For four-year grants, one quarter of an award generally vests one year after grant and the remainder vests ratably on a monthly basis over the subsequent three years.

The following is a summary of activity for the six months ended August 31, 2023:

	Restricted Stock Units
Balance, February 28, 2023	4,266,990
Granted	3,761,129
Vested	(1,319,146)
Forfeited	(678,973)
Balance, August 31, 2023	6,030,000

For the three months ended August 31, 2023 and 2022, the Company recognized $9,295 and $8,491, respectively, in restricted stock unit compensation expense. For the six months ended August 31, 2023 and 2022, the Company recognized $15,993 and $15,306, respectively, in restricted stock unit compensation expense with $79,266 remaining total unrecognized compensation costs related to these awards as of August 31, 2023. The total unrecognized costs are expected to be recognized over a weighted-average term of 2.4 years. The weighted average grant date fair value of restricted stock units granted during the six months ended August 31, 2023 was $12.34.

(in thousands except share and per share data) (continued)

In connection with the PlushCare acquisition, the agreement provided 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 fiscal 2023, performance-based restricted stock units were approved to be issued as part of the Company's fiscal 2023 corporate bonus program. In association with the Company's fiscal 2023 corporate bonus payout, 747,687 fully-vested RSUs were issued in May 2023.

(d) Performance Stock Units

During the three months ended August 31, 2023, the Company granted performance stock units (PSUs) to the Company's named executive officers. These PSUs will vest after the fiscal year ending February 28, 2026 based on achievement of performance metrics for revenue, Adjusted EBITDA, and Gross Dollar Retention for each of the fiscal years 2024, 2025, and 2026. Stock-based compensation costs associated with these PSUs are reassessed each reporting period based on estimated performance achievement. The number of PSUs that will be issued to executive officers at the end of the performance period will be between 0% and 200% of the grant based on the actual achievement of performance metrics.

The following is a summary of activity for the six months ended August 31, 2023:

	Performance Stock Units
Balance, February 28, 2023	—
Granted	276,480
Vested	—
Forfeited	—
Balance, August 31, 2023	276,480

Expense for these awards is recognized using graded amortization. For the three and six months ended August 31, 2023, the Company recognized $73 in PSU expense related to these awards with $3,308 remaining total unrecognized compensation costs related to these awards as of August 31, 2023. The total unrecognized costs are expected to be recognized over a weighted-average term of 2.6 years. The weighted average grant date fair value of PSUs granted during the six months ended August 31, 2023 was $12.23.

(e) 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, 2023, there was an automatic annual increase, which increased the total available common shares to 3,058,760.

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.

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 $316 and $274 during the three months ended August 31, 2023 and 2022, respectively, and $784 and $685 during the six months ended August 31, 2023 and 2022, respectively, related to the ESPP.

During the six months ended August 31, 2023 and 2022, employees who elected to participate in the ESPP purchased a total of 280,162 and 343,310 shares of common stock, respectively, resulting in cash proceeds to the Company of $1,992 and $1,788, respectively. ESPP employee payroll contributions accrued as of August 31, 2023 and February 28, 2022 totaled $1,203 and $1,384, 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.

(f) Other

In connection with the acquisition of Innovation Specialists, LLC d/b/a 2nd.MD (2nd.MD) on March 3, 2021, 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 50% on the second anniversary of acquisition date.

In connection with the acquisition of PlushCare, 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 vested on the second anniversary of acquisition date, and one third will vest on the third anniversary of the acquisition date. As of August 31, 2023, there were 268,720 unvested shares outstanding with a grant date fair value of $52.52 per share. The Company recognized stock-based compensation expense of $3,557 during the three months ended August 31, 2023 and 2022, respectively, and $7,114 during the six months ended August 31, 2023 and 2022, respectively. The unamortized compensation expense of $10,904 will be recognized over a weighted average remaining period of 0.8 years.

(8) 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 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 August 31, 2023 and 2022, the Company recorded income tax provision (benefit) of $84 and $249, respectively, which resulted in effective tax rates of (0.2)% and (0.5)%, respectively. For the six months ended August 31, 2023 and 2022, the Company recorded income tax provision (benefit) of $175 and $(3,650), respectively, which resulted in effective tax rates of (0.2)% and 0.9%, respectively.

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

(9) Net Loss Per Share Attributable to Common Stockholders

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

	Three months ended August 31,		Six months ended August 31,	
	2023	2022	2023	2022
Net loss	$ (32,825)	$ (46,523)	$ (71,234)	$ (389,345)
Weighted-average common shares outstanding, basic	75,487,717	70,475,778	74,334,111	70,251,890
Net income (loss) per share attributable to common stockholders, basic	$ (0.43)	$ (0.66)	$ (0.96)	$ (5.54)

As the Company has reported net losses for each of the periods presented, all potentially dilutive securities are antidilutive. The following potential outstanding shares of common stock were excluded from the computation of diluted net loss per common share for the periods presented because including them would have been antidilutive:

	Three months ended August 31,		Six months ended August 31,	
	2023	2022	2023	2022
Stock options	7,362,680	8,590,272	7,362,680	8,590,272
Unvested restricted stock units	6,030,000	5,295,247	6,030,000	5,295,247
Unvested performance stock units	276,480	—	276,480	—
Shares issued to 2nd.MD employees and subject to vesting	—	274,224	—	274,224
Shares issued to PlushCare employees and subject to vesting	268,720	537,401	268,720	537,401
Contingent shares in connection with PlushCare acquisition	102,111	102,111	102,111	102,111
Indemnity shares held in escrow in connection with PlushCare acquisition	27,342	27,342	27,342	27,342
Shares to be issued to HealthReveal shareholders upon expiration of indemnification	—	28,089	—	28,089
Convertible Senior Notes	5,700,297	5,700,297	5,700,297	5,700,297
Total	19,767,630	20,554,983	19,767,630	20,554,983

(10) 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 August 31, 2023, the Company had accruals of $3,500 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. The parties agreed to a settlement for $3,700. The court issued a final approval and final judgment in July 2023. The Company paid the settlement in full in September 2023 pursuant to the terms of the court-approved settlement. 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. As of August, 31, 2023, the Company had recorded both receivables and a contingent liability for the remaining amount of the settlement on its consolidated balance sheet.

(in thousands except share and per share data) (continued)

(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 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 August 31, 2023, the Company has remaining future purchase commitments under this agreement of $28,307.

(11) Restructuring

During the year ended February 28, 2023, the Company initiated certain measures to accelerate the integration of recent acquisitions through strategic reductions in the Company's workforce, including increasing hiring in lower cost regions to support its growth, scale, and profitability objectives. As a result, severance expense was recorded for the impacted employees. The Company continued to incur costs associated with these measures during the six months ended August 31, 2023.

The following table summarizes the amount of severance costs included in the consolidated statements of operations:

	Three Months Ended August 31,		Six Months Ended August 31,	
	2023	2022	2023	2022
Cost of revenue, excluding depreciation and amortization	$ 92	$ 114	$ 726	$ 114
Product and technology	(114)	1,194	107	1,194
Sales and marketing	(25)	979	(25)	979
General and administrative	(5)	788	242	788
Total severance costs	$ (52)	$ 3,075	$ 1,050	$ 3,075

The following is a summary of the changes in the severance liabilities related to the workforce reductions. These liabilities are included within accrued compensation on the consolidated balance sheets:

Balance as of February 28, 2023	$ 3,996
Severance costs	1,050
Cash payments	(4,444)
Balance as of August 31, 2023	$ 602

The Company expects remaining severance-related liabilities to be paid out in cash during fiscal 2024. Additional expenses associated with these restructuring activities are not expected to be material.

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, 2023 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 an advocacy-led, nationwide care delivery service comprised of 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 commercial customers (which includes employers, health plans, and governmental entities) and virtual primary care and mental health therapy, both directly to consumers and to commercial 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 primary care physicians, registered nurses, physician medical directors, pharmacists, behavioral health specialists, women's health specialists, case management specialists, and expert medical opinion providers. 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.

Following the addition of the 2nd.MD and PlushCare offerings in 2021, we began integrating our suite of offerings and combining our operations. Subsequently, we announced new solutions and new naming for the solutions to reflect the expanded capabilities of Accolade's historical navigation and advocacy solutions with our acquired primary care, mental health, and expert medical opinion services. We augment these solutions with artificial intelligence, machine learning, and data-driven recommendations that are based on our expansive clinical expertise and data. The new solution bundles incorporate all of our existing solutions to reflect the evolution and maturation of our offering portfolio. With these changes, our current offerings include:

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

- Accolade Care and PlushCare – Integrated primary care and mental health support delivered for both commercial customers and direct consumers

- Trusted Partner Ecosystem - In addition to Accolade's owned solutions, we have assembled a roster of high-quality partners whose condition-specific solutions are complementary to our services and capable of delivering additional value to our members and customers or capabilities that meet specific customer needs.

- Accolade One – A value-based bundle 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

These offerings are the successors to the historical Accolade Total Health and Benefits, Accolade Total Care, Accolade Total Benefits and 2nd.MD solutions. 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.

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, 2023, we had over 800 commercial customers comprising more than 12 million members. Our customers represent a diversified set of industries, including technology, financial services, healthcare, manufacturing, transportation, education, retail, and the public sector. Additionally, as of February 28, 2023, we had more than 150,000 consumers subscribed to virtual primary care services through our PlushCare solution.

For the three months ended August 31, 2023, our total revenue was $96.9 million, representing 11% year-over-year growth compared to total revenue of $87.6 million for the three months ended August 31, 2022. For the six months ended August 31, 2023, our total revenue was $190.1, representing a 10% year-over-year growth compared to total revenue of $173.2 million for the six months ended August 31, 2022. For the three months ended August 31, 2023 and 2022, our net loss was $32.8 million and $46.5 million, respectively. For the six months ended August 31, 2023 and 2022, our net loss was $71.2 and $389.3 million, respectively. Net loss for the six months ended August 31, 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, and virtual primary care services to the members of our commercial 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 services which are typically priced on a fee per visit basis for consumers and a visit fee basis or PMPM plus visit fee basis for commercial 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, suppliers in our Trusted Partner Ecosystem, 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. 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.

Business Environment and Trends

The healthcare sector continues to recover from the effects of the COVID-19 pandemic. Over the course of the pandemic, our operations and clinical leaders trained our frontline teams on evidence-based guidelines and continue to equip them with relevant resources to serve our members. 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.

While macroeconomic factors including high inflation, the COVID-19 pandemic, and geopolitical risk have not had a material adverse impact on our financial condition and results of operations to date, the future impact of these factors on our operational and financial performance will depend on certain developments, including U.S. unemployment and economic growth, changes in interest rates, the duration and spread of the potential future COVID-19 outbreaks, 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. Changing macroeconomic factors may affect our customers' desire to renew their contracts. If our customers undergo layoffs or reductions in force, our membership numbers would decrease, which would reduce our revenues. 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 commercial 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 resonates with a broad audience of employers. Disruptions to traditional care consumption ignited by the COVID-19 pandemic 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 Expert MD 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.

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 2023 and 2022, 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.

Seasonality

There are seasonal factors that may cause us to record higher revenue in some quarters compared with others. We have historically recorded a disproportionate amount of revenue 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. Additionally, services launch on January 1 for the majority of our commercial customer contracts which is during our fiscal fourth quarter. While we believe we have visibility into the seasonality of our business, our rapid growth rate and acquisitions over the last several years have made seasonal fluctuations more difficult to detect.

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, and virtual primary care services to the members of our commercial customers' health plans and to members of fully insured plans offered via health insurance companies. Access fees for these services are priced 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, and a variable PMPM fee calculated as the product of a variable rate times the number of members. The fees associated with variable PMPM charges are earned through the achievement of performance metrics and/or the realization of healthcare cost savings resulting from use of our services. We also earn revenue from providing virtual primary care services directly to consumers on a monthly or yearly fixed fee subscription basis. Our expert medical opinion and virtual primary care services typically also include a variable rate charged based on utilization for commercial customers (i.e. case rate or fee-per-visit). As a result, a portion of our total 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.

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, and virtual primary care services. We expect cost of revenue, excluding depreciation and amortization, to increase along with revenue growth over time.

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. In the short-term, we expect product and technology expenses to moderate and grow at a lower rate than the rate of growth experienced in fiscal 2022 and 2023 due to the workforce realignment actions taken by management in fiscal 2023. Over time, we expect product and technology expenses to decrease as a percentage of revenue.

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 relatively 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 but at a lower rate than the rate of growth experienced in fiscal 2022 and 2023 due to the workforce realignment actions taken by management in fiscal 2023. Over time, we expect general and administrative expenses to decrease as a percentage of revenue.

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 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 August 31, 2023	For the three months ended August 31, 2022	For the six months ended August 31, 2023	For the six months ended August 31, 2022
	(in thousands)		(in thousands)	
Revenue	$ 96,864	$ 87,643	$ 190,090	$ 173,171
Cost of revenue, excluding depreciation and amortization[1]	55,317	49,830	109,520	97,445
Operating expenses:				
Product and technology[1]	25,602	26,194	51,501	53,011
Sales and marketing[1]	24,076	24,936	49,109	50,550
General and administrative[1]	16,259	21,020	32,339	41,258
Depreciation and amortization	10,818	11,571	22,458	23,147
Goodwill impairment	—	—	—	299,705
Total operating expenses	76,755	83,721	155,407	467,671
Loss from operations	(35,208)	(45,908)	(74,837)	(391,945)
Interest income (expense), net	1,714	(236)	2,635	(870)
Other income (expense)	753	(130)	1,143	(180)
Loss before income taxes	(32,741)	(46,274)	(71,059)	(392,995)
Income tax benefit (expense)	(84)	(249)	(175)	3,650
Net loss	$ (32,825)	$ (46,523)	$ (71,234)	$ (389,345)

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

	For the three months ended August 31, 2023	For the three months ended August 31, 2022	For the six months ended August 31, 2023	For the six months ended August 31, 2022
	(in thousands)		(in thousands)	
Cost of revenue	$ 1,202	$ 1,270	$ 2,113	$ 2,398
Product and technology	7,643	5,625	14,609	13,115
Sales and marketing	3,876	4,270	7,702	8,259
General and administrative	3,005	6,349	5,580	13,131
Total stock-based compensation	$ 15,726	$ 17,514	$ 30,004	$ 36,903

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

	For the three months ended August 31,		For the six months ended August 31,	
	2023	2022	2023	2022
Revenue	100 %	100 %	100 %	100 %
Cost of revenue, excluding depreciation and amortization	57 %	57 %	58 %	56 %
Operating expenses:				
Product and technology	26 %	30 %	27 %	31 %
Sales and marketing	25 %	28 %	26 %	29 %
General and administrative	17 %	24 %	17 %	24 %
Depreciation and amortization	11 %	13 %	12 %	13 %
Goodwill impairment	— %	— %	— %	173 %
Total operating expenses	79 %	96 %	82 %	270 %
Loss from operations	(36)%	(52)%	(39)%	(226)%
Interest income (expense), net	2 %	(0)%	1 %	(1)%
Other income (expense)	1 %	(0)%	1 %	(0)%
Loss before income taxes	(34)%	(53)%	(37)%	(227)%
Income tax benefit (expense)	(0)%	(0)%	(0)%	2 %
Net loss	(34)%	(53)%	(37)%	(225)%

Comparison of Three and Six Months Ended August 31, 2023 and 2022

Revenue

	For the three months ended August 31,		Changes	
	2023	2022	Amount	%
	(in thousands, except percentages)			
Revenue	$ 96,864	$ 87,643	$ 9,221	11 %

Revenue increased $9.2 million, or 11%, to $96.9 million for the three months ended August 31, 2023, as compared to $87.6 million for the three months ended August 31, 2022. The increase was attributable to revenues derived from growth in the number of customers served during the second quarter of fiscal 2024 as compared to the prior year's corresponding period. Revenue from utilization-based fees increased $6.2 million, or 31%, to $26.0 million for the three months ended August 31, 2023 as compared to $19.8 million for the three months ended August 31, 2022. Revenue from access fees increased $3.0 million, or 4%, to $70.9 million for the three months ended August 31, 2023 as compared to $67.9 million for the three months ended August 31, 2022.

	For the six months ended August 31,		Changes	
	2023	2022	Amount	%
	(in thousands, except percentages)			
Revenue	$ 190,090	$ 173,171	$ 16,919	10 %

Revenue increased $16.9 million, or 10%, to $190.1 million for the six months ended August 31, 2023, as compared to $173.2 million for the six months ended August 31, 2022. The increase was attributable to revenues derived from growth in the number of customers served during the first half of fiscal 2024 as compared to the prior year's corresponding period. Revenue from utilization-based fees increased $15.4 million, or 42%, to $52.6 million for the six months ended August 31, 2023 as compared to $37.2 million for the six months ended August 31, 2022. Revenue from access fees increased $1.5 million, or 1%, to $137.5 million for the six months ended August 31, 2023 as compared to $136.0 million for the six months ended August 31, 2022.

Cost of revenue, excluding depreciation and amortization

	For the three months ended August 31, 2023	2022	Changes Amount	%
	(in thousands, except percentages)			
Cost of revenue, excluding depreciation and amortization	$ 55,317	$ 49,830	$ 5,487	11 %

Cost of revenue, excluding depreciation and amortization increased $5.5 million, or 11%, to $55.3 million for the three months ended August 31, 2023, as compared to $49.8 million for three months ended August 31, 2022. The increase was primarily driven by $4.1 million increased personnel and related costs to serve the customer base, which included $0.1 million in severance costs associated with workforce realignment actions taken by management and $1.4 million in increased costs associated with third-party services and solutions from trusted suppliers, partially offset by a $0.7 million decrease in member outreach reflecting leverage of technology-driven efficiencies in order to digitize member outreach programs.

	For the six months ended August 31, 2023	2022	Changes Amount	%
	(in thousands, except percentages)			
Cost of revenue, excluding depreciation and amortization	$ 109,520	$ 97,445	$ 12,075	12 %

Cost of revenue, excluding depreciation and amortization increased $12.1 million, or 12%, to $109.5 million for the six months ended August 31, 2023, as compared to $97.4 million for six months ended August 31, 2022. The increase was primarily driven by $10.7 million in increased personnel and related costs to serve the customer base, which included $0.7 million in severance costs associated with workforce realignment actions taken by management and $2.9 million in increased costs associated with third-party services and solutions from trusted suppliers, partially offset by a $2.2 million decrease in member outreach reflecting leverage of technology-driven efficiencies in order to digitize member outreach programs.

Operating expenses

	For the three months ended August 31, 2023	2022	Changes Amount	%
	(in thousands, except percentages)			
Operating expenses:				
Product and technology	$ 25,602	$ 26,194	$ (592)	(2)%
Sales and marketing	24,076	24,936	(860)	(3)%
General and administrative	16,259	21,020	(4,761)	(23)%
Depreciation and amortization	10,818	11,571	(753)	(7)%
Total operating expenses	$ 76,755	$ 83,721	$ (6,966)	(8)%

Product and technology. Product and technology expense decreased $0.6 million, or 2%, to $25.6 million for the three months ended August 31, 2023, as compared to $26.2 million for the three months ended August 31, 2022. The decrease was primarily driven by a $2.1 million decrease in personnel and related costs, which includes $1.3 million of severance costs associated with workforce realignment actions taken by management, partially offset by $2.0 million of increased stock-based compensation expense.

Sales and marketing. Sales and marketing expense decreased $0.9 million, or 3%, to $24.1 million for the three months ended August 31, 2023, as compared to $24.9 million for the three months ended August 31, 2022. The decrease was primarily driven by $2.7 million in decreased in personnel and related costs, which includes $1.0 million of severance costs associated with workforce realignment actions taken by management, and $0.4 million in decreased stock-based compensation expense, partially offset by $2.3 million in increased marketing program costs.

General and administrative. General and administrative expense decreased $4.8 million, or 23%, to $16.3 million for the three months ended August 31, 2023, as compared to $21.0 million for the three months ended August 31, 2022. The decrease was primarily due to a decrease of $3.3 million in stock-based compensation expense, $1.7 million decrease in personnel and related costs, which includes $0.8 million of severance costs associated with workforce realignment actions taken by management.

Depreciation and amortization. Depreciation and amortization expense decreased $0.8 million, or 7%, to $10.8 million for the three months ended August 31, 2023, as compared to $11.6 million for the three months ended August 31, 2022 primarily due to certain intangible assets becoming fully amortized during the period.

	For the six months ended August 31,		Changes	
	2023	2022	Amount	%
	(in thousands, except percentages)			
Operating expenses:				
Product and technology	$ 51,501	$ 53,011	$ (1,510)	(3)%
Sales and marketing	49,109	50,550	(1,441)	(3)%
General and administrative	32,339	41,258	(8,919)	(22)%
Depreciation and amortization	22,458	23,147	(689)	(3)%
Goodwill impairment	—	299,705	(299,705)	N/A
Total operating expenses	$ 155,407	$ 467,671	$ (312,264)	(67)%

Product and technology. Product and technology expense decreased $1.5 million, or 3%, to $51.5 million for the three months ended August 31, 2023, as compared to $53.0 million for the six months ended August 31, 2022. The decrease was primarily driven by $2.2 million of higher capitalized software development costs associated with expanding our product offering features and scalability of our technology platform, $2.1 million in decreased personnel and related costs, which includes $1.1 million of severance costs associated with workforce realignment actions taken by management, partially offset by increased stock-based compensation expense of $1.5 million and $1.3 million in increased software costs associated with tool expansion supporting our integrated product offering and evolution.

Sales and marketing. Sales and marketing expense decreased $1.4 million, or 3%, to $49.1 million for the six months ended August 31, 2023, as compared to $50.6 million for the six months ended August 31, 2022. The decrease was primarily driven by $4.5 million in decreased personnel and related costs, which includes $1.0 million of severance costs associated with workforce realignment actions taken by management, and $0.6 million in decreased stock-based compensation expense, partially offset by $3.7 million increased marketing spend.

General and administrative. General and administrative expense decreased $8.9 million, or 22%, to $32.3 million for the six months ended August 31, 2023, as compared to $41.3 million for the six months ended August 31, 2022. The decrease was primarily due to a decrease of $7.6 million in stock-based compensation expense and $2.1 million decrease in personnel and related costs, which includes $0.5 million of severance costs associated with workforce realignment actions taken by management. The decrease in stock-based compensation expense was primarily due to employee transitions to the product and technology organization as part of workforce realignment actions.

Depreciation and amortization. Depreciation and amortization expense decreased $0.7 million, or 3%, to $22.5 million for the six months ended August 31, 2023, as compared to $23.1 million for the six months ended August 31, 2022 primarily due to certain intangible assets becoming fully amortized during the period.

Interest income (expense), net

	For the three months ended August 31,		Changes	
	2023	2022	Amount	%
	(in thousands, except percentages)			
Interest income (expense), net	$ 1,714	$ (236)	$ 1,950	826 %

Interest income (expense), net increased $2.0 million, or 826%, to $1.7 million for the three months ended August 31, 2023, as compared to $(0.2) million for the three months ended August 31, 2022. The increase was primarily due to an additional $1.8 million of interest income generated from our cash and cash equivalents during the three months ended August 31, 2023 compared to the prior year period.

	For the six months ended August 31,		Changes	
	2023	2022	Amount	%
	(in thousands, except percentages)			
Interest income (expense), net	$ 2,635	$ (870)	$ 3,505	403 %

Interest income (expense), net increased $3.5 million, or 403%, to $2.6 million for the six months ended August 31, 2023, as compared to $(0.9) million for the six months ended August 31, 2022. The increase was primarily due to an additional $3.4 million of interest income generated from our cash and cash equivalents during the six months ended August 31, 2023 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 August 31,		For the six months ended August 31,	
	2023	2022	2023	2022
	(in thousands, except percentages)		(in thousands, except percentages)	
Adjusted Gross Profit	$ 42,841	$ 39,197	$ 83,409	$ 78,238
Adjusted Gross Margin	44.2 %	44.7 %	43.9 %	45.2 %
Adjusted EBITDA	$ (8,764)	$ (13,748)	$ (21,346)	$ (29,115)

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). Severance costs include severance payments related to the realignment 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 August 31,		For the six months ended August 31,	
	2023	2022	2023	2022
	(in thousands, except percentages)		(in thousands, except percentages)	
Revenue	$ 96,864	$ 87,643	$ 190,090	$ 173,171
Less:				
Cost of revenue, excluding depreciation and amortization	(55,317)	(49,830)	(109,520)	(97,445)
Gross profit, excluding depreciation and amortization	41,547	37,813	80,570	75,726
Add:				
Stock-based compensation, cost of revenue	1,202	1,270	2,113	2,398
Severance costs, cost of revenue	92	114	726	114
Adjusted Gross Profit	$ 42,841	$ 39,197	$ 83,409	$ 78,238
Gross margin, excluding depreciation and amortization	42.9 %	43.1 %	42.4 %	43.7 %
Adjusted Gross Margin	44.2 %	44.7 %	43.9 %	45.2 %

Gross margin, excluding depreciation and amortization, for the three months ended August 31, 2023 and 2022, decreased to 42.9% from 43.1%, respectively, and Adjusted Gross Margin for the three months ended August 31, 2023 and 2022 decreased to 44.2% from 44.7%, respectively. Gross margin, excluding depreciation and amortization, for the six months ended August 31, 2023 and 2022, decreased to 42.4% from 43.7%, respectively, and Adjusted Gross Margin for the three months ended August 31, 2023 and 2022 decreased to 43.9% from 45.2%, respectively. The decreases in gross margin, excluding depreciation and amortization, and Adjusted Gross Margin are driven primarily by investments in our frontline care teams, including duplicative staffing costs associated with transitions of staff to new geographic locations which is a result of workforce realignment actions initiated by management in fiscal 2023, as well as timing of recognition of a high gross margin transaction in fiscal 2023 that did not occur in fiscal 2024.

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

	For the three months ended August 31,		For the six months ended August 31,	
	2023	2022	2023	2022
	(in thousands)		(in thousands)	
Net loss	$ (32,825)	$ (46,523)	$ (71,234)	$ (389,345)
Adjusted for:				
Interest expense (income), net	(1,714)	236	(2,635)	870
Income tax (benefit) expense	84	249	175	(3,650)
Depreciation and amortization	10,818	11,571	22,458	23,147
Stock-based compensation	15,726	17,514	30,004	36,903
Acquisition and integration-related costs(1)	(48)	—	(21)	—
Goodwill impairment	—	—	—	299,705
Severance costs(2)	(52)	3,075	1,050	3,075
Other expense (income)	(753)	130	(1,143)	180
Adjusted EBITDA	$ (8,764)	$ (13,748)	$ (21,346)	$ (29,115)

(1) For the three and six months ended August 31, 2023, acquisition and integration-related costs represent expenses associated with litigation inherited through the PlushCare acquisition. Refer to Note 10 in our consolidated financial statements for further details.

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

Liquidity and Capital Resources

We had cash and cash equivalents of $292.2 million as of August 31, 2023. Our cash equivalents are comprised of money market accounts held at banks. Management believes the Company’s cash and cash equivalents, plus customer revenues and advances and available borrowings under its debt facility, are sufficient to fund its operations through at least the next 12 months from the issuance of these condensed consolidated financial statements.

Our Debt Arrangements

In March 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 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 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.

We currently have a revolving credit facility (2019 Revolver), which we entered into in July 2019. 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 $1.3 million, which are secured through the revolving credit facility and reduce our borrowing capacity. The capacity of the revolving credit facility was $68.2 million as of August 31, 2023. On July 19, 2022, we entered into an amendment to extend the term until July 19, 2024, documented the transition from the prior 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 we have at least $200 million in consolidated net cash as of May 31, 2024.

We were in compliance with all such applicable covenants as of August 31, 2023, 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 six months ended August 31,	
	2023	2022
	(in thousands)	
Net cash used in operating activities	$ (27,325)	$ (33,454)
Net cash used in investing activities	(6,663)	(2,904)
Net cash provided by financing activities	5,092	1,138

Operating Activities. Net cash used in operating activities decreased by $6.1 million to $27.3 million during the six months ended August 31, 2023 from $33.4 million during the six months ended August 31, 2022, primarily due to timing of payables and a decrease in accrued compensation.

Investing Activities. Net cash used in investing activities increased by $3.8 million to $6.7 million during the six months ended August 31, 2023, from $2.9 million during the six months ended August 31, 2023, primarily due to additional capitalized software development costs.

Financing Activities. Net cash provided by financing activities increased by $4.0 million to $5.1 million during the six months ended August 31, 2023 from $1.1 million during the six months ended August 31, 2022 primarily due to increased proceeds from stock option exercises.

Material Cash Requirements

As of August 31, 2023, 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 6 to our consolidated financial statements for more details.

- *Operating leases* – We have entered into operating leases, primarily for office space. The amount and composition of our leases have not changed significantly during the three months ended August 31, 2023.

- *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 10 to our consolidated financial statements for more details.

- *Other material cash requirements* – In addition to the above, our material cash requirements also include compensation and benefits expenses for our employees, severance for terminated employees, expenses for software and third-party services, and other miscellaneous expenses.

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 six months ended August 31, 2023, as compared to the critical accounting policies and estimates described in our Annual Report on Form 10-K for the year ended February 28, 2023 filed with the SEC.

Recently Issued and Adopted Accounting Pronouncements

None.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We had cash and cash equivalents of $292.2 million as of August 31, 2023. Our cash equivalents are comprised primarily of money market accounts held at banks. 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.

In addition, our 2019 Revolver has a variable interest rate which, if drawn upon, would subject us to risks associated with changes in that interest rate. We had no borrowings under the 2019 Revolver during the three months ended August 31, 2023.

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 August 31, 2023. Based on the evaluation of our disclosure controls and procedures as of August 31, 2023, 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

During the three months ended August 31, 2023, we implemented a new accounting enterprise resource planning (ERP) system. As a result of this implementation, we revised certain existing internal controls, processes, and procedures where necessary.

Other than the ERP implementation, 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 10, “Commitments and Contingencies,” to our condensed consolidated financial statements included in this Form 10-Q.

Item 1A. Risk Factors

For a discussion of potential risks and uncertainties related to our Company, see the information in Part I, Item 1A of our Annual Report on Form 10-K for the year ended February 28, 2023. There have been no material changes to the risk factors previously disclosed in our most recent Form 10-K.

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in the “Special Note Regarding Forward-Looking Statements” section in this Quarterly Report on Form 10-Q.

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

There were no unregistered sales of equity securities during the three months ended August 31, 2023.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Insider Trading Arrangements

On July 20, 2023, Rajeev Singh, our Chief Executive Officer and Chairman of the Board, adopted a trading plan intended to satisfy the affirmative defense conditions under Rule 10b5-1(c) of the Securities Exchange Act of 1934, as amended (the Exchange Act). The plan is for the sale of up to 250,000 shares and terminates on the earlier of the date all the shares under the plan are sold and April 22, 2024.

On July 21, 2023, Richard Eskew, our EVP, General Counsel, adopted a trading plan intended to satisfy the affirmative defense conditions under Rule 10b5-1(c) of the Exchange Act. The plan is for (1) the sale of up to 2,400 shares of our common stock in amounts determined in accordance with a formula set forth in the plan and (2) the exercise of non-qualified stock options up to 16,659 shares, the proceeds of which would be used to exercise options and hold up to 30,250 shares. The plan terminates on the earlier of the date all the shares under the plan are sold or exercised, as applicable, and April 19, 2024.

In addition, our officers (as defined in Rule 16a-1(f) under the Exchange Act) have entered into sell-to-cover arrangements authorizing the pre-arranged sale of shares to satisfy tax withholding obligations of the Company arising exclusively from the vesting of shares of restricted stock and time-vesting or performance-vesting restricted stock units and the related issuance of shares. The amount of shares to be sold to satisfy the Company’s tax withholding obligations under these arrangements is dependent on future events which cannot be known at this time, including the future trading price of Company shares. The expiration date relating to these arrangements is dependent on future events which cannot be known at this time, including the final vest date of the applicable shares of restricted stock and time-vesting or performance-vesting restricted stock units and the officer’s termination of service.

Table of Contents

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

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.

SIGNATURES

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

ACCOLADE, INC. (Registrant)

Date: October 4, 2023	By: /s/ Rajeev Singh **Rajeev Singh** **Chief Executive Officer and Chairman of the Board** **(Principal Executive Officer)**
Date: October 4, 2023	By: /s/ Stephen Barnes **Stephen Barnes** **Chief Financial Officer** **(Principal Financial Officer)**
Date: October 4, 2023	By: /s/ Colin McHugh **Colin McHugh** **Chief Accounting Officer** **(Principal Accounting Officer)**

Exhibit 31.1

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: October 4, 2023

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

Exhibit 31.2

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: October 4, 2023

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

Exhibit 32.1

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 August 31, 2023, 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: October 4, 2023

IN WITNESS WHEREOF, the undersigned have set their hands hereto as of the 4th day of October, 2023.

/s/ Rajeev Singh	/s/ Stephen Barnes
Rajeev Singh	Stephen Barnes
Chief Executive Officer	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."