

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, 2024

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number: 001-39348
ACCOLADE, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

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

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

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

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

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

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

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

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

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

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

As of September 30, 2024, 80,537,080 shares of the registrant's common stock were outstanding.

ACCOLADE, INC.

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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, 2024	February 29, 2024
Assets		
Current assets:		
Cash and cash equivalents	\$ 173,315	\$ 185,718
Marketable securities	61,035	51,315
Accounts receivable, net	21,224	21,800
Unbilled revenue	3,994	5,902
Current portion of deferred contract acquisition costs	4,299	4,369
Prepaid and other current assets	10,869	15,808
Total current assets	274,736	284,912
Property and equipment, net	18,927	19,140
Operating lease right-of-use assets	25,647	28,340
Goodwill	278,191	278,191
Intangible assets, net	147,642	165,407
Deferred contract acquisition costs	8,733	9,608
Other assets	2,196	2,553
Total assets	\$ 756,072	\$ 788,151
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 9,027	\$ 13,749
Accrued expenses and other current liabilities	11,434	10,736
Accrued compensation	26,924	23,392
Due to customers	5,857	18,552
Current portion of deferred revenue	40,710	34,770
Current portion of operating lease liabilities	7,068	6,651
Total current liabilities	101,020	107,850
Loans payable, net of unamortized issuance costs	209,098	208,482
Operating lease liabilities	22,642	26,077
Other noncurrent liabilities	153	156
Deferred revenue	85	121
Total liabilities	332,998	342,686
Commitments and Contingencies (note 10)		
Stockholders' equity		
Common stock par value \$0.0001; 500,000,000 shares authorized; 80,373,402 and 78,070,781 shares issued and outstanding at August 31, 2024 and February 29, 2024, respectively	8	8
Additional paid-in capital	1,528,665	1,499,603
Accumulated other comprehensive income (loss)	26	(47)
Accumulated deficit	(1,105,625)	(1,054,099)
Total stockholders' equity	423,074	445,465
Total liabilities and stockholders' equity	\$ 756,072	\$ 788,151

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended August 31,		Six months ended August 31,	
	2024	2023	2024	2023
Revenue	\$ 106,360	\$ 96,864	\$ 216,826	\$ 190,090
Cost of revenue, excluding depreciation and amortization	56,922	55,317	115,533	109,520
Operating expenses:				
Product and technology	22,477	25,602	48,786	51,501
Sales and marketing	24,932	24,076	53,126	49,109
General and administrative	16,536	16,259	32,544	32,339
Depreciation and amortization	10,637	10,818	21,029	22,458
Total operating expenses	74,582	76,755	155,485	155,407
Loss from operations	(25,144)	(35,208)	(54,192)	(74,837)
Interest income, net	1,687	1,714	3,384	2,635
Other income (expense)	(103)	753	(9)	1,143
Loss before income taxes	(23,560)	(32,741)	(50,817)	(71,059)
Income tax expense	(374)	(84)	(709)	(175)
Net loss	<u>\$ (23,934)</u>	<u>\$ (32,825)</u>	<u>\$ (51,526)</u>	<u>\$ (71,234)</u>
Net loss per share, basic and diluted	<u>\$ (0.30)</u>	<u>\$ (0.43)</u>	<u>\$ (0.65)</u>	<u>\$ (0.96)</u>
Weighted-average common shares outstanding, basic and diluted	<u>80,072,045</u>	<u>75,487,717</u>	<u>79,102,868</u>	<u>74,334,111</u>
Other comprehensive income:				
Unrealized income on marketable securities, net	\$ 60	\$ —	\$ 73	\$ —
Comprehensive loss	<u>\$ (23,874)</u>	<u>\$ (32,825)</u>	<u>\$ (51,453)</u>	<u>\$ (71,234)</u>

See accompanying notes to condensed consolidated financial statements.

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

	Stockholders' Equity (Deficit)					
	Common stock		Additional paid-in capital	Accumulated deficit	Total	
	Shares	Amount				
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	

	Stockholders' Equity (Deficit)					
	Common stock		Additional paid-in capital	Accumulated Other Comprehensive Income (Loss)	Accumulated deficit	Total
	Shares	Amount				
Balance, February 29, 2024	78,070,781	\$ 8	\$ 1,499,603	\$ (47)	\$ (1,054,099)	\$ 445,465
Exercise of stock options and vesting of restricted stock units	473,121	—	125	—	—	125
Issuance of common stock in connection with the employee stock purchase plan	297,668	—	1,944	—	—	1,944
Stock-based compensation expense	—	—	15,310	—	—	15,310
Other comprehensive income (loss)	—	—	—	13	—	13
Net loss	—	—	—	—	(27,592)	(27,592)
Balance, May 31, 2024	78,841,570	\$ 8	\$ 1,516,982	\$ (34)	\$ (1,081,691)	\$ 435,265
Exercise of stock options and vesting of restricted stock units	1,531,832	—	8	—	—	8
Stock-based compensation expense	—	—	11,675	—	—	11,675
Other comprehensive income (loss)	—	—	—	60	—	60
Net loss	—	—	—	—	(23,934)	(23,934)
Balance, August 31, 2024	80,373,402	\$ 8	\$ 1,528,665	\$ 26	\$ (1,105,625)	\$ 423,074

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,	
	2024	2023
Cash flows from operating activities:		
Net loss	\$ (51,526)	\$ (71,234)
Adjustments to reconcile net loss to net cash used in		
Operating activities:		
Depreciation and amortization expense	21,029	22,458
Amortization of deferred contract acquisition costs	2,682	2,368
Noncash interest expense	616	839
Accretion of discounts/premiums on marketable securities, net	(1,148)	—
Stock-based compensation expense	26,985	30,004
Changes in operating assets and liabilities:		
Accounts receivable and unbilled revenue	2,483	1,381
Accounts payable and accrued expenses	(4,075)	(1,565)
Deferred contract acquisition costs	(1,737)	(2,082)
Deferred revenue and due to customers	(6,791)	6,707
Accrued compensation	3,532	(14,020)
Other liabilities	(328)	(1,000)
Other assets	5,302	(1,181)
Net cash used in operating activities	(2,976)	(27,325)
Cash flows from investing activities:		
Purchases of marketable securities	(36,000)	—
Maturities of marketable securities	27,500	—
Capitalized software development costs	(1,933)	(4,698)
Purchases of property and equipment	(1,071)	(1,965)
Net cash used in investing activities	(11,504)	(6,663)
Cash flows from financing activities:		
Proceeds from stock option exercises	133	3,100
Proceeds from employee stock purchase plan	1,944	1,992
Net cash provided by financing activities	2,077	5,092
Net decrease in cash and cash equivalents	(12,403)	(28,896)
Cash and cash equivalents, beginning of period	185,718	321,083
Cash and cash equivalents, end of period	\$ 173,315	\$ 292,187
Supplemental cash flow information:		
Interest paid	\$ 645	\$ 820
Fixed assets and capitalized software included in accounts payable	\$ 73	\$ 99
Other receivable related to stock option exercises	\$ —	\$ 4
Income taxes paid	\$ 1,454	\$ 303

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 29, 2024 appearing in the Company's Annual Report on Form 10-K and filed with the Securities and Exchange Commission (the SEC) on April 26, 2024.

(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 the 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, 2024 and the results of its operations for the three and six months ended August 31, 2024 and 2023. The results for the three and six months ended August 31, 2024 are not necessarily indicative of results to be expected for the year ending February 28, 2025, 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 29, 2024.

(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, 2024 and 2023, the Company capitalized \$741 and \$1,765, respectively, for internal-use software. For the six months ended August 31, 2024 and 2023, the Company capitalized \$1,983 and

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

\$4,175, respectively, for internal-use software. Amortization expense related to capitalized internal-use software during the three months ended August 31, 2024 and 2023 was \$1,160 and \$785, respectively. Amortization expense related to capitalized internal-use software during the six months ended August 31, 2024 and 2023 was \$2,047 and \$1,131, 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 usage 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 usage-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

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

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.

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

Usage-based fees

The Company also generates revenue when members use the expert medical opinion and virtual primary care services that are billed based on usage. Many, but not all, contracts with customers contain usage-based fees. For any usage-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. In prior periods, the Company referred to usage-based fees as "utilization-based fees."

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, cash equivalents, and marketable securities. The Company maintains its cash primarily with domestic financial institutions of high credit quality, which may exceed federal deposit insurance corporation limits. The Company invests its cash equivalents in highly rated money market funds, as well as in commercial paper and U.S. treasury bills with original maturities of three months or less. Marketable securities are comprised of U.S. government debt, commercial paper, and U.S. agency debt with original maturities greater than three months. The Company believes it is not exposed to any significant credit risk on cash, cash equivalents, and marketable securities and performs periodic evaluations of the credit standing of such institutions.

(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.

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- (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.

(j) Recently Issued Accounting Pronouncements

In November 2023, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2023-07, *Segment Reporting (Topic 280)*. The new standard requires enhanced disclosures about significant segment expenses and other segment items and requires companies to disclose all annual disclosures about segments in interim periods. The new standard also permits companies to disclose more than one measure of segment profit or loss, requires disclosure of the title and position of the Chief Operating Decision Maker, and requires companies with a single reportable segment to provide all disclosures required by Topic 280. The new standard is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted and companies are required to apply the ASU retrospectively to all periods presented. The Company is currently evaluating the impact that the adoption of this standard will have on its financial statements and related disclosures.

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740)*: Improvements to Income Tax Disclosures, which requires expanding disclosures of an entity’s income tax rate reconciliation and income taxes paid. The new standard is effective for annual periods beginning after December 15, 2024 and early adoption is permitted. Upon adoption, this standard will result in additional required disclosures being included in the Company’s consolidated financial statements. The Company is currently evaluating the impact that the adoption of this standard will have on its financial statements and related disclosures.

(3) Revenue

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

	Three Months Ended August 31,		Six Months Ended August 31,	
	2024	2023	2024	2023
Access fees	\$ 72,647	\$ 70,897	\$ 149,606	\$ 137,494
Usage-based fees	33,713	25,967	67,220	52,596
Total	\$ 106,360	\$ 96,864	\$ 216,826	\$ 190,090

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As of August 31, 2024, revenue is expected to be recognized from remaining performance obligations as follows:

Fiscal year ending February 28(29),	
Remainder of 2025	\$ 102,718
2026	75,980
2027	35,027
2028	18,596
2029	105
Total	\$ 232,426

The expected revenue includes variable fee estimates for access fee revenue during the non-cancellable term of the Company's contracts. The expected revenue does not include amounts of variable consideration that are constrained, direct-to-consumer revenues, and usage-based revenues.

Significant changes to the contract liability balances during the six months ended August 31, 2024 and 2023 were the result of revenue recognized and net cash received. Significant changes in the deferred revenue balances during the six months ended August 31, 2024 and 2023 were the result of recognized revenue of \$33,120 and \$34,232, respectively, that were previously included in deferred revenue. In addition, significant changes to the contract asset balances during the six months ended August 31, 2024 and 2023 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, 2024 and 2023 was \$1,360 and \$1,533, respectively. Revenue related to performance obligations satisfied in prior periods that was recognized during the six months ended August 31, 2024 and 2023 was \$3,305 and \$2,966, respectively. These changes in amounts were primarily due to the inclusion of consideration that was previously constrained 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 \$1,323 and \$1,144 for the three months ended August 31, 2024 and 2023, respectively. The Company capitalized commission costs of \$1,456 and \$1,786 for the six months ended August 31, 2024 and 2023, 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 \$934 and \$821 for the three months ended August 31, 2024 and 2023, respectively, and \$2,010 and \$1,659 for the six months ended August 31, 2024 and 2023, respectively. The Company periodically reviews deferred contract acquisition costs to determine whether events or changes in circumstances have occurred that could impact the estimated period of benefit. There were no impairment losses recorded during the periods presented.

For certain customer contracts, the Company may incur direct and incremental costs related to customer set-up and implementation. The Company recorded deferred implementation costs of \$190 and \$167 for the three months ended August 31, 2024 and 2023, respectively, and \$281 and \$274 for the six months ended August 31, 2024 and 2023, 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 \$332 and \$252 for the three months ended August 31, 2024 and 2023, respectively, and \$672 and \$530 for the six months ended August 31, 2024 and 2023, respectively.

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(4) Goodwill and Intangible Assets

The Company's goodwill balance at August 31, 2024 and February 29, 2024 was \$278,191.

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. During the three months ended August 31, 2024, the Company determined that the decline in the price of its stock, which resulted in a corresponding decline in market capitalization, constituted a triggering event. The Company evaluated whether changes in the Company's market capitalization indicated that the carrying value of goodwill was impaired. As a result of this evaluation, the Company determined that there was no impairment as of August 31, 2024. While management cannot predict if or when future goodwill impairments may occur, 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, 2024					
	Useful Life	Gross Value	Accumulated Amortization	Net Carrying Value	Weighted Average Remaining Useful Life (Years)
Customer relationships	2 to 20 years	\$ 124,050	\$ (24,975)	\$ 99,075	16.5
Technology	2 to 5 years	111,526	(79,621)	31,905	1.6
Supplier-based network	5 years	25,000	(17,500)	7,500	1.5
Trade name	10 years	13,700	(4,538)	9,162	6.7
		\$ 274,276	\$ (126,634)	\$ 147,642	

Amortization expense for intangible assets was \$8,883 and \$9,141 during the three months ended August 31, 2024 and 2023, respectively, and \$17,767 and \$19,513 during the six months ended August 31, 2024 and 2023, respectively.

(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, 2024			Fair Value
	Level 1	Level 2	Level 3	
Assets				
Cash equivalents:				
Money market funds	\$ 20,944	\$ —	\$ —	\$ 20,944
Commercial paper	\$ —	\$ 2,485	\$ —	\$ 2,485
United States government debt	\$ 3,481	\$ —	\$ —	\$ 3,481
Marketable securities:				
United States government debt	\$ 25,231	\$ —	\$ —	\$ 25,231
Commercial paper	\$ —	\$ 25,367	\$ —	\$ 25,367
United States agency debt	\$ —	\$ 10,437	\$ —	\$ 10,437

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	February 29, 2024				Fair Value
	Level 1	Level 2	Level 3		
Assets					
Money market funds	\$ 34,351	\$ —	\$ —	\$ —	34,351
Marketable securities:					
United States government debt	\$ 24,431	\$ —	\$ —	\$ —	24,431
Commercial paper	\$ —	\$ 17,134	\$ —	\$ —	17,134
United States agency debt	\$ —	\$ 9,750	\$ —	\$ —	9,750

The estimated fair value of the convertible senior notes (Note 6) was \$192,047 as of August 31, 2024, 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

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.

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 was not able to 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),

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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, 2024, none of the conditions of the Notes to early convert had 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, 2024, 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%.

Partial Repurchase and Cancellation of Convertible Notes

During November 2023, the Company entered into separate, privately negotiated transactions with certain holders of the Notes to repurchase \$76,459 aggregate principal amount of the Notes for an aggregate cash repurchase price of \$66,163, including third-party costs of \$355 (the Repurchases). Following the Repurchases, the Company cancelled the repurchased Notes. The repurchase and cancellation of the Notes was accounted for as a debt extinguishment and the resulting gain of \$9,268, net of related unamortized issuance costs of \$1,078 and accrued interest of \$50 that were written-off, has been recorded within other income (expense) on the condensed consolidated statement of operations. After the cancellation, \$211,041 aggregate principal amount of the Notes remained outstanding.

The net carrying amount of the Notes was as follows:

	August 31, 2024	February 29, 2024
Principal	\$ 211,041	\$ 211,041
Unamortized issuance costs	(1,943)	(2,559)
Net carrying amount	\$ 209,098	\$ 208,482

For the three months ended August 31, 2024 and 2023, the Company recorded interest expense of \$573 and \$781, respectively, of which \$308 and \$420, respectively, was associated with the amortization of the debt discount. For the six months ended August 31, 2024 and 2023, the Company recorded interest expense of \$1,146 and \$1,562, respectively, of which \$616 and \$839, respectively, was associated with the amortization of debt discount.

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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 (as amended, 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, 2024, the Company had outstanding letters of credit to serve as office landlord security deposits in the amount of \$1,208, which are secured through the revolving credit facility and reduce our borrowing capacity. The capacity of the revolving credit facility was \$63,453 as of August 31, 2024. No amounts were outstanding as of August 31, 2024.

Under the terms of the 2019 Revolver, as the Company had more than \$200,000 of cash, cash equivalents, and marketable securities as of May 31, 2024, the 2019 Revolver term was automatically extended until July 19, 2025. 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, 2024 and 2023, the Company recorded interest expense of \$51 and \$51, respectively, related to the revolving credit facility. During the six months ended August 31, 2024 and 2023, the Company recorded interest expense of \$102 and \$102, respectively, related to the revolving credit facility.

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

(c) Letters of Credit

In addition to the letters of credit outstanding under the 2019 Revolver, the Company had letters of credit outstanding as of August 31, 2024 to serve as office landlord security deposits in the amount of \$1,443.

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(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,	
	2024	2023	2024	2023
Cost of revenue, excluding depreciation and amortization	\$ 866	\$ 1,202	\$ 1,764	\$ 2,113
Product and technology	4,000	7,643	11,572	14,609
Sales and marketing	3,282	3,876	6,522	7,702
General and administrative	3,527	3,005	7,127	5,580
Total stock-based compensation	\$ 11,675	\$ 15,726	\$ 26,985	\$ 30,004

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, 2024, there was a total of 15,257,574 shares of common stock authorized for issuance under the Incentive Plan, of which 1,735,536 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 29, 2024	6,171,653	\$ 10.87		
Exercised	(17,077)	6.07		
Forfeited	(106,614)	11.94		
Balance, August 31, 2024	6,047,962	\$ 10.84	3.9	\$ 314

For the three months ended August 31, 2024 and 2023, the Company recognized \$797 and \$1,765 in compensation expense related to stock options, respectively. For the six months ended August 31, 2024 and 2023, the Company recognized \$2,305 and \$3,980 in compensation expense related to stock options, respectively. As of August 31, 2024, approximately \$2,394 of unrecognized compensation expense related to our stock options is expected to be recognized over a weighted average period of 0.8 years. The aggregate intrinsic value of stock options exercised was \$4 and \$366 for the three months ended August 31, 2024 and 2023, respectively, and \$46 and \$3,498 for the six months ended August 31, 2024 and 2023, respectively.

(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

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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 29, 2024	53,269	\$ 1.74		
Exercised	(23,808)	\$ 1.39		
Balance, August 31, 2024	<u>29,461</u>	\$ 2.03	5.5	\$ 68

For the three months ended August 31, 2024 and 2023, the Company recognized \$63 and \$720, respectively, in compensation expense related to PlushCare stock options. For the six months ended August 31, 2024 and 2023, the Company recognized \$155 and \$2,060, respectively, in compensation expense related to PlushCare stock options. As of August 31, 2024, approximately \$57 of unrecognized compensation expense related to PlushCare stock options is expected to be recognized over a weighted average period of 0.2 years. The aggregate intrinsic value of stock options exercised was \$3 and \$14 for the three months ended August 31, 2024 and 2023, respectively, and \$169 and \$549 for the six months ended August 31, 2024 and 2023, 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, 2024:

	Restricted Stock Units
Balance, February 29, 2024	5,031,140
Granted	3,340,273
Vested	(1,965,296)
Forfeited	(399,139)
Balance, August 31, 2024	<u>6,006,978</u>

For the three months ended August 31, 2024 and 2023, the Company recognized \$10,024 and \$9,295, respectively, in restricted stock unit compensation expense. For the six months ended August 31, 2024 and 2023, the Company recognized \$19,560 and \$15,993, respectively, in restricted stock unit compensation expense with \$55,388 remaining total unrecognized compensation costs related to these awards as of August 31, 2024. The total unrecognized costs are expected to be recognized over a weighted-average term of 1.9 years. The weighted average grant date fair value of restricted stock units granted during the six months ended August 31, 2024 was \$6.58.

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 2024, 57,124 of these restricted stock units were issued. These restricted stock units are included in the table above.

During fiscal 2024, performance-based restricted stock units were approved to be issued as part of the Company's fiscal 2024 corporate bonus program. In association with the Company's fiscal 2024 corporate bonus payout, 747,687 fully-vested RSUs were issued in May 2023.

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(d) Performance Stock Units

During fiscal 2024, 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, 2024:

	Performance Stock Units
Balance, February 29, 2024	276,480
Granted	—
Vested	—
Forfeited	—
Balance, August 31, 2024	276,480

Expense for these awards is recognized using graded amortization. For the three months ended August 31, 2024 and 2023, respectively, the Company recognized \$231 and \$73 in PSU expense, respectively, related to these awards. For the six months ended August 31, 2024 and 2023, respectively, the Company recognized \$469 and \$73 in PSU expense with \$2,725 remaining total unrecognized compensation costs related to these awards as of August 31, 2024. The total unrecognized costs are expected to be recognized over a weighted-average term of 1.8 years.

(e) Employee Stock Purchase Plan

In July 2020, the Board of Directors adopted the Company's 2020 Employee Stock Purchase Plan (the ESPP). As of August 31, 2024, there was a total of 3,839,393 shares of common stock authorized for issuance under the ESPP, of which 2,260,809 shares were available for future issuance.

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 \$211 and \$316 during the three months ended August 31, 2024 and 2023, respectively, and \$590 and \$784 during the six months ended August 31, 2024 and 2023, respectively, related to the ESPP.

During the six months ended August 31, 2024 and 2023, employees who elected to participate in the ESPP purchased a total of 297,668 and 280,162 shares of common stock, respectively, resulting in cash proceeds to the Company of \$1,944 and \$1,992, respectively. ESPP employee payroll contributions accrued as of August 31, 2024 and February 29, 2024 totaled \$1,105 and \$1,263, 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.

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

(f) Other

In connection with the acquisition of PlushCare on June 9, 2021, 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 vested on the third anniversary of the acquisition date. As of August 31, 2024, there were no unvested shares outstanding. The Company recognized stock-based compensation expense of \$348 and \$3,557 during the three months ended August 31, 2024 and 2023, respectively, and \$3,905 and \$7,114 during the six months ended August 31, 2024 and 2023, respectively.

(8) Income Taxes

The provision 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, 2024 and 2023, the Company recorded income tax provision of \$374 and \$84, respectively, which resulted in effective tax rates of (1.6)% and (0.2)%, respectively. For the six months ended August 31, 2024 and 2023, the Company recorded income tax expense of \$709 and \$175, respectively, which resulted in effective tax rates of (1.4)% and (0.2)%, respectively.

(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,	
	2024	2023	2024	2023
Net loss	\$ (23,934)	\$ (32,825)	\$ (51,526)	\$ (71,234)
Weighted-average common shares outstanding, basic	80,072,045	75,487,717	79,102,868	74,334,111
Net income (loss) per share attributable to common stockholders, basic	<u>\$ (0.30)</u>	<u>\$ (0.43)</u>	<u>\$ (0.65)</u>	<u>\$ (0.96)</u>

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,	
	2024	2023	2024	2023
Stock options	6,077,423	7,362,680	6,077,423	7,362,680
Unvested restricted stock units	6,006,978	6,030,000	6,006,978	6,030,000
Unvested performance stock units	97,690	—	97,690	—
Shares issued to PlushCare employees and subject to vesting	—	268,720	—	268,720
Contingent shares in connection with PlushCare acquisition	—	102,111	—	102,111
Indemnity shares held in escrow in connection with PlushCare acquisition	—	27,342	—	27,342
Convertible Senior Notes	4,180,469	5,700,297	4,180,469	5,700,297
Total	<u>16,362,560</u>	<u>19,491,150</u>	<u>16,362,560</u>	<u>19,491,150</u>

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

(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.

(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, 2024, the Company has remaining future purchase commitments under this agreement of \$19,685.

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 29, 2024 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 Care Advocates 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.

We offer our solutions as standalone or bundled offerings. Our solution portfolio combines the capabilities of Accolade’s historical navigation and advocacy solutions with our primary care, mental health, and expert medical opinion services, augmented by artificial intelligence, machine learning, and data-driven recommendations. Our 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.

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 29, 2024, we had over 1,200 commercial customers comprising more than 14 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 29, 2024, we had more than 150,000 consumers subscribed to virtual primary care services through our PlushCare solution.

For the three months ended August 31, 2024, our total revenue was \$106.4 million, representing 10% year-over-year growth compared to total revenue of \$96.9 million for the three months ended August 31, 2023. For the six months ended August 31, 2024, our total revenue was \$216.8 million, representing 14% year-over-year growth compared to total revenue of \$190.1 million for the six months ended August 31, 2023. For the three months ended August 31, 2024 and 2023, our net loss was \$23.9 million and \$32.8 million, respectively. For the six months ended August 31, 2024 and 2023, our net loss was \$51.5 million and \$71.2 million, respectively.

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 Care Advocates and clinicians, including registered nurses, physician medical directors, pharmacists, behavioral health specialists, women's health specialists, case management specialists, expert medical opinion providers and 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 onboarded 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

While macroeconomic factors including inflation 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, 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 complications stemming from neglected 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 refer to such add-on sales as platform-connected revenues. 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.

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 2024 and 2023, 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 Care Advocates, 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, certain member outreach 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 but decrease as a percentage of revenue.

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. 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. Sales and marketing expenses also include advertising and digital media costs associated with our efforts to acquire new consumer customers and build awareness for our direct-to-consumer offering. 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. 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.

Results of Operations

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

	Three months ended August 31,		Six months ended August 31,	
	2024	2023	2024	2023
	(in thousands)		(in thousands)	
Revenue	\$ 106,360	\$ 96,864	\$ 216,826	\$ 194,417
Cost of revenue, excluding depreciation and amortization ⁽¹⁾	56,922	55,317	115,533	110,817
Operating expenses:				
Product and technology ⁽¹⁾	22,477	25,602	48,786	47,817
Sales and marketing ⁽¹⁾	24,932	24,076	53,126	49,217
General and administrative ⁽¹⁾	16,536	16,259	32,544	31,817
Depreciation and amortization	10,637	10,818	21,029	21,029
Total operating expenses	74,582	76,755	155,485	150,880
Loss from operations	(25,144)	(35,208)	(54,192)	(66,280)
Interest income, net	1,687	1,714	3,384	3,384
Other income (expense)	(103)	753	(9)	1,000
Loss before income taxes	(23,560)	(32,741)	(50,817)	(61,896)
Income tax expense	(374)	(84)	(709)	(709)
Net loss	\$ (23,934)	\$ (32,825)	\$ (51,526)	\$ (62,605)

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

	Three months ended August 31,		Six months ended August 31,	
	2024	2023	2024	2023
	(in thousands)		(in thousands)	
Cost of revenue, excluding depreciation and amortization	\$ 866	\$ 1,202	\$ 1,764	\$ 2,113
Product and technology	4,000	7,643	11,572	14,609
Sales and marketing	3,282	3,876	6,522	7,702
General and administrative	3,527	3,005	7,127	5,580
Total stock-based compensation	\$ 11,675	\$ 15,726	\$ 26,985	\$ 30,004

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

	Three months ended August 31,		Six months ended August 31,	
	2024	2023	2024	2023
Revenue	100 %	100 %	100 %	100 %
Cost of revenue, excluding depreciation and amortization	54 %	57 %	53 %	58 %
Operating expenses:				
Product and technology	21 %	26 %	23 %	27 %
Sales and marketing	23 %	25 %	25 %	26 %
General and administrative	16 %	17 %	15 %	17 %
Depreciation and amortization	10 %	11 %	10 %	12 %
Total operating expenses	70 %	79 %	72 %	82 %
Loss from operations	(24)%	(36)%	(25)%	(39)%
Interest income, net	2 %	2 %	2 %	1 %
Other income (expense)	— %	1 %	— %	1 %
Loss before income taxes	(22)%	(34)%	(23)%	(37)%
Income tax expense	— %	— %	— %	— %
Net loss	(23)%	(34)%	(24)%	(37)%

Comparison of Three and Six Months Ended August 31, 2024 and 2023

Revenue

	Three months ended August 31,		Changes	
	2024	2023	Amount	%
	(in thousands, except percentages)			
Revenue	\$ 106,360	\$ 96,864	\$ 9,496	10 %

Revenue increased \$9.5 million, or 10%, to \$106.4 million for the three months ended August 31, 2024, as compared to \$96.9 million for the three months ended August 31, 2023. The increase was attributable to revenues derived from growth in the number of customers served, higher utilization of our services, and timing of recognition of revenue during the second quarter of fiscal 2025 as compared to the prior year's corresponding period. Revenue from usage-based fees increased \$7.7 million, or 30%, to \$33.7 million for the three months ended August 31, 2024 as compared to \$26.0 million for the three months ended August 31, 2023. Revenue from access fees increased \$1.8 million, or 2%, to \$72.6 million for the three months ended August 31, 2024 as compared to \$70.9 million for the three months ended August 31, 2023. The increase in access fee revenue primarily reflects revenues associated with new customers and timing of recognition of performance guarantee revenue.

	Six months ended August 31,		Changes	
	2024	2023	Amount	%
	(in thousands, except percentages)			
Revenue	\$ 216,826	\$ 190,090	\$ 26,736	14 %

Revenue increased \$26.7 million, or 14%, to \$216.8 million for the six months ended August 31, 2024, as compared to \$190.1 million for the six months ended August 31, 2023. The increase was attributable to revenues derived from growth in the number of customers served and higher utilization of our services during the first six months of fiscal 2024 as compared to the prior year's corresponding period. Revenue from usage-based fees increased \$14.6 million, or 28%, to \$67.2 million for the six months ended August 31, 2024 as compared to \$52.6 million for the six months ended August 31, 2023. Revenue from access fees increased \$12.1 million, or 9%, to \$149.6 million for the six months ended August 31, 2024 as compared to \$137.5 million for the six months ended August 31, 2023. The increase in access fee revenue primarily reflects revenues associated with new customers and timing of recognition of performance guarantee revenue.

Cost of revenue, excluding depreciation and amortization

	Three months ended August 31,		Changes	
	2024	2023	Amount	%
	(in thousands, except percentages)			
Cost of revenue, excluding depreciation and amortization	\$ 56,922	\$ 55,317	\$ 1,605	3 %

Cost of revenue, excluding depreciation and amortization increased \$1.6 million, or 3%, to \$56.9 million for the three months ended August 31, 2024, as compared to \$55.3 million for three months ended August 31, 2023. The increase was primarily driven by \$2.6 million in increased personnel and related costs to serve the customer base, partially offset by a \$0.5 million decrease in occupancy and travel costs.

	Six months ended August 31,		Changes	
	2024	2023	Amount	%
	(in thousands, except percentages)			
Cost of revenue, excluding depreciation and amortization	\$ 115,533	\$ 109,520	\$ 6,013	5 %

Cost of revenue, excluding depreciation and amortization increased \$6.0 million, or 5%, to \$115.5 million for the six months ended August 31, 2024, as compared to \$109.5 million for six months ended August 31, 2023. The increase was primarily driven by \$5.8 million in increased personnel and related costs to serve the customer base and \$1.0 million in increased costs associated with third-party services and solutions from trusted suppliers, partially offset by a \$1.0 million decrease in occupancy and travel costs.

Operating expenses

	Three months ended August 31,		Changes	
	2024	2023	Amount	%
	(in thousands, except percentages)			
Operating expenses:				
Product and technology	\$ 22,477	\$ 25,602	\$ (3,125)	(12)%
Sales and marketing	24,932	24,076	856	4 %
General and administrative	16,536	16,259	277	2 %
Depreciation and amortization	10,637	10,818	(181)	(2)%
Total operating expenses	\$ 74,582	\$ 76,755	\$ (2,173)	(3)%

Product and technology. Product and technology expense decreased \$3.1 million, or 12%, to \$22.5 million for the three months ended August 31, 2024, as compared to \$25.6 million for the three months ended August 31, 2023. The decrease was primarily driven by \$3.6 million of decreased stock-based compensation expense, partially offset by \$0.9 million of lower capitalized software costs.

Sales and marketing. Sales and marketing expense increased \$0.9 million, or 4%, to \$24.9 million for the three months ended August 31, 2024, as compared to \$24.1 million for the three months ended August 31, 2023. The increase was primarily driven by an increase of \$1.4 million in marketing programs and customer acquisition costs, partially offset by \$0.6 million in decreased stock-based compensation expense.

General and administrative. General and administrative expense increased \$0.3 million, or 2%, to \$16.5 million for the three months ended August 31, 2024, as compared to \$16.3 million for the three months ended August 31, 2023. The increase was primarily due to a \$0.5 million increase in personnel and related costs and an increase of \$0.5 million in stock-based compensation expense, partially offset by a \$0.5 million decrease in occupancy and insurance expenses.

Depreciation and amortization. Depreciation and amortization expense decreased \$0.2 million, or 2%, to \$10.6 million for the three months ended August 31, 2024, as compared to \$10.8 million for the three months ended August 31, 2023 primarily due to certain intangible assets becoming fully amortized during the last fiscal year.

	Six months ended August 31,		Changes	
	2024	2023	Amount	%
	(in thousands, except percentages)			
Operating expenses:				
Product and technology	\$ 48,786	\$ 51,501	\$ (2,715)	(5)%
Sales and marketing	53,126	49,109	4,017	8 %
General and administrative	32,544	32,339	205	1 %
Depreciation and amortization	21,029	22,458	(1,429)	(6)%
Total operating expenses	\$ 155,485	\$ 155,407	\$ 78	— %

Product and technology. Product and technology expense decreased \$2.7 million, or 5%, to \$48.8 million for the six months ended August 31, 2024, as compared to \$51.5 million for the six months ended August 31, 2023. The decrease was primarily driven by \$3.0 million in decreased stock-based compensation expense, a \$0.4 million decrease in personnel and related costs, and \$0.4 million in decreased travel costs, partially offset by \$1.4 million lower capitalized software development costs.

Sales and marketing. Sales and marketing expense increased \$4.0 million, or 8%, to \$53.1 million for the six months ended August 31, 2024, as compared to \$49.1 million for the six months ended August 31, 2023. The increase was primarily driven by \$5.6 million in increased marketing and customer acquisition costs, partially offset by \$1.2 million in decreased stock-based compensation expense.

General and administrative. General and administrative expense increased \$0.2 million, or 1%, to \$32.5 million for the six months ended August 31, 2024, as compared to \$32.3 million for the six months ended August 31, 2023. The increase was primarily due to an increase of \$1.5 million in stock-based compensation expense. Partially offset by \$0.8 million decrease in bad debt and \$0.3 million decrease in insurance expense.

Depreciation and amortization. Depreciation and amortization expense decreased \$1.4 million, or 6%, to \$21.0 million for the six months ended August 31, 2024, as compared to \$22.5 million for the six months ended August 31, 2023 primarily due to certain intangible assets becoming fully amortized during the period.

Interest income, net

	Three months ended August 31,		Changes	
	2024	2023	Amount	%
	(in thousands, except percentages)			
Interest income, net	\$ 1,687	\$ 1,714	\$ (27)	(2)%

Interest income, net remained relatively flat for the three months ended August 31, 2024, as compared to the three months ended August 31, 2023.

	Six months ended August 31,		Changes	
	2024	2023	Amount	%
	(in thousands, except percentages)			
Interest income, net	\$ 3,384	\$ 2,635	\$ 749	28 %

Interest income, net increased \$0.7 million, or 28%, to \$3.4 million for the six months ended August 31, 2024, as compared to \$2.6 million for the six months ended August 31, 2023. The increase was primarily due to a \$0.5 million decrease in interest expense on our debt arrangements.

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.

	Three months ended August 31,		Six months ended August 31,	
	2024	2023	2024	2023
	(in thousands, except percentages)		(in thousands, except percentages)	
Adjusted Gross Profit	\$ 50,304	\$ 42,841	\$ 103,057	\$ 83,409
Adjusted Gross Margin	47.3%	44.2%	47.5%	43.9%
Adjusted EBITDA	\$ (2,832)	\$ (8,764)	\$ (6,178)	\$ (21,346)

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 debt extinguishment gain or loss and 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:

	Three months ended August 31,		Six months ended August 31,	
	2024	2023	2024	2023
	(in thousands, except percentages)		(in thousands, except percentages)	
Revenue	\$ 106,360	\$ 96,864	\$ 216,826	\$ 190,090
Cost of revenue, excluding depreciation and amortization	(56,922)	(55,317)	(115,533)	(109,520)
Amortization of acquired intangible assets, cost of revenue	(7,014)	(7,000)	(14,027)	(14,015)
Depreciation of property and equipment, cost of revenue	(1,178)	(1,160)	(2,252)	(2,106)
GAAP gross profit	\$ 41,246	\$ 33,387	\$ 85,014	\$ 64,449
GAAP gross margin	38.8%	34.5%	39.2%	33.9%
GAAP gross profit	\$ 41,246	\$ 33,387	\$ 85,014	\$ 64,449
Amortization of acquired intangible assets, cost of revenue	7,014	7,000	14,027	14,015
Depreciation of property and equipment, cost of revenue	1,178	1,160	2,252	2,106
Stock-based compensation, cost of revenue	866	1,202	1,764	2,113
Severance costs, cost of revenue	—	92	—	726
Adjusted Gross Profit	\$ 50,304	\$ 42,841	\$ 103,057	\$ 83,409
Adjusted Gross Margin	47.3%	44.2%	47.5%	43.9%

GAAP gross margin for the three months ended August 31, 2024 and 2023, increased to 38.8% from 34.5%, respectively, and Adjusted Gross Margin for the three months ended August 31, 2024 and 2023 increased to 47.3% from 44.2%, respectively. GAAP gross margin for the six months ended August 31, 2024 and 2023 increased to 39.2% from 33.9%, respectively, and Adjusted Gross Margin for the six months ended August 31, 2024 and 2023 increased to 47.5% from 43.9%, respectively. The increases in GAAP gross margin and Adjusted Gross Margin during the three and six months ended August 31, 2024 were primarily due to the timing of high gross margin revenues recognized during the first half of fiscal 2025 that did not occur during the first half of fiscal 2024, as well as through cost efficiencies resulting from initiatives to optimize staffing costs and service delivery by leveraging technology to automate elements of service delivery and member experience processes, and by hiring certain roles in lower cost geographies.

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

	Three months ended August 31,		Six months ended August 31,	
	2024	2023	2024	2023
	(in thousands)		(in thousands)	
Net loss	\$ (23,934)	\$ (32,825)	\$ (51,526)	\$ (71,234)
Adjusted for:				
Interest income, net	(1,687)	(1,714)	(3,384)	(2,635)
Income tax expense	374	84	709	175
Depreciation and amortization	10,637	10,818	21,029	22,458
Stock-based compensation	11,675	15,726	26,985	30,004
Acquisition and integration-related costs ⁽¹⁾	—	(48)	—	(21)
Severance costs ⁽²⁾	—	(52)	—	1,050
Other expense (income)	103	(753)	9	(1,143)
Adjusted EBITDA	\$ (2,832)	\$ (8,764)	\$ (6,178)	\$ (21,346)

⁽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.

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

Liquidity and Capital Resources

We had cash and cash equivalents of \$173.3 million and marketable securities of \$61.0 million as of August 31, 2024 totaling an aggregate of \$234.4 million of cash, cash equivalents, and marketable securities. Our cash equivalents are comprised primarily of money market accounts held at banks, as well as in commercial paper and U.S. treasury bills with original maturities less than three months. Marketable securities are comprised of U.S. government debt, commercial paper, and U.S. agency debt with original maturities greater than three months. Management believes the Company's cash, cash equivalents, and marketable securities, 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. During November 2023, we entered into separate, privately negotiated transactions with certain holders of the Notes to repurchase \$76.5 million aggregate principal amount of the Notes for an aggregate cash repurchase price of \$66.2 million. We subsequently cancelled the repurchased Notes. After the cancellation, \$211.0 million aggregate principal amount of the Notes remained outstanding. 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. 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 \$1.2 million, which are secured through the revolving credit facility and reduce our borrowing capacity. The capacity of the revolving credit facility was \$63.5 million as of August 31, 2024. Under the terms of the 2019 Revolver, as we had more than \$200.0 million of cash, cash equivalents, and marketable securities as of May 31, 2024, the 2019 Revolver term was automatically extended until July 19, 2025.

We were in compliance with all such applicable covenants as of August 31, 2024, 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:

	Six months ended August 31,	
	2024	2023
	(in thousands)	
Net cash used in operating activities	\$ (2,976)	\$ (27,325)
Net cash used in investing activities	(11,504)	(6,663)
Net cash provided by financing activities	2,077	5,092

Operating Activities. Net cash used in operating activities decreased by \$24.3 million to \$3.0 million during the six months ended August 31, 2024 from \$27.3 million during the six months ended August 31, 2023, primarily due to increased performance of the business including growth in revenues and gross profit which resulted in a reduction in cash used in operating activities.

Investing Activities. Net cash used in investing activities increased by \$4.8 million to \$11.5 million during the six months ended August 31, 2024, from \$6.7 million during the six months ended August 31, 2023, primarily due to

purchases of marketable securities in fiscal 2025, partially offset by maturities of marketable securities and lower purchases of property and equipment and capitalized software development costs.

Financing Activities. Net cash provided by financing activities decreased by \$3.0 million to \$2.1 million during the six months ended August 31, 2024 from \$5.1 million during the six months ended August 31, 2023 primarily due to lower proceeds from stock option exercises.

Material Cash Requirements

As of August 31, 2024, 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 \$211.0 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, 2024.
- *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, 2024, as compared to the critical accounting policies and estimates described in our Annual Report on Form 10-K for the year ended February 29, 2024 filed with the SEC.

Recently Issued and Adopted Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We had cash and cash equivalents of \$173.3 million and marketable securities of \$61.0 million as of August 31, 2024 totaling an aggregate of \$234.4 million of cash, cash equivalents, and marketable securities. Our cash equivalents are comprised primarily of money market accounts held at banks, as well as in commercial paper and U.S. treasury bills with

original maturities less than three months. Marketable securities are comprised of U.S. government debt, commercial paper, and U.S. agency debt with original maturities greater than three months. 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, 2024.

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, 2024. Based on the evaluation of our disclosure controls and procedures as of August 31, 2024, our Chief Executive Officer and Chief Financial Officer concluded that as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

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

Inherent Limitations on Effectiveness of Controls

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

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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.

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 29, 2024. There have been no material changes to the risk factors previously disclosed in our most recent Form 10-K.

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, 2024.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Insider Trading Arrangements

During the Company's fiscal quarter ended August 31, 2024, none of the Company's directors or executive officers adopted, modified, or terminated a Rule 10b5-1 trading arrangement or a non-Rule 10b5-1 trading arrangement.

Item 6. Exhibits

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

Exhibit Number	Description	Form	Incorporated by Reference			Filed Herewith
			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 8, 2024

By: _____
/s/ Rajeev Singh
Rajeev Singh
Chief Executive Officer and Chairman of the Board
(Principal Executive Officer)

Date: October 8, 2024

By: _____
/s/ Stephen Barnes
Stephen Barnes
Chief Financial Officer
(Principal Financial Officer)

Date: October 8, 2024

By: _____
/s/ Colin McHugh
Colin McHugh
Chief Accounting Officer
(Principal Accounting Officer)

**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 8, 2024

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

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

I, Stephen Barnes, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Accolade, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 8, 2024

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

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

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

1. The Company’s Quarterly Report on Form 10-Q for the period ended August 31, 2024, 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 8, 2024

IN WITNESS WHEREOF, the undersigned have set their hands hereto as of the 8th day of October, 2024.

/s/ Rajeev Singh
Rajeev Singh
Chief Executive Officer

/s/ Stephen Barnes
Stephen Barnes
Chief Financial Officer

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