17 September 2018

ClearStar, Inc.
(“ClearStar” or the “Company”)

Interim Results

ClearStar (AIM: CLSU), a leading technology and service provider to the background check industry, announces its unaudited results for the six months ended 30 June 2018.

Financial Highlights

- Revenue increased by 11% to $9.9 million (H1 2017: $8.9 million)
- Achieved adj. EBITDA positive of $65,000 (H1 2017: $165,000 loss)
- Total operating expenses were flat at $6.3 million (H1 2017: $6.3 million)
- Operational cash flow improved to inflow of $283,000 (H1 2017: $323,000 outflow)
- As at 30 June 2018, the Company had net cash of $1.2 million (31 December 2017: $1.3 million), with full $5.0 million revolving credit facility with Silicon Valley Bank still available

Operational Highlights

- Sales of Medical Information Services (“MIS”) increased by 27% and accounted for 40% of total Company revenue:
    - Signed integration agreement with eScreen, Inc., which launched post period – ClearStar is now the only provider offering paperless medical screening with a fully-customisable user platform across all three major laboratories in the US
    - Launched a self-service portal for ordering drug and clinical tests that enables customisation and management by channel partners
- Expanded tier 1 direct client base – winning new customers such as Parsons Corporation and Stevens Worldwide Van Lines – and sales increased by 22%
- Strengthened the foundations for accelerated future growth:
    - Achieved “touchless” automated integration with SAP® SuccessFactors® Recruiting
    - Established partnerships with Veritas Prime and iCIMS Inc., providing further routes-to-market
    - Enhanced sales & marketing efforts and infrastructure, including appointment of CRO with 17 years’ industry experience and raising brand awareness through aggressive video marketing campaign

Robert Vale, CEO of ClearStar, commented: “In our core growth streams of medical information services and direct sales, we saw a strong increase in revenue as we capitalised on our competitive-lead in product offering and our expanding brand awareness. This revenue growth, combined with a stable cost base, has enabled us to deliver our stated aim of translating higher revenue into EBITDA earnings. We also established new channels-to-market and implemented measures to strengthen our sales & marketing infrastructure, which are already helping to add to our pipeline. With good visibility over revenue and increasing interest in ClearStar’s services, especially for medical screening, we are confident of achieving full year 2018 revenue growth in line with market expectations and being EBITDA positive, and we expect to deliver accelerated revenue growth in 2019.”

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The information communicated in this announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) No. 596/2014.

Robert Vale, CEO, and David Pattillo, CFO, will be hosting a presentation for analysts at 9.30am BST on 17 September 2018 at the offices of Luther Pendragon, 48 Gracechurch Street, London, EC3V 0EJ

About ClearStar

ClearStar, Inc. is a leading and trusted background check technology, strategic services and decision-making information provider to employers and background screening companies.

A seven-time Inc. 5000 honouree and founding member of the National Association of Professional Background Screeners, ClearStar has provided innovative technology solutions to businesses in the human capital management industry from its corporate offices in Alpharetta, Georgia since 1995. For more information about ClearStar, please visit: www.clearstar.net.

Operational Review

ClearStar achieved its highest-ever revenue for a six-month period of $9.9 million, growth of 11% over the same period of the prior year, which was driven by the onboarding of new direct customers that were won in 2017, primarily for background screening, and the increased adoption by channel partner customers of the Company's industry-leading medical screening services. Importantly, this increase in revenue, combined with tight control over costs, enabled ClearStar to generate positive EBITDA for the first half of 2018. The Company also continued to strengthen its platform and expand its routes-to-market, with these measures already contributing ClearStar signing new customers.

Investing for growth

ClearStar continued to strengthen the foundations of the business and position it for accelerated growth through establishing further integrations to expand its offer and channels-to-market, enhancing its technology and expanding its sales & marketing efforts.

Establishing integrations

Towards the end of the period, ClearStar signed an agreement for the integration of its ClearMD mobile drug testing solution with eScreen, Inc., an Alere company. Launched post period, this doubled – to over 9,500 – the number of test collection sites where ClearStar's mobile solution for medical test ordering can be used, and has particularly expanded coverage in rural areas. In addition to the Company's existing integrations with LabCorp and Quest Diagnostics, ClearStar is now the only provider offering paperless medical screening with a fully-customisable user platform across all three of the major laboratories in the US – and the Company expects to benefit from the economies of scale associated with engaging multiple large suppliers.

Following achieving integration with SAP® SuccessFactors® Recruiting last year, during the period ClearStar became among the first to achieve "touchless" automated integration. This streamlines the recruitment process by auto-initiating the background check when a candidate reaches a particular stage in the hiring process that can be set by the employer, which enables consistency across different recruiters as well as accelerating the overall recruitment process. This was further enhanced with the deployment of an integrated solution that allows the applicant to confidentially input their data into SAP® SuccessFactors® via the Company's portal while at the same time scheduling their clinical or drug tests.

As a result of the SAP® SuccessFactors® integration, ClearStar formed a strategic partnership with Veritas Prime, a leading provider in SAP® SuccessFactors® sales, services and support, to offer Veritas' clients an opportunity to quickly and seamlessly adopt the Company's background screening solutions. During the period, the Company commenced winning new business through this partnership with Veritas and its integration with SAP® SuccessFactors®, such as being appointed by Spark Therapeutics, Inc., a NASDAQ-listed late clinical stage gene therapy company.

In addition, ClearStar also partnered with iCIMS Inc. to integrate its background screening and drug testing solutions into the iCIMS Talent Platform, a suite of talent acquisition tools with a client base of over 3,500.

Enhancing technology

During the period, ClearStar launched a new portal for self-service ordering of drug and clinical screening. This enables channel partner clients to choose which ClearStar products to make available for the employer and decide on pricing as well as to customise the display to their own branding. The Company also introduced an auto-register function, called Fast Pass, that automatically collects information that has already been gathered by an integrated platform with the need for user interaction, which enables a quicker and more user-friendly registration process.

As noted above, ClearStar enhanced its SAP® SuccessFactors® integration with the deployment of a “touchless” automatic solution – and was one of the first companies to enable this feature.

The Company achieved a key milestone during the period with all of its US-based applications becoming responsive software design compliant. As a result, all users of ClearStar’s solutions in the US can access the services via a mobile device.

Expanding sales & marketing

ClearStar continued to expand its sales & marketing efforts during the period. In particular, it deployed the second phase of its award-winning “We Work” marketing campaign, which is proving disruptive to the industry and is enhancing the Company’s brand recognition with over 1.5 million views of its video campaign during the period. The Company also strengthened its sales team with the appointment of a new Chief Revenue Officer who brings over 17 years’ experience of leading large sales teams in the background screening market. The Company also created three new enterprise sales roles and, post period, appointed a Sales Force administrator for sales funnel management. The creation of these roles is to enable the Company to capitalise on the growing demand for ClearStar’s services and optimise the efficiency of the team’s operations.

Performance by business channel

Sales from direct services increased by 22% to $2.8 million in the first half of 2018 (H1 2017: $2.3 million), accounting for 28% of total revenues (H1 2017: 26%). This growth was driven by the transportation and logistics and elderly home healthcare industries, and the momentum gained by ClearStar in 2017 in upscaling the direct client base to larger, higher-volume business was maintained. This includes being appointed by Parsons Corporation, a global digital engineering business focused on the defence, security and infrastructure markets, to implement a monitoring system with monthly background screening, and by relocation service-provider Stevens Worldwide Van Lines for background screening and drug testing its drivers. The Company also progressed the onboarding of a number of significant customers that were won during 2017, such as a large aerospace manufacturer.

Sales to channel partners – indirect services – increased by 7% to $7.1 million (H1 2017: $6.7 million), which was due to growth in medical information services, as described below, and was primarily as a result of increased business from some of the Company’s largest clients. Indirect services accounted for 72% of total revenues (H1 2017: 74%).

Performance by service offering

Medical Information Services

Medical information services ("MIS") continued to be the largest single contributor to revenues by product offering, accounting for 40% of total revenues (H1 2017: 35%), and grew strongly year-on-year with an increase in MIS revenue of 27% to $3.9 million (H1 2017: $3.1 million).

Sales to channel partners accounted for 85% of MIS revenue and 15% was direct sales. This reflects growth in MIS sales across direct and indirect channels.

The greatest sales growth in MIS was among channel partner customers, with an increase of 25% compared with the same period of the prior year. This growth was due to increased volume with existing channel partner customers based on the purchase of additional services, such as clinical testing services and occupational health screening. The largest growth rate in MIS continued to be direct MIS sales, which increased by 40% over the same period of the first half of 2017 as the large MIS clients won last year completed the on-boarding phase and began to ramp to full volume.

The Company continues to receive strong demand for its MIS services and solutions, and expects this to account for an increasing proportion of the Company's sales, albeit at slightly lower gross margins than the rest of our business.

Other Services

ClearStar grew its revenues from providing background screening to direct clients, which increased by 18% compared with the same period of the prior year. However, this was offset by some attrition among the Company's channel partners resulting in total background screening sales being 5% lower than the first half of 2017.

Financial Review

ClearStar experienced solid revenue growth with total revenues increasing 11% for the six months ended 30 June 2018 to $9.9 million compared with $8.9 million for the first half of 2017. This was based on growth across direct and indirect services, with strong demand for medical information services.

Gross profit increased 7% to $5.7 million (H1 2017: $5.3 million) and gross profit margin declined slightly to 57.2% (H1 2017: 59.5%). This decrease was primarily due to having a higher percentage of revenue derived from MIS, which has a lower gross margin than other services, partially offset by achieving greater purchase economies.

Total operating expenses, including depreciation and amortisation, were flat at $6.3 million, demonstrating cost efficiencies throughout the Company. Selling and marketing expenses were 5% lower at $794,000 (H1 2017: $838,000) due to the Company having invested, in the first half of 2017, in a significant campaign to raise brand awareness to support the growth of its direct services offer. Research and Development expenses decreased by 14% to $804,000 (H1 2017: $940,000), with the reduction due to the investment the Company had made in the earlier period as part of the set-up of its global platform. General and administrative expenses increased 6% to $4.0 million (H1 2017: $3.8 million).

The Company achieved adjusted EBITDA for the first half of 2018 of $65,000 earnings compared with a $165,000 loss for the same period of 2017, an improvement of $230,000 as a result of generating higher revenue while maintaining control over costs. Loss after tax was reduced to $666,000 loss for the period compared with $1.0 million loss for the first half of 2017.

As at 30 June 2018, total assets were $8.5 million (31 December 2017: $8.0 million) with the largest assets being goodwill and other intangible assets of $4.2 million (31 December 2017: $4.4 million), accounts receivable of $2.4 million (31 December 2017: $1.7 million) and net cash of $1.2 million (31 December 2017: $1.3 million). As at period end, the Company had its recurring revenue credit facility with Silicon Valley Bank for up to $5.0 million fully available.

The Company's total liabilities as at 30 June 2018 were $2.9 million (31 December 2017: $1.8 million; 30 June 2017: $2.2 million), with the increase compared with the same period of the prior year primarily due to the growth in sales and change in sales mix to include a greater proportion from MIS.

The Company generated $283,000 in net cash from operating activities during the period compared with utilising $323,000 in net cash for the first half of 2017. This represents an improvement of $606,000, mainly due to a reduction in the net loss and improvement in working capital accounts.

The Company used $333,000 in investment activities in the first half of 2018 (H1 2017: $398,000), with the reduction due to lower capitalised software development costs. The Company paid $45,000 in financing activities related to capital lease obligations.

Outlook

ClearStar entered the second half of 2018 with sustained revenue momentum, particularly in sales of MIS, and good visibility over revenue. MIS is expected to remain the largest contributor to revenue by product offering, with growth to be driven by the addition of clinical testing and occupational health services.

The Company anticipates continued growth in revenue generated by direct clients, primarily for background screening services, as previously-won customers are onboarded and expand their use of ClearStar's services. At the same time, the Company continues to add to its pipeline by signing new, high-calibre customers as it benefits from the actions taken in the first half of 2018 to strengthen its offer, routes-to-market and sales infrastructure.

The growth among channel partners for the Company's MIS is expected to more-than offset the anticipated ongoing attrition among some of these customers for background screening services – resulting in continued increase in revenue among both direct and indirect customers.

The strong growth in MIS means that it will account for a greater proportion of the Company's revenue mix and, therefore, ClearStar expects a lower blended margin for the Company as a whole.

As a result of the current visibility over revenue and the increasing interest in ClearStar's services, the Board is confident of achieving full year 2018 revenue growth in line with market expectations and being EBITDA positive, and expects to deliver accelerated revenue growth in 2019.

CLEARSTAR, INC.
Consolidated Statements of Operations
(USD, in thousands)

	Six Months Ended 30 June 2018 (Unaudited)	Six Months Ended 30 June 2017 (Unaudited)	Year Ended 31 December 2017
	$	$	$
Net revenue	9,886	8,919	17,785
Cost of revenue	4,236	3,609	7,436
Gross profit	5,650	5,310	10,349
Operating expenses			
Selling and marketing	794	838	1,632
Research and development	804	940	1,886
Depreciation and amortisation	655	739	1,470
General and administrative	4,007	3,767	7,293
Total operating expenses	6,260	6,284	12,281
Loss from operations	(610)	(974)	(1,932)
Other expense			
Interest expense	(35)	(6)	(17)
Total other expense	(35)	(6)	(17)
Net loss before taxes	(645)	(980)	(1,949)
Provision for income taxes	21	51	9
Net loss	(666)	(1,031)	(1,958)

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

CLEARSTAR, INC.

Consolidated Balance Sheets

(USD, in thousands)

	As of 30 June 2018 (Unaudited)	As of 30 June 2017 (Unaudited)	As of 31 December 2017
ASSETS	$	$	$
Current assets			
Cash	1,208	1,648	1,303
Accounts receivable - trade, net	2,409	2,273	1,654
Research and development tax credits	90	78	63
Prepaid expenses	340	254	175
Total current assets	4,047	4,253	3,195
Property and equipment, at cost			
Computer equipment	588	665	577
Furniture and fixtures	298	291	294
Leasehold improvements	64	58	60
Less accumulated depreciation	(734)	(652)	(652)
Total property and equipment, net	216	362	279
Other assets			
Goodwill and other intangible assets, net	4,187	4,741	4,447
Deferred debt issuance costs, net	63	-	87
Deposits	12	12	12
Total other assets	4,262	4,753	4,546
Total assets	8,525	9,368	8,020
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Accounts payable	2,348	1,621	1,455
Accrued liabilities	398	282	132
Deferred revenue	30	35	8
State income taxes	-	-	6
Current portion of obligations under capital lease	18	97	63
Total current liabilities	2,794	2,035	1,664
Long-term liabilities			
Accrued liabilities	36	44	40
Deferred income taxes	125	142	100
Obligations under capital lease, net of current portion	-	18	-
Total long-term liabilities	161	204	140
Stockholders' equity			
Common stock, $0.0001 par value; 100,000,000 shares authorised; 36,302,900 shares issued and outstanding	4	4	4
Additional paid-in capital	13,706	13,672	13,686
Accumulated deficit	(8,140)	(6,547)	(7,474)
Stockholders' equity	5,570	7,129	6,216
Total liabilities and stockholders' equity	8,525	9,368	8,020

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

CLEARSTAR, INC.
Consolidated Statements of Changes in Stockholders' Equity
(USD, in thousands, except no. of shares)

	Common Stock		Additional Paid-in	Accumulated	
	Shares	Amount	Capital	Deficit	Total
	No.	$	$	$	$
Balances at 1 January 2017	**36,302,900**	**4**	**13,602**	**(5,516)**	**8,090**
Non-cash stock compensation	-	-	70	-	70
Net loss	-	-	-	(1,031)	(1,031)
Balances at 30 June 2017 (unaudited)	**36,302,900**	**4**	**13,672**	**(6,547)**	**7,129**
Non-cash stock compensation			(6)		(6)
Non-cash debt issuance costs			20		20
Net loss				(927)	(927)
Balances at 31 December 2017	**36,302,900**	**4**	**13,686**	**(7,474)**	**6,216**
Non-cash stock compensation			20		20
Net loss				(666)	(666)
Balances at 30 June 2018 (unaudited)	**36,302,900**	**4**	**13,706**	**(8,140)**	**5,570**

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

CLEARSTAR, INC.
Consolidated Statements of Cash Flows
(USD, in thousands)

	Six Months Ended 30 June 2018 (Unaudited)	Six Months Ended 30 June 2017 (Unaudited)	Year Ended 31 December 2017
	$	$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	(666)	(1,031)	(1,958)
Adjustments to reconcile net loss			
to net cash used for operating activities:			
Change in allowance for doubtful accounts	(22)	11	(1)
Depreciation and amortisation	655	739	1,470
Deferred income taxes	24	43	1
Non-cash stock compensation	20	70	64
Non-cash debt issuance costs	24	-	8
Loss on disposal of property and equipment	1	-	-
Change in operating assets and liabilities:			
Accounts receivable	(733)	(842)	(211)
Research and development tax credits	(27)	60	75
Prepaid expenses	(164)	2	82
Deposits	(1)	(1)	(1)
Accounts payable	893	491	325
Accrued liabilities	263	160	7
Deferred revenue	22	(20)	(46)
State income taxes	(6)	(5)	1
Total adjustments	949	708	1,774
Net cash provided by (used in) operating activities	283	(323)	(184)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment	(22)	(15)	(42)
Capitalised software development costs	(311)	(383)	(712)
Net cash used in investing activities	(333)	(398)	(754)
CASH FLOWS FROM FINANCING ACTIVITIES			
Debt issuance costs	-	-	(75)
Principal payments on capital lease obligations	(45)	(51)	(104)
Net cash used in financing activities	(45)	(51)	(179)
Net cash decrease for period	(95)	(772)	(1,117)
Cash at beginning of period	1,303	2,420	2,420
Cash at end of period	**1,208**	**1,648**	**1,303**

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

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

	Six Months Ended 30 June 2018 (Unaudited) $	Six Months Ended 30 June 2017 (Unaudited) $	Year Ended 31 December 2017 $
Cash paid:			
Interest	10	6	10
Income taxes	1	12	5
	11	18	15

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES

During the six months ended 30 June 2018 and 2017, the Company retired obsolete and fully-depreciated property and equipment of approximately $0 and $28,000, respectively.

During the year ended 31 December 2017, the Company retired obsolete and fully-depreciated property and equipment of approximately $137,000.

During the six months ended 30 June 2018 and 2017, the Company retired fully-amortised intangible assets of approximately $0 and $329,000, respectively.

During the year ended 31 December 2017, the Company retired fully-amortised intangible assets of approximately $792,000.

In conjunction with the executed Revolving Line in October 2017 (see Note 6 and 9), the Company issued a stock warrant to purchase 90,755 shares of Ordinary Shares as consideration to the Lender. At the issuance date, the fair value of the warrant was determined to be approximately $20,000.

Notes to the Consolidated Financial Statements

1. Summary of Significant Accounting Policies

a) Nature of Operations

ClearStar, Inc. (“ClearStar”), an exempt company incorporated in the Cayman Islands on 23 April 2014, is a holding company that owns a 100% interest in ClearStar, Inc. (‘‘ClearStar US’’), an entity formed on 23 March 1995, and incorporated in the state of Delaware, and ClearStar Limited (“ClearStar UK”), a dormant entity formed in the United Kingdom on 17 January 2014. The Company is a technology and service provider to the background check industry, supporting background screening companies, employers and employees with their recruitment and employment application decisions. The Company provides employment intelligence to its clients through a suite of IT applications for day-to-day use in their business. Employment intelligence aims to improve business insight to support better recruitment and other decisions affecting employees generally, by increasing the quality, reliability and visibility of information available to management.

b) Principles of Consolidation

The consolidated financial statements include the accounts of ClearStar and its 100% owned subsidiaries, ClearStar US and ClearStar UK (collectively the “Company”).

All significant intercompany transactions and balances have been eliminated in consolidation.

c) Basis of Accounting

The historical financial information has been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (‘‘US GAAP’’).

d) Use of Estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Estimates are used for, but not limited to, the allowance for doubtful accounts, depreciable lives of property and equipment, certain accrued liabilities, amortisation of other intangible assets, stock-based compensation and income taxes. Actual results could differ from these estimates.

e) Concentration of Credit Risk Arising From Cash Deposits in Excess of Insured Limits

The Company maintains cash balances at certain financial institutions that at times may exceed federally insured limits. From time to time, the Company’s cash balances exceed such limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant risks on cash.

f) Accounts Receivable

The Company extends credit to customers in a broad range of industries located throughout the United States and abroad based on the size of the customer, its payment history and other factors. The Company generally does not require collateral to support customer receivables. The Company provides an allowance for doubtful accounts based upon a review of the outstanding accounts receivable, historical collection information and existing economic conditions. The Company determines if receivables are past due based on days outstanding, and amounts are written off when determined to be uncollectable by management. The maximum accounting loss from the credit risk associated with accounts receivable is the amount of the receivable recorded, which is the face amount of the receivable, net of the allowance for doubtful accounts.

g) Property and Equipment

Property and equipment are stated at cost. Expenditures for maintenance and repairs are expensed currently, while renewals and betterments that materially extend the life of an asset are capitalised. The cost of assets sold, retired, or otherwise disposed of, and the related allowance for depreciation are eliminated from the accounts, and any resulting gain or loss is recognised.

Depreciation of property and equipment is provided using the straight-line method over the estimated useful lives of the assets, which are as follows:

Computer equipment	3 – 4 years
Furniture and fixtures	5 – 7 years
Leasehold improvements	Lesser of estimated useful life or life of the lease

Depreciation expense for the six months ended 30 June 2018 and 2017, and the year ended 31 December 2017 was approximately $83,000, $120,000 and $229,000, respectively.

h) Deferred Debt Issuance Costs

Deferred debt issuance costs were incurred by the Company to obtain debt and are amortised over the life of the respective debt agreement. The costs totalled approximately $95,000 with accumulated amortisation of approximately $32,000 at 30 June 2018. The Company amortised approximately $24,000 and $8,000 of these costs through interest expense for the six months ended 30 June 2018 and the year ended 31 December 2017, respectively. Approximately $24,000 and $40,000 of these costs will be additionally amortised as interest expense during the years ended 31 December 2018 and 2019, respectively.

i) Goodwill

Goodwill recorded in the consolidated financial statements represents the excess of the purchase price of an acquisition over the fair value of acquired net assets on the date of acquisition. Goodwill is not amortised since it has an indefinite life. Accordingly, the carrying value of goodwill is reviewed for impairment by the Company annually, or more often if events or circumstances indicate that there may be impairment. The Company has not recorded any goodwill impairment charges.

In our evaluation of goodwill impairment, we perform a qualitative assessment to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the qualitative assessment is not conclusive, we proceed to a two-step process to test goodwill for impairment including comparing the fair value of the reporting unit to its carrying value (including attributable goodwill). Fair value for our reporting unit is determined using an income or market approach, incorporating market participant considerations and management's assumptions on revenue growth rates, operating margins, discount rates and expected capital expenditures. Fair value determinations may include both internal and third-party valuations. Unless circumstances otherwise dictate, we perform our annual impairment testing in the fourth quarter. If the carrying amount of the goodwill exceeds the implied fair value of that goodwill, the Company will recognise an impairment loss as an expense.

j) Intangible Assets

Intangible assets, other than capitalised software development costs, arose from the purchase of certain assets in an acquisition and are reported net of amortisation. These costs are amortised using the straight-line method over their estimated useful life. The estimated useful life for customer relationships and trade name are 7 and 1 year(s), respectively.

The Company has capitalised external direct costs of services consumed in developing and obtaining internal-use computer software and the payroll and payroll-related costs for employees who are directly associated with and who devote time to developing the internal-use computer software.

Management's judgment is required in determining the point at which various projects enter the application development stage at which costs may be capitalised, in assessing the ongoing value of the capitalised costs, and in determining the estimated useful lives over which the costs are amortised. Costs in relation to the preliminary stages of projects are expensed in the period in which they are incurred. The Company expects to continue to invest in internally developed software and to capitalise costs in accordance with US GAAP.

k) Impairment of Long-Lived Assets

Long-lived assets, such as property and equipment, and purchased intangible assets subject to amortisation, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying amount. If the carrying amount of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognised to the extent that the carrying amount exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third party independent appraisals, as considered necessary. Management determined that there were no impairments during the six months ended 30 June 2018 and 2017, and the year ended 31 December 2017.

l) Revenue Recognition

The Company requires that four basic criteria be met before revenue can be recognised for all transactions: (i) persuasive evidence of an arrangement exists; (ii) the price is fixed or determinable; (iii) collectability is reasonably assured; and (iv) delivery has occurred. Fixed monthly fees are derived primarily from customers' use of services that are provided for an agreed number of transactions. Arrangements for these services generally have terms of one year or less, and the fixed monthly fees are recognised as services are provided. One-time setup fees are recognised based on the Company's configuring and activating customers on internal and third party systems. The Company recognises one-time setup fees revenue rateably over 12 months or the period beyond which the initial contract term is expected to extend and the customer continues to benefit, whichever is longer. Annual certification fees are billed annually and are recognised rateably over the contract period. The Company recognises revenue from the per-transaction search results and/or search result review services and drug testing services at the time of delivery as the Company has no significant ongoing obligation after delivery.

Deferred revenue consists of payments received in advance of revenue recognition and contractual billings in excess of recognised revenue.

m) Advertising

The Company expenses advertising costs as incurred. Advertising expenses for the six months ended 30 June 2018 and 2017, and the year ended 31 December 2017 were approximately $249,000, $218,000 and $412,000, respectively.

n) Income Taxes

ClearStar is incorporated as an exempted company in the Cayman Islands which currently does not levy income taxes on individuals or companies. ClearStar and its operating subsidiary, ClearStar US, are both taxed as corporations for US federal income tax purposes.

Income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due plus deferred income taxes. Deferred income taxes are recognised for differences between the basis of assets and liabilities for financial statement and income tax purposes. Deferred income tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets or liabilities are recovered or settled. Deferred income taxes are also recognised for operating losses that are available to offset future taxable income. The tax provision differs from the expense that would result from applying federal statutory rates to income before income taxes primarily because of the marginal tax rates used to compute deferred income taxes, the effect of state taxes and permanent differences between determining income for financial statement purposes and taxable income.

The Company is subject to tax audits in numerous jurisdictions, including the United States, individual states and localities, and abroad. Tax audits by their nature are often complex and can require several years to complete. In the normal course of business, the Company is subject to challenges from the Internal Revenue Service ("IRS") and other tax authorities regarding amounts of taxes due. These challenges may alter the timing or amount of taxable income or deductions, or the allocation of income among tax jurisdictions. The Company accounts for the uncertain tax provisions using a minimum probability threshold that a tax position must meet before a financial statement benefit is recognised. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognised is measured as the largest amount of benefit that is greater than fifty per cent. likely of being realised upon ultimate settlement. The Company recognises interest and penalties related to unrecognised tax benefits as part of income tax expense. The cumulative effect of considering uncertain tax positions resulted in no uncertain tax liability in the consolidated balance sheets.

The Company is not subject to income tax examinations for the years ending prior to 31 December 2015.

o) Research and Development

Expenditures related to the development of new products and processes are expensed as incurred. Research and development expenses were approximately $804,000, $940,000 and $1,886,000, net of approximately $0 of tax credits, for the six months ended 30 June 2018 and 2017, and the year ended 31 December 2017, respectively.

p) Stock-Based Compensation

The Company values stock options at the time of grant using a Black-Scholes model approach and records that fair market value as compensation expense, less an estimate for forfeitures, over the requisite service period, using the straight-line method. Stock-based compensation expense for the six months ended 30 June 2018 and 2017, and the year ended 31 December 2017 was approximately $20,000, $70,000 and $64,000, respectively.

q) Fair Value of Financial Instruments

Due to the short-term nature of cash, accounts receivable, prepaid expenses, accounts payable, and accrued liabilities, their fair value approximates carrying value.

In specific circumstances, certain assets and liabilities are reported or disclosed at fair value. Fair value is the exit price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the Company's principal market for such transactions. If there is not an established principal market, fair value is derived from the most advantageous market.

Valuation inputs are classified in the following hierarchy:

(i) Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities.

(ii) Level 2 inputs are directly or indirectly observable valuation inputs for the asset or liability, excluding Level 1 inputs.

(iii) Level 3 inputs are unobservable inputs for the asset or liability.

Highest priority is given to Level 1 inputs and the lowest priority to Level 3 inputs. Acceptable valuation techniques include the market approach, income approach and cost approach. In some cases, more than one valuation technique is used.

r) Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09 ("ASU 2014-09") "Revenue from Contracts with Customers." ASU 2014-09 supersedes the revenue recognition requirements in "Revenue Recognition (Topic 605)" and requires entities to recognise revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. As currently issued and amended, ASU 2014-09 is effective for annual reporting periods beginning after 15 December 2017, including interim periods within that reporting period, though early adoption is permitted for annual reporting periods beginning after 15 December 2016. We are currently in the process of evaluating the impact of the adoption of ASU 2014-09 on our consolidated financial statements, implementing accounting system changes related to the adoption and considering additional disclosure requirements.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, "Leases", which requires that lease arrangements longer than 12 months' result in an entity recognising an asset and liability. The pronouncement is effective for periods beginning after 15 December 2018, with early adoption permitted. The Company is currently evaluating the impact this guidance is expected to have on its consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, "Improvements to Employee Share Based Payment Accounting" which simplifies several aspects of the accounting for share-based payment transactions, including income tax consequences, classification of awards, forfeitures and classification on the statement of cash flows. The provisions of this ASU are effective for fiscal years beginning after 15 December 2016, and interim periods within those fiscal years. The Company adopted the new standard in the first quarter of 2017, and the adoption of this standard did not have a material effect on our consolidated financial statements. The Company has elected to account for forfeitures as they occur, rather than estimate expected forfeitures.

In August 2016, the FASB issued Accounting Standards Update 2016-15 ("ASU 2016-15") "Statement of Cash Flows (Topic 230): Clarification of Certain Cash Receipts and Cash Payments" which would eliminate the diversity in practice related to the classification of certain receipts and payments in the statement of cash flows, by adding or clarifying guidance on eight specific cash flow issues. ASU 2016-15 is effective for annual and interim reporting periods beginning after 15 December 2017 for public entities with early adoption permitted. The amendments in this update should be applied retrospectively to all periods presented, unless deemed impracticable, in which case, prospective application is permitted. The Company does not expect the implementation of this standard to have a material effect on its consolidated financial statements.

In January 2017, the FASB issued Accounting Standards Update No. 2017-04 ("ASU 2017-04") "Intangibles - Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment." ASU 2017-04 removes the requirement to perform a hypothetical purchase price allocation to measure goodwill impairment. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. ASU 2017-04 is effective for annual periods and interim periods within those annual periods beginning after 15 December 2019, and early adoption is permitted. The Company is in the process of evaluating the impact of this standard on its consolidated financial statements.

s) Reclassifications

Certain reclassifications have been made to the 2017 consolidated financial statement presentation to correspond to the current period's format. These reclassifications have no effect on previously reported net income.

2. Accounts Receivable

Accounts receivable consisted of the following:

	As of 30 June 2018 (Unaudited) $000	As of 30 June 2017 (Unaudited) $000	As of 31 December 2017 $000
Trade accounts receivable	2,416	2,313	1,683
Allowance for doubtful accounts	(7)	(40)	(29)
	2,409	2,273	1,654

3. Goodwill and Other Intangible Assets

Goodwill and other intangible assets were comprised of the following at 30 June 2018 (unaudited):

		Gross Cost				Accumulated Amortisation				
	Life (years)	Beginning $000	Additions $000	Disposal $000	Ending $000	Beginning $000	Additions $000	Disposal $000	Ending $000	Net $000
Goodwill	Indefinite	2,283	-	-	2,283	-	-	-	-	2,283
Software Development	3	2,883	311	-	3,194	1,675	452	-	2,127	1,067
Customer Relationships	7	1,673	-	-	1,673	717	119	-	836	837
		6,839	311	-	7,150	2,392	571	-	2,963	4,187

Goodwill and other intangible assets were comprised of the following at 30 June 2017 (unaudited):

		Gross Cost				Accumulated Amortisation				
	Life (years)	Beginning $000	Additions $000	Disposal $000	Ending $000	Beginning $000	Additions $000	Disposal $000	Ending $000	Net $000
Goodwill	Indefinite	2,283	-	-	2,283	-	-	-	-	2,283
Software Development	3	2,963	383	(329)	3,017	1,465	499	(329)	1,635	1,382
Customer Relationships	7	1,673	-	-	1,673	478	119	-	597	1,076
		6,919	383	(329)	6,973	1,943	618	(329)	2,232	4,741

Goodwill and other intangible assets were comprised of the following at 31 December 2017:

		Gross Cost				Accumulated Amortisation				
	Life (years)	Beginning $000	Additions $000	Disposal $000	Ending $000	Beginning $000	Additions $000	Disposal $000	Ending $000	Net $000
Goodwill	Indefinite	2,283	-	-	2,283	-	-	-	-	2,283
Software Development	3	2,963	712	(792)	2,883	1,465	1,002	(792)	1,675	1,208
Customer Relationships	7	1,673	-	-	1,673	478	239	-	717	956
		6,919	712	(792)	6,839	1,943	1,241	(792)	2,392	4,447

Approximate aggregate future amortisation expense is as follows:

Year Ending 30 June:

	Amount $000
2019	875
2020	580
2021	334
2022	115
	1,904

4. Commitments and Contingencies

- Operating Leases

The Company leases office space and equipment. The lease agreements expire on various dates through February 2022.

Minimum lease payments under operating leases are recognised on a straight-line basis over the term of the lease including any periods of free rent for payment terms subject to escalation. Aggregate rent, common area maintenance charges and property tax expense for the six months ended 30 June 2018 and 2017, and the year ended 31 December 2017 was approximately $90,000, $101,000, and $214,000, respectively.

At 30 June 2018, future minimum lease payments under non-cancellable operating leases were as follows:

Year Ending 30 June:

	Amount $000
2019	134
2020	104
2021	104
2022	70
	412

- Capital Leases

The Company leased computer equipment under two agreements classified as capital leases that expire through November 2018. The lease obligations bear an interest rate of up to 8.7 per cent. per annum and are payable in monthly instalments totalling $9,334.

Assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the assets. The assets are depreciated over the shorter of the estimated useful lives or the lease term if ownership does not transfer to the Company at the end of the lease. Depreciation of assets under capital leases is included in depreciation expense.

Computer equipment held under capital leases consisted of the following:

	As of 30 June 2018 (Unaudited) $000	As of 30 June 2017 (Unaudited) $000	As of 31 December 2017 $000
Cost of equipment and installation	390	390	390
Less: accumulated depreciation	(375)	(287)	(337)
	15	103	53

At 30 June 2018, future minimum lease payments under capital lease agreements consist of the following:

Year Ending 30 June:

	Amount $000
2019	19
Less: interest	(1)
	18
Less: current portion	(18)
	-

- Board of Directors Fees

Effective 30 May 2014, the Company contracts with two non-executive directors (“NEDs”) for 3-year terms subjective to renewal for successive one-year periods. The Company pays approximately $100,000 per annum to the NEDs. For the six months ended 30 June 2018 and 2017, and the year ended 31 December 2017, director fees were approximately $50,000, $50,000 and $100,000, respectively. Options granted to the NEDs were approximately 72,000 shares, vested over a one-year term (see Note 8).

- Long-Term Vendor Commitment

In November 2014, the Company executed a three-year vendor contract for data centre and related services, requiring an annual fee of approximately $172,000, payable in equal monthly instalments in advance through January 2018. The contract was terminated early in November 2017.

5. Income Taxes

Tax effects of temporary differences are as follows:

	As of 30 June 2018 (Unaudited) $000	As of 30 June 2017 (Unaudited) $000	As of 31 December 2017 $000
Non-current deferred tax assets (liabilities):			
Allowance for doubtful accounts	2	10	7
Prepaid expenses	(48)	(14)	(10)
Amortisation of software development	(251)	(536)	(283)
Amortisation of other intangible assets	126	122	108
Amortisation of goodwill	(118)	(142)	(100)
Accrued liabilities	10	18	11
Deferred revenue	-	-	-
Basis differences in property and equipment	(1)	(42)	(11)
Net operating losses	1,188	2,305	1,827
Stock-based compensation	94	113	89
Tax credits	190	154	203
Other adjustments	9	(2)	8
Total non-current	1,201	1,986	1,849
Less: valuation allowance	(1,326)	(2,128)	(1,949)
Net deferred tax assets (liabilities)	(125)	(142)	(100)

Deferred tax assets and liabilities are recognised for the expected tax consequences of temporary differences between the book and tax bases of the Company’s assets and liabilities. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realised. Management does not expect deferred tax assets to be fully realised in future years. Therefore, a valuation allowance has been recorded.

- The components of the provision for income taxes are as follows:

	Six Months Ended 30 June 2018 (Unaudited) $000	Six Months Ended 30 June 2017 (Unaudited) $000	Year Ended 31 December 2017
Current tax expense:			
Federal	-	-	-
State	(3)	8	8
	(3)	8	8
Deferred tax expense:			
Federal	24	43	1
State	-	-	-
	24	43	1
Total provision for income taxes	21	51	9

The effective income tax rate differs from the federal statutory income tax rate due to state income taxes, certain non-deductible expenses and a decrease of approximately $623,000 in the valuation allowance for the period.

On 22 December 2017, the Tax Cuts and Jobs Act ("TCJA") was signed into law. Among other provisions, the TCJA reduces the U.S. federal corporate tax rate from 35% to 21% effective in 2018. As of 30 June 2018, the Company has not completed the required accounting for all of the tax effects of enactment of the TCJA. Accordingly, we have elected to apply the guidance in SEC Staff Accounting Bulletin No. 118, which permits recognising provisional amounts when the accounting for the TCJA under FASB ASC 740 is not complete at the time financial statements for the year ended 31 December 2017 are issued. For certain items, the Company has been able to make reasonable estimates of the effects on deferred tax assets and liabilities, however, the full valuation allowance on the deferred taxes as of 31 December 2017 cause the rate change to have no net rate impact on the financial statements. Deferred tax assets and liabilities have been remeasured and adjusted based on the new 21% rate, which is the rate at which they are expected to reverse in subsequent years. We have not completed our analysis in respect of other provisions of the TCJA. Upon completion of that analysis and the required accounting for all effects of the TCJA, additional amounts will be recognised, and it is possible that the provisional amounts that were recorded in 2017 may be revised, increased or decreased.

At 30 June 2018, the Company had approximately $8,032,000 in net operating loss carryforwards ("NOL") available to use against taxable income. The NOLs expire through 2037.

At 30 June 2018, the Company had approximately $175,000 in federal research and development ("R&D") credits available to use against taxable income. The R&D credits will begin to expire starting in 2034.

6. Revolving Line Facility

In October 2017, the Company obtained a revolving line facility agreement with a Lender ("Revolving Line") to borrow up to $5,000,000, accruing interest of Prime plus up to 1.75% per annum, payable monthly. The Revolving Line is also subject to an unused revolving line facility fee of 0.375% per annum, payable monthly, on the average unused portion. The Revolving Line is secured by all assets of the Company and matures on 19 October 2019. A stock warrant to purchase 90,755 shares of Ordinary Shares was granted to the Lender as consideration. At 30 June 2018, the outstanding balance on the revolving line was $0.

7. Stockholders' Equity

The Board has authorised 100,000,000 shares of Ordinary Shares, $0.0001 par value. As of 30 June 2018 and 2017, and 31 December 2017, there were 36,302,900 shares issued and outstanding.

8. Stock-Based Compensation

In June 2014, the Board adopted the 2014 Share Option and Incentive Plan (the "Plan") that authorised the Board to grant options and restricted stock to employees and directors to acquire up to 3,000,000 shares of the Company's Ordinary Shares. The option price generally may not be less than the underlying stock's fair market value on the date of the grant. The options generally vest rateably up to a three-year period beginning the date of grant and expire as determined by the Board, but not more than 10 years from the date of grant. The amounts granted each calendar year is limited depending on certain terms of the Plan. As of 30 June 2018, approximately 2,523,000 shares remain available for grant under the Plan. The Plan terminates in June 2024.

The following table summarises activity of the Company's stock options during the six months ended 30 June 2018 and 2017, and the year ended 31 December 2017:

	Shares	Weighted-Average Exercise Price
Outstanding at 1 January 2017	1,866,165	$0.86
Granted	-	-
Forfeited or cancelled	(18,000)	$0.97
Outstanding at 30 June 2017 (unaudited)	1,848,165	$0.86
Granted	-	-
Forfeited or cancelled	(72,000)	$0.93
Outstanding at 31 December 2017	1,776,165	$0.86
Granted	100,000	$0.60
Forfeited or cancelled	(1,399,000)	$0.89
Outstanding at 30 June 2018 (unaudited)	477,165	$0.58
Exercisable at 30 June 2018 (unaudited)	342,165	$0.60
Exercisable at 31 December 2017	1,391,165	$0.92
Exercisable at 30 June 2017 (unaudited)	490,165	$0.77

As of 30 June 2018, there was approximately $9,000 of total unrecognised compensation costs related to unvested stock options, which is expected to be recognised over a weighted-average period of 0.50 years. To the extent the actual forfeiture rate is different from what we have estimated, stock-based compensation expense related to these awards will be different from our expectations.

The following assumptions were used for the Black-Scholes option pricing model:

	2 Jan 2018	4 Jan 2016
Weighted-average fair value on day of grant	$0.23	$0.14
Risk-free interest rate	2.69%	1.00%
Expected dividend yield	0.00%	0.00%
Expected volatility	37.97%	32.90%
Weighted-average expected life of option	5.00 years	4.00 years

9. Stock Warrant

In conjunction with the executed Revolving Line in October 2017 (see Note 6), the Company issued a stock warrant as consideration to the Lender to purchase 90,755 shares of Ordinary Shares at $0.59 per share. The warrant expires in October 2027 and is fully vested; if the fair market value of an Ordinary Share is greater than the exercise price on the Expiration Date, the stock warrant will automatically be deemed exercised.

The following assumptions were used for the Black-Scholes warrant pricing model:

	19 Oct 2017
Weighted-average fair value on day of grant	$0.22
Risk-free interest rate	2.69%
Expected dividend yield	0.00%
Expected volatility	37.97%
Weighted-average expected life of warrant	5.00 years

10. Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing net income by the weighted average number of shares of common stock and common stock equivalents outstanding during the period. Dilutive common stock equivalents represent shares issuable upon assumed exercise of stock options.

	Six Months Ended 30 June 2018 (Unaudited) $000	Six Months Ended 30 June 2017 (Unaudited) $000	Year Ended 31 December 2017
Basic income per share	($0.02)	($0.03)	($0.05)
Diluted income per share	($0.02)	($0.03)	($0.05)
Weighted-average common shares outstanding:			
Basic and diluted	36,302,900	36,302,900	36,302,900

11. Employee Retirement Plan

The Company sponsors an employee retirement plan known as the ClearStar, Inc. 401(k) Profit Sharing Plan Trust (the ‘‘401k Plan’’). Under the 401k Plan, employees may contribute up to the maximum contributions as set periodically by the Internal Revenue Service. Additionally, the Company may make a discretionary contribution to the 401k Plan. Employer profit sharing contributions vest over six years. Participant contributions and employer safe harbour matching contributions are 100 per cent. vested.

For the six months ended 30 June 2018 and 2017, and the year ended 31 December 2017, matching contributions were approximately $78,000, $77,000 and $150,000, respectively.

12. Concentrations

- Significant Vendor

A significant vendor is defined as one from which the Company receives at least 10 per cent. of its total purchases. For the six months ended 30 June 2018 and 2017, and the year ended 31 December 2017, the Company had purchases from two suppliers totalling approximately $2,284,000, $1,814,000 and $3,929,000 which comprised approximately 54, 51 and 53 per cent. of the Company’s purchases, respectively. Accounts payable and accrued liabilities included approximately $1,261,000, $756,000 and $715,000 to these vendors at 30 June 2018 and 2017, and 31 December 2017, respectively.

- Significant Customer

A significant customer is defined as one from whom at least 10 per cent. of reported revenue is derived. For the six months ended 30 June 2018 and 2017, and the year ended 31 December 2017, the Company had sales to one customer totalling approximately $1,067,000, $962,000 and $2,020,000, respectively, which comprised approximately 11 per cent. of the Company’s revenue. At 30 June 2018 and 2017, and 31 December 2017, the accounts receivable balance included approximately $233,000, $216,000 and $151,000, respectively, from this customer.

13. Related Party Transactions

The Company contracted with a certain shareholder of the Company to provide consulting services. During the six months ended 30 June 2018 and 2017, and the year ended 31 December 2017, the Company incurred approximately $19,000, $18,000 and $36,000, respectively, in consulting fees to this related party.

Beginning in July 2017, a company owned by a shareholder provided investor research services of approximately $7,000 and $20,000 for the six months ended 30 June 2018 and the year ended 31 December 2017, respectively.

14. Subsequent Events

The Company evaluated subsequent events through 17 September 2018, when these consolidated financial statements were available to be issued.

In July 2018, the Company granted 1,837,600 options to purchase Ordinary Shares to certain employees. An additional 11,000 employee options were forfeited through August 2018.

Management is not aware of any other significant events that occurred subsequent to the consolidated balance sheet date but prior to the filing of this report that would have a material impact on the consolidated financial statements.