13 May 2019

ClearStar, Inc.
("ClearStar" or the "Company")

Full Year Results

ClearStar (AIM: CLSU), a provider of Human Capital Integrity℠ technology-based services specialising in background and medical screening, announces its preliminary results for the year ended 31 December 2018.

Financial Highlights

- Revenue increased by 13% to $20.1m (2017: $17.8m)
- Achieved adj. EBITDA of $154k (2017: $391k loss)
- Operational cash flow improved to inflow of $380k (2017: $184k outflow)
- Loss from operations reduced to $1.3m loss (2017: $1.9m loss)
- As at 31 December 2018, the Company had net cash of $0.9m (30 June 2018: $1.2m)

Operational Highlights

- Strong revenue growth in direct sales and Medical Information Services ("MIS"), which in aggregate accounted for 65% of total revenue (2017: 58%):
  - Direct sales increased by 28% due to expansion of higher-volume, tier 1 client base
  - MIS sales increased by 25%, primarily due to greater volume with channel partner customers through purchase of additional services
- Expanded direct tier 1 client base in key industries of transport and logistics as well as entering new segments:
  - Won first contract for financial institution screening, which was extended, post period, to a second major financial institution
  - Won first direct customer in the petrochemical industry with the award, post period, of a contract by an oilfield waste disposal services company operating seven locations in Texas
- Enhanced sales & marketing resulting in greater brand recognition, significant increase in interest and upscaling:
  - Expansion of sales pipeline, including transition up-channel to higher-value prospects
  - Value of 10 highest revenue generating direct customers increased by 25% in 2018 over 2017 and by 35% in Q1 2019 over Q1 2018
  - In Q1 2019, ClearStar was invited to respond to double the number of Request for Proposals (RFPs) than in the whole of 2018
- Strengthened the foundations for accelerated future growth with key integrations and technology enhancements, in particular:
  - Integrated with Alere Inc. to double the number of collection sites where ClearMD can be used and establish ClearStar as the only provider offering paperless medical screening with a fully-customisable user platform across all three major laboratories in the US
  - Achieved "touchless" automated integration with SAP® SuccessFactors® Recruiting

Robert Vale, CEO of ClearStar, commented: "This was a great year for ClearStar as we generated our highest ever annual revenue and positive EBITDA while continuing to strengthen our business. In particular, we achieved excellent traction in our key growth markets of Medical Information Services and direct sales, where we continued to move up-channel as well as enter new segments.

“The revenue momentum of 2018 has been sustained into 2019, resulting in a strong first quarter performance. We are benefiting from the investments made last year as the technology improvements, integrations and enhanced sales & marketing are raising our brand awareness and enabling the successful targeting of larger, higher-volume customers. As a result, we continue to expect to achieve strong growth for full year 2019, in line with market expectations.”

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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.

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

In the year to 31 December 2018, ClearStar achieved its highest ever annual revenue of $20.1m, an increase of 13% over 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 Information Services ("MIS"). Direct sales and MIS, in aggregate, contributed 65% of total revenue in 2018 compared with 58% in 2017. Importantly, this increase in revenue enabled ClearStar to generate positive EBITDA for 2018.

The Company also continued to strengthen the foundations of the business through establishing further integrations to expand its offer and channels-to-market, enhancing its technology and expanding its sales & marketing efforts. ClearStar received the initial benefits from these actions during the period with the signing of new customers and entering into new segments.

Performance by business channel

Sales from direct services increased by 28% to $6.0m for 2018 (2017: $4.7m), accounting for 30% of total revenues (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 expanded into a new market with the award, towards the end of the period, of its first contract for financial institution screening to ensure compliance with the US Federal Deposit Insurance Act (FDI Act), which governs the Federal Deposit Insurance Corporation and the banks insured by that organisation, and the US Patriot Act. Post-period, the client, which is a professional services company that provides outsourcing and staffing primarily for the financial services industry, has granted two extensions to the original contract, reflecting the strength of ClearStar's solution.

In addition, the investment made during the year in the new sales team and sales & marketing resulted in further milestones being achieved post period. In particular, the Company entered another new market with the award of a contract by Milestone Environmental Services, a leading provider of oilfield waste disposal services that is currently operating seven locations in Texas, US, to provide a combination of drug and background screening services – representing ClearStar's first direct client in the petrochemical industry.

In 2018, sales to channel partners – indirect services – increased by 8% to $14.1m (2017: $13.1m). This was due to growth in MIS, as described below, and was primarily a result of increased business from some of the Company's largest clients. Indirect services accounted for 70% of total revenues (2017: 74%).

Performance by service offering

Medical Information Services

MIS continued to be the largest single contributor to revenues by product, accounting for 41% of total revenues (2017: 37%), and grew strongly year-on-year with an increase in MIS revenue of 25% to $8.3m (2017: $6.6m).

This growth was primarily based on increased volume with existing channel partner customers based on the purchase of additional services, such as clinical testing services and occupational health screening, but also through the addition of a new significant customer that was won during the period. As previously announced, this customer, which is a large consumer reporting agency, awarded ClearStar a contract for mobile-managed drug screening, with the Company being selected due to its ability to provide a fully customisable paperless medical screening solution across over 9,500 medical test locations.

Sales to channel partners accounted for 85% of MIS revenue (2017: 85%), but MIS revenue generated by direct customers, which accounted for 15% of MIS sales (2017: 15%), also grew strongly and is making an increasingly meaningful contribution to total sales. The growth in direct MIS revenue was primarily based on the onboarding of new customers won in 2017 and 2018.

Other services

Excluding MIS, revenues from ClearStar's other services – which primarily comprises background screening as well as the wholesale provision of data and global services – increased to $11.9m (2017: $11.2m). This was driven by an increase in sales in background screening to direct clients, which grew by 30% year-on-year, and more than mitigated the slight reduction in revenue from channel partner background screening.

Investing for growth

During 2018, ClearStar continued to strengthen the foundations of the business and position it for accelerated growth.

Establishing integrations

- Integrated with eScreen, Inc., an Alere company, which doubled – to over 9,500 – the number of collection sites where ClearStar's mobile solution for medical test ordering can be used
- Achieved "touchless" automated integration with SAP® SuccessFactors® Recruiting
- Signed agreement to integrate with Virtual Badge to enable remote identity verification with smartphone ID badging system
- Established partnerships with Veritas Prime and iCIMS, Inc.

ClearStar integrated its ClearMD mobile drug testing solution with eScreen, Inc., an Alere company, which has over 4,000 medical test sites. This doubled – to over 9,500 – the number of collection sites where ClearStar's mobile solution for medical test ordering can be used, and particularly expanded coverage in rural areas. In addition to the Company's pre-existing integrations with LabCorp and Quest Diagnostics, ClearStar became the only provider offering paperless medical screening with a fully-customisable user platform across all three of the major laboratories in the US. The Company is already benefiting from the economies of scale associated with engaging multiple large suppliers as well as winning new customers due to its enhanced offer, as noted above.

Having become fully integrated with SAP® SuccessFactors® Recruiting in 2017, during 2018 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®, which includes being appointed by a new client that made an important contribution to Q1 2019 revenue.

Also during the year, ClearStar signed an agreement to integrate with Virtual Badge, the world's first patented smartphone ID badging system, to enable remote identity verification by taking a photo of the employee's face and government-issued photo ID. The solution, which went live post period, also allows for continuous screening monitoring, with a badge becoming automatically suspended should the employee commit a predefined offence. This is the first time that facial recognition-based background screening has been integrated with a mobile access badge. This new technology integration provides ClearStar with a further route-to-market in industries demanding on-the-go workforce management solutions.

In addition, ClearStar 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 year, 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, which automatically collects information that has already been gathered by an integrated platform without 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 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 year. The sales team was strengthened 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. Three new enterprise sales roles were created and it appointed a Salesforce administrator for sales funnel management. The creation of these roles was to enable the Company to capitalise on the growing demand for ClearStar's services and optimise the efficiency of the team's operations. ClearStar also enhanced its marketing efforts with the deployment of a disruptive video marketing campaign as well as other measures to support the new direct sales team, which served to increase ClearStar's brand recognition.

The Company began to benefit from the strengthened sales team and enhanced marketing during the period, with an expanded sales pipeline. This momentum was sustained post-period with ClearStar receiving increased interest in its solutions and being invited to respond to double the number of RFPs in Q1 2019 than in the whole of 2018.

Financial Review

ClearStar achieved solid revenue growth with total revenues increasing 13% for the year ended 31 December 2018 to $20.1m compared with $17.8m for 2017. This was based on growth across both direct and indirect services, with strong demand for MIS.

Gross profit increased 10% to $11.3m (2017: $10.3m) and gross profit margin was 56.4% (2017: 58.2%). The slight decrease in margin was primarily due to having a higher percentage of revenue derived from MIS, which has a lower gross margin than other services.

Total operating expenses, including depreciation and amortisation, were $12.7m (2017: $12.3m). The increase was due to higher general and administrative expenses at $8.1m (2017: $7.3m) primarily as a result of investing to expand the direct sales team. This increase offset reductions in research and development expenses to $1.7m (2017: $1.9m), with the reduction due to the investment the Company made in 2017 as part of the set-up of its global platform, and depreciation and amortisation expenses to $1.2m (2017: $1.5m). Selling and marketing expenses were broadly flat at $1.7m (2017: $1.6m) as the Company invested, particularly in the second half of the year, in campaigns to support the new direct sales team.

The Company achieved positive adjusted EBITDA for 2018 of $154k compared with a $391k loss for 2017, an improvement of $545k as a result of generating higher revenue. Loss from operations was reduced to $1.3m (2017: $1.9m) and net loss was $1.3m compared with a $2.0m loss for 2017.

The Company's total liabilities at 31 December 2018 were $2.7m (30 June 2018: $2.9m; 31 December 2017: $1.8m), with the increase compared with the same point of the prior year primarily due to the growth in sales and change in sales mix to include a greater proportion from MIS.

As at 31 December 2018, total assets were $7.8m (30 June 2018: $8.5m) with the largest assets being goodwill and other intangible assets of $4.0m (30 June 2018: $4.2m), accounts receivable of $2.2m (30 June 2018: $2.4m) and net cash of $0.9m (30 June 2018: $1.2m).

The Company generated $380k in net cash from operating activities for 2018 compared with utilising $184k in net cash in 2017. This represents an improvement of $564k, mainly due to improvement in working capital accounts.

The Company used $697k in investment activities in 2018 (2017: $754k), with the reduction due to lower capitalised software development costs, and cash used in financing activities was reduced to $63k (2017: $179k) due to lower capital lease obligations and no debt issuance costs.

In 2018, the Company utilised $380k in net cash compared with $1.1m in the prior year, representing a 65% improvement in cash utilisation.

The Company continues to have a recurring revenue credit facility with Silicon Valley Bank for up to $5.0m. As at 31 December 2018, the facility was fully available. In 2019, the Company has utilised approximately $900k to finance its yearly technology infrastructure investment that has historically been financed through capital lease obligations. Additionally, it has utilised $1.2m to support the growth of the business.

Outlook

The revenue momentum of 2018 has been sustained into the first quarter of 2019 with the onboarding and ramp-up of previously-won contracts. This has resulted in the Company achieving its highest ever first quarter revenue at $5.1m for Q1 2019, a year-on-year increase of 11% (Q1 2018: $4.6m).

The Company is benefiting from the investments it made in 2017 and 2018 as the technology improvements, integrations and sales & marketing are increasing ClearStar's brand awareness and enabling it to successfully target larger, higher-volume customers. Within the first four months of 2019, ClearStar has already:

- increased its tier 1 client base with the winning of new customers;
- expanded its reach into new market segments; and been
- invited to respond to more than double the number of RFPs than in the whole of 2018.

This is serving to strengthen the Company's pipeline, particularly in the direct channel and for MIS, which ClearStar expects to continue to be the main drivers of growth.

As a result, the Company continues to expect to achieve strong growth for full year 2019, in line with market expectations, and the Board looks to the future with confidence.

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

	Year Ended 31 December 2018	Year Ended 31 December 2017
	$	$
Net revenue	20,113	17,785
Cost of revenue	8,773	7,436
Gross profit	11,340	10,349
Operating expenses		
Selling and marketing	1,655	1,632
Research and development	1,652	1,886
Depreciation and amortisation	1,226	1,470
General and administrative	8,141	7,293
Total operating expenses	12,674	12,281
Loss from operations	(1,334)	(1,932)
Other income (expense)		
Interest expense, net	(68)	(17)
Total other expense	(68)	(17)
Net loss before taxes	(1,402)	(1,949)
Provision for income taxes	(65)	9
Net loss	(1,337)	(1,958)

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

CLEARSTAR, INC.
Consolidated Balance Sheets
(USD, in thousands)

	As of 31 December 2018 $	As of 31 December 2017 $
ASSETS		
Current assets		
Cash	923	1,303
Accounts receivable - trade, net	2,197	1,654
Research and development tax credits	90	63
Prepaid expenses	358	175
Total current assets	3,568	3,195
Property and equipment, at cost		
Computer equipment	70	577
Furniture and fixtures	283	294
Leasehold improvements	57	60
Less accumulated depreciation	(241)	(652)
Total property and equipment, net	169	279
Other assets		
Goodwill and other intangible assets, net	4,028	4,447
Deferred debt issuance costs, net	40	87
Deposits	13	12
Total other assets	4,081	4,546
Total assets	7,818	8,020
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	2,348	1,455
Accrued liabilities	179	132
Deferred revenue	81	8
State income taxes	7	6
Current portion of obligations under capital lease	-	63
Total current liabilities	2,615	1,664
Long-term liabilities		
Accrued liabilities	32	40
Deferred income taxes	27	100
Total long-term liabilities	59	140
Stockholders' equity		
Common stock, $0.0001 par value; 100,000,000 shares authorised; 36,302,900 shares issued and outstanding	4	4
Additional paid-in capital	13,951	13,686
Accumulated deficit	(8,811)	(7,474)
Stockholders' equity	5,144	6,216
Total liabilities and stockholders' equity	7,818	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 Capital	Accumulated Deficit	Total
	Shares No.	Amount $	$	$	$
Balances at 1 January 2017	**36,302,900**	**4**	**13,602**	**(5,516)**	**8,090**
Non-cash stock compensation	-	-	64	-	64
Non-cash debt issuance costs	-	-	20	-	20
Net loss	-	-	-	(1,958)	(1,958)
Balances at 31 December 2017	**36,302,900**	**4**	**13,686**	**(7,474)**	**6,216**
Non-cash stock compensation	-	-	265	-	265
Net loss	-	-	-	(1,337)	(1,337)
Balances at 31 December 2018	**36,302,900**	**4**	**13,951**	**(8,811)**	**5,144**

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

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

	Year Ended 31 December 2018 $	Year Ended 31 December 2017 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	(1,337)	(1,958)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:		
Change in allowance for doubtful accounts	(22)	(1)
Depreciation and amortisation	1,226	1,470
Deferred income taxes	(73)	1
Non-cash stock compensation	265	64
Non-cash debt issuance costs	48	8
Loss on disposal of property and equipment	1	-
Change in operating assets and liabilities:		
Accounts receivable	(521)	(211)
Research and development tax credits	(27)	75
Prepaid expenses	(183)	82
Deposits	(1)	(1)
Accounts payable	893	325
Accrued liabilities	38	7
Deferred revenue	72	(46)
State income taxes	1	1
Total adjustments	1,717	1,774
Net cash provided by (used for) operating activities	380	(184)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(32)	(42)
Capitalised software development costs	(665)	(712)
Net cash used for investing activities	(697)	(754)
CASH FLOWS FROM FINANCING ACTIVITIES		
Debt issuance costs	-	(75)
Principal payments on capital lease obligations	(63)	(104)
Net cash used for financing activities	(63)	(179)
Net cash decrease for year	(380)	(1,117)
Cash at beginning of year	1,303	2,420
Cash at end of year	**923**	**1,303**

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

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

	Year Ended December 31, 2018	Year Ended December 31, 2017
	$	$
Cash paid:		
Interest	19	10
Income taxes	8	5
	27	15

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES

During the years ended 31 December 2018 and 2017, the Company retired obsolete and fully-depreciated property and equipment of approximately $552,000 and $137,000, respectively.

During the years ended 31 December 2018 and 2017, the Company retired fully-amortised intangible assets of approximately $1,376,000 and $792,000, respectively.

In conjunction with the executed revolving line facility agreement 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.

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

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. ClearStar together with its subsidiaries (collectively 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 information technology 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 the Company and those entities required to be consolidated under generally accepted in the United States of America (‘‘U.S. GAAP’’). All significant intercompany transactions and balances have been eliminated in consolidation.

c) Basis of Accounting

The accompanying financial statements have been prepared in accordance with U.S. GAAP. These principles are established by the Financial Accounting Standards Board (“FASB”).

d) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions affecting reported amounts in the consolidated financial statements and accompanying notes. Management considers available facts and knowledge of existing circumstances when establishing these estimates. The most significant items that involve a greater degree of accounting estimates subject to change in the future are the allowance for doubtful accounts, depreciable lives of property and equipment, amortisation of other intangible assets, certain accrued liabilities, stock-based compensation and income taxes. Estimates for these and other items are subject to change and are reassessed by management in accordance with U.S. GAAP. 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. The majority of year-end receivables are collected within the following fiscal quarter. We have not historically had significant write-offs for these receivables.

g) Property and Equipment

Property and equipment, including assets acquired under capital leases, is depreciated using the straight-line method over estimated useful lives or lease terms if shorter. Expenditures for maintenance and repairs are expensed as incurred, 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 years ended 2018 and 2017 was approximately $141,000 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 $55,000 at 31 December 2018. The Company amortised approximately $48,000 and $8,000 of these costs through interest expense for the years ended 2018 and 2017, respectively. The remaining amortisation expense is expected to be approximately $40,000 in 2019.

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 was deemed to have an indefinite useful life, but it is subject to an annual impairment test. 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. No impairment had occurred in the years ended 31 December 2018 and 2017 as a result of the annual goodwill impairment tests performed and there have been no subsequent events requiring further analysis.

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 intangible assets, including customer relationships and trade name, are amortised using the straight-line method over their estimated useful life of 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 U.S. 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 in the years ended 31 December 2018 and 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 years ended 31 December 2018 and 2017 were approximately $470,000 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 in the United States. 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 $1,652,000 and $1,886,000, net of $0 of tax credits, for the years ended 31 December 2018 and 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, adjusted for actual forfeitures, over the requisite service period, using the straight-line method. Stock-based compensation expense for the years ended 31 December 2018 and 2017 was approximately $265,000 and $64,000, respectively.

q) Fair Value of Financial Instruments

Fair value is the exit price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our view on the market assumption in the absence of observable market information.

Valuation inputs are classified in the following three level 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.

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

r) Recent Accounting Pronouncements

In March 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-09, *Compensation—Stock Compensation (Topic 718) - 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, the method of recognizing awards forfeitures and classification on the statement of cash flows. The provisions of ASU 2016-09 are effective for fiscal years beginning after 15 December 2016, and interim periods within those fiscal years. The Company adopted the new standard on 1 January 2017 by electing to account for awards forfeitures as they occur, rather than estimate expected forfeitures under the current guidance. The adoption of all other amendments outlined in ASU 2016-09 had either no impact to our consolidated financial statements or an immaterial impact to our consolidated financial statements.

s) Future Application of Accounting Standards

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09 ("ASU 2014-09"), *Revenue from Contracts with Customers (Topic 606)*. 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. The amendments in ASU 2014-09 are effective for the Company beginning in fiscal year 2019 and can be adopted either retrospectively or by using the modified retrospective method. The Company will adopt the amendments in ASU 2014-09 effective 1 January 2019 using the modified retrospective method. The new revenue standard will not have a material impact on the amount and timing of revenue recognized in the Company's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02 ("ASU 2016-02"), *Leases (ASC 842)*, which requires that lease arrangements longer than 12 months result in an entity recognising an asset and liability on the balance sheet. The pronouncement is effective for the Company beginning in fiscal year 2020, with early adoption permitted. We expect the primary impact from the adoption of ASU 2016-02 will be the recognition of our operating lease obligations and corresponding right-of-use assets on our balance sheet, which mainly consist of our home office operations and other real estate leases of office space. We anticipate that the impact of adopting ASU 2016-02 will result in an increase to assets and liabilities that is generally consistent with our remaining lease obligations as listed in Note 4 "Commitments and Contingencies" plus any new operating lease commitments agreed to before the effective date.

In January 2017, the FASB issued ASU No. 2017-04 ("ASU 2017-04") *Intangibles - Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment*. The amendments in ASU 2017-04 simplified the measurement of goodwill by eliminating step 2 from the goodwill impairment test. Instead, under ASU 2017-04, an entity should perform its annual goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss should not exceed the total amount of goodwill allocated to that reporting unit. The amendments in ASU 2017-04 are effective for the Company beginning in fiscal year 2020, with early adoption is permitted. The Company is in the process of evaluating the impact of this standard on its consolidated financial statements.

Recent accounting guidance not discussed above is not applicable, is immaterial to our consolidated financial statements, or did not or is not expected to have a material impact on our business.

2. Accounts Receivable

Accounts receivable consisted of the following:

	As of 31 December 2018 $000	As of 31 December 2017 $000
Trade accounts receivable	2,204	1,683
Allowance for doubtful accounts	(7)	(29)
	2,197	1,654

3. Goodwill and Other Intangible Assets

Goodwill and other intangible assets were comprised of the following at 31 December 2018:

		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	665	(1,376)	2,172	1,675	846	(1,376)	1,145	1,027
Customer Relationships	7	1,673	-	-	1,673	717	238	-	955	718
		6,839	665	(1,376)	6,128	2,392	1,084	(1,376)	2,100	4,028

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

		Gross Cost				Accumulated Amortisation				
	Life (years)	Beginning $000	Additions $0	Disposal $0	Ending $0	Beginning $0	Additions $0	Disposal $0	Ending $000	Net $0

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 31 December:

	Amount $000
2019	826
2020	576
2021	343
	1,745

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. Total rent expense for the years ended 31 December 2018 and 2017 was approximately $186,000, and $214,000, respectively.

At 31 December 2018, future minimum lease payments under non-cancellable operating leases were as follows:

Year Ending 31 December:

	Amount $000
2019	155
2020	158
2021	109
2022	17
Total minimum rental commitments for operating leases	439

The Company terminated its lease of office space effective 30 April 2019. Pursuant to the terms and condition of the termination agreement, the Company was required to pay approximately $173,000 in fees associated with the lease exit costs, particularly the buyout of the remaining lease obligations. Concurrent with the execution of the termination agreement, the Company entered into a new lease agreement with a separate third party. Under the new lease agreement, the Company will be reimbursed an amount equal to the total payment made under the termination agreement.

- Capital Leases

The Company leased computer equipment under two agreements classified as capital leases that expired in November 2018. The lease obligations were subject to an interest rate of up to 8.7 per cent. per annum and were 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 31 December 2018 $000	As of 31 December 2017 $000
Cost of equipment and installation	-	390
Less: accumulated depreciation	-	(337)
	-	53

- 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. Director fees were approximately $100,000 each for the years ended 31 December 2018 and 2017.

- 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 31 December 2018 $000	As of 31 December 2017 $000
Allowance for doubtful accounts	2	7
Prepaid expenses	(12)	(10)
Amortisation of software development	(241)	(283)
Amortisation of intangibles	29	108
Amortisation of goodwill	(27)	(100)
Accrued liabilities	9	11
Deferred revenue	-	-
Basis difference in property and equipment	7	(11)
Net operating losses	2,043	1,827
Stock-based compensation	95	89
Tax credits	211	203
Other adjustments	11	8
Total noncurrent	2,127	1,849
Less: valuation allowance	(2,154)	(1,949)
Net deferred tax assets (liabilities)	(27)	(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:

	Year Ended 31 December 2018 $000	Year Ended 31 December 2017 $000
Current tax expense:		
Federal	-	-
State	8	8
Total current tax expense:	8	8
Deferred:		
Federal	(77)	1
State	4	-
Total deferred tax expense	(73)	1
Total provision for income taxes	(65)	9

The effective income tax rate differs from the federal statutory income tax rate due to state income taxes, certain non-deductible expenses and an increase of approximately $205,000 in the valuation allowance for the period.

On 22 December 2017, the Tax Cuts and Jobs Act ("Tax Act") was enacted in the United States, which includes a broad range of tax reforms affecting businesses, most notably changes to the U.S. federal income tax laws, including reduction of the corporate tax rate from 35.0% to 21.0%, income tax deductions, and international tax provisions. Under Accounting Standards Codification Topic 740 (“ASC 740”), the impact of changes in tax laws must be recorded in the financial statements in the reporting period that includes the date of enactment. However, the Securities and Exchange Commissions (“SEC”) and the FASB both recognize that the magnitude of this law change will require companies to perform extensive analysis and calculations to conform to the new provisions. The SEC issued Staff Accounting Bulletin (“SAB”) 118, which allowed companies to recognize provisional amounts for the tax effects resulting from the enactment of the Tax Act for which the accounting under ASC 740 is incomplete, but a reasonable estimate can be determined. Adjustments to these provisional amounts, if any, are to be completed within a measurement period not to exceed one year. The Company completed its accounting for the estimated tax effects of the Tax Act and identified the following areas:

- One-time Repatriation Tax on Foreign Earnings: The Tax act imposed a mandatory one-time tax charge on accumulated, undistributed foreign earnings, traditionally not subject to U.S. federal income tax until distributed as a dividend to U.S. shareholders. As ClearStar UK is dormant and does not have any accumulated or undistributed foreign earnings, the Company concluded that is not subject to the repatriation tax associated with accumulated, undistributed foreign earnings.
- Global intangible low-taxed income (“GILTI”): Under U.S. GAAP, companies can make a policy election as to either recognize Global intangible low-taxed income as incurred or recognized it as deferred. An entity selection of an accounting policy related to the GILTI tax provisions depends, in part, on analyzing its global income to determine whether the entity expects to have future U.S. inclusions in taxable income related to GILTI and, if so, what the impact is expected to be. As ClearStar UK is dormant, the Company concluded that GILTI is not expected to apply to 2018 or future periods. Further, we have made a policy decision to record such taxes, if any, as incurred.
- Foreign-derived intangible income (“FDII”): While the Company has foreign sales in 2018, the Company has an overall taxable loss, and accordingly no FDII deduction should be allowable. If the Company were in an income position the amount of the FDII deduction would also be immaterial based on the Company's level of foreign sales.

At 31 December 2018, the Company had approximately $8,992,000 in net operating loss carry-forwards (“NOL”) available to use against taxable income. The NOLs will begin to expire starting in 2023 and through 2038.

At 31 December 2018, the Company had approximately $211,000 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 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 31 December 2018 and 2017, no amounts have been drawn under the Revolving Line and the Company was in compliance with its covenants. Furthermore, no events of default have occurred under the Revolving Line during the years ended 31 December 2018 and 2017.

7. Stockholders' Equity

The Board has authorised 100,000,000 shares of Ordinary Shares, $0.0001 par value. As of 31 December 2018 and 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 ("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 31 December 2018, 916,400 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 years ended 31 December 2018 and 2017:

	Shares	Weighted-Average Exercise Price
Outstanding at 1 January 2017	1,866,165	$0.86
Granted	-	-
Forfeited or cancelled	(90,000)	$0.93
Outstanding at 31 December 2017	1,776,165	$0.86
Granted (1)	1,937,600	$0.84
Forfeited or cancelled (2)	(1,630,165)	$0.92
Outstanding at 31 December 2018	2,083,600	$0.79
Exercisable at 31 December 2017	1,391,165	$0.92
Exercisable at 31 December 2018	1,859,600	$0.80

(1) Consists of 286,000 granted shares and 1,651,600 replacement awards associated with shares that the Board elected to cancel.

(2) Consists of 442,165 forfeited shares and 1,188,000 of fully-vested awards that the Company elected to replace.

As of 31 December 2018, there was approximately $19,000 of total unrecognised compensation costs related to unvested stock options, which is expected to be recognised over a weighted-average period of 2.5 years.

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

	2 July 2018
Weighted-average fair value on day of grant	$0.23
Risk-free interest rate	1.95%
Expected dividend yield	0.00%
Expected volatility	30.76%
Weighted-average expected life of option	4.00 years

9. Stock Warrant

In conjunction with the executed Revolving Line in October 2017 as described in Note 6 (Revolving Line Facility), 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 (“EPS”) is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted EPS 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.

	Year Ended 31 December 2018	Year Ended 31 December 2017
Basic income per share	($0.04)	($0.05)
Diluted income per share	($0.04)	($0.05)
Weighted-average common shares outstanding: Basic and diluted	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 years ended 31 December 2018 and 2017, matching contributions were approximately $153,000 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 years ended 31 December 2018 and 2017, the Company had purchases from two suppliers totalling approximately $4,741,000 and $3,929,000 which comprised approximately 54 and 53 per cent. of the Company’s purchases, respectively. Accounts payable and accrued liabilities included approximately $1,440,000 and $715,000 to these vendors at 31 December 2018 and 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 years ended 31 December 2018 and 2017, the Company had sales to one customer totalling approximately $2,254,000 and $2,020,000, respectively, which comprised approximately 11 per cent. of the Company's revenues for both years. At 31 December 2018 and 2017, the accounts receivable balance included approximately $156,000 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 years ended 31 December 2018 and 2017, the Company incurred approximately $38,000 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 $43,000 and $20,000 for the years ended 31 December 2018 and 2017, respectively.

14. Subsequent Events

The Company evaluated subsequent events through 10 May 2019, when these consolidated financial statements were available to be issued.

In January 2019, the Company entered into a severance and release agreement ("Agreement") with its Chief Financial Officer ("CFO") totalling approximately $257,000 consistent with the terms and conditions of his separation agreement. Under the Agreement, the CFO resigned as a member of the Board of the Company and from all other positions with the Company effective 23 January 2019.

In February 2019, the Company signed a new lease agreement, which began on 1 April 2019, that has a seven-year term and has payment terms subject to escalation.