18 September 2019

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

Interim Results

ClearStar (AIM: CLSU), a provider of Human Capital Integrity℠ technology-based services specialising in background and medical screening, announces its interim results for the six months ended 30 June 2019.

Financial Summary

- Revenue increased by 17% to $11.6m (H1 2018: $9.9m)
- Gross profit of $6.3m (H1 2018: $5.7m)
- Adj. EBITDA of $191k (H1 2018: $65k)*
- Loss before tax of $914k (H1 2018: $645k loss)
- As of 30 June 2019, the Company had cash of $1.1m (31 Dec 2018: $0.9m)

* Adjusted to exclude certain non-recurring expenses (see Financial Review)

Operational Summary

- Strong revenue growth in direct sales and Medical Information Services (“MIS”), which in aggregate accounted for 72% of total revenue (H1 2018: 62%):
    - Direct sales increased by 49% 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 in new segments:
    - Won a contract to provide background screening for a major shipyard specialising in the design, building and support of vessels for the U.S. Navy
    - Awarded two contract extensions for financial institution screening by major professional services company
    - Won first direct customer in the petrochemical industry with appointment by an oilfield waste disposal services company in Texas for drug and background screening
    - Leading animal health and mineral nutrition company appointed ClearStar to provide background and medical screening – specifically, drug testing and occupational health
- 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
    - Average spend per direct customer increased 48% over the first half of 2018
- Enhanced MIS offering with the introduction of new services for ordering breath alcohol screening, including a combined drug and breath alcohol testing service

Robert Vale, CEO of ClearStar, commented: “We are pleased to report another period of strong sales growth, driven by our medical screening solutions and providing background checks to our expanding direct client base. It also reflects our success in targeting larger, higher-volume customers, with some notable wins this year. During the period, we invested in our growth to enable us to capitalise on the ever-growing demand that we are receiving as customers increasingly recognise the value that our solutions can add to their screening programmes – to benefit both the employer and the employee. As a result, with our expanded pipeline and sustained sales momentum, we continue to expect to achieve strong revenue growth for full year 2019 and, with trading in line with the Board’s expectations, we look to the future with confidence.”

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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.

Analyst Presentation

Robert Vale, CEO, and Jennifer Balleza, CFO, will be hosting a presentation for analysts at 9.30am BST today at the offices of Luther Pendragon, 48 Gracechurch Street, London, EC3V 0EJ.

About ClearStar

ClearStar, Inc. is a leading provider of Human Capital Integrity^{SM} technology-based services specialising in background and medical screening. It provides employment intelligence direct to employers and via channel partners/consumer reporting agencies ("CRAs") to support better recruitment and other decisions affecting employees by increasing the quality, reliability, and visibility of information.

A seven-time Inc. 5000 honoree and founding member of the Professional Background Screening Association (formerly, 'NAPBS'), 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 first six months of 2019, ClearStar continued to deliver strong revenue growth, which increased by 17% to $11.6m (H1 2018: $9.9m). This was driven by sales of the Company's industry-leading Medical Information Services and onboarding and ramp-up of new direct customers that were won in 2018, primarily for background screening. The period also reflected the upscaling of the Company's direct client base with the average spend per direct customer increasing by 48% over the same period of the previous year.

The investment that the Company made towards the end of 2018 and early in 2019 in strengthening its direct sales team enabled an expansion in the pipeline, including some major client wins during the period in its key markets of transport and logistics as well as in new markets. The Company also continued to enhance its offer, including the introduction of breath alcohol screening as part of its medical screening services.

Performance by business channel

Sales from direct services increased by 49% to $4.2m for the first half of 2019 (H1 2018: $2.8m), accounting for 36% of total revenue (H1 2018: 28%). The growth was driven primarily by the financial services and transportation and logistics industries, with home healthcare remaining an important contributor to direct revenue. There was also a significant increase in revenue generated from an organisation that provides student exchange programmes, for which the Company conducts background screening of the students and host families. In addition, the direct services revenue growth reflects the continued momentum in the upscaling of the direct client base to larger, higher-volume businesses, with the average spend per direct customer in the first half of 2019 increasing 48% over the first half of 2018.

Following the award, towards the end of 2018, of ClearStar's first contract for financial institution screening, the client, which is a professional services company that provides outsourcing and staffing primarily for the financial services industry, granted the Company two extensions during the period. Under the contract, ClearStar provides background 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.

ClearStar continued to make progress in expanding its customer base in its target growth market of transportation and logistics with the appointment to provide background screening by a major shipyard specialising in the design, building and support of vessels for the U.S. Navy. The contract includes minimum annual volumes over a three-year period, which adds to revenue visibility.

Also, during the period, ClearStar was appointed by a leading animal health and mineral nutrition company, with over 1,400 employees, to provide background and medical screening – specifically, drug testing and occupational health. The superior applicant experience and reduced recruiter touch points were key considerations in the customer choosing ClearStar, which the Company is able to deliver as a result of its mobile-friendly applications, ClearMD and SAP® SuccessFactors® Recruiting integration.

In addition, the investment made last year and during the period in the new sales team and sales & marketing resulted in further milestones being achieved. In particular, the Company entered a 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 the first half of 2019, sales to channel partners – indirect services – increased by 4% to $7.4m (H1 2018: $7.1m) as a result of MIS growth as described below. Indirect services accounted for 64% of total revenue (H1 2018: 72%).

Performance by service offering

Medical Information Services

MIS continued to be the largest single contributor to revenue by product, accounting for 43% of total revenue (H1 2018: 40%) and grew strongly in the first half of 2019 with an increase in MIS revenue of 25% to $5.0m (H1 2018: $3.9m). This growth was primarily based on increased volume with existing channel partner customers for drug testing services. This momentum continued post period with monthly sales (for July 2019) exceeding $1.0m for the first time.

Strong regulatory drivers in the area of drug screening have continued to increase the time-sensitive requirement on ClearStar's channel partner customers to bring a solution to market. ClearStar's ability to deliver a white label solution that can be quickly configured and integrated has made the Company's medical technology the solution of choice for customers to rapidly resolve any regulatory requirement gaps.

Sales to channel partners accounted for 83% of MIS revenue (H1 2018: 85%), but MIS revenue generated by direct customers, which accounted for 17% of MIS sales (H1 2018: 15%), also grew strongly and is making an increasingly meaningful contribution to total sales. The growth in direct MIS revenue was primarily based on increased volume with existing direct customers.

Other services

Excluding MIS, revenue from ClearStar's other services – which primarily comprise background screening as well as the wholesale provision of data and global services – increased to $6.6m (H1 2018: $5.9m). This was driven by an increase in sales in background screening to direct clients, which grew by 50% for the first half of 2019, and more than mitigated the reduction in revenue from channel partner background screening.

Investing for growth

During the first half of 2019, ClearStar continued to strengthen its offering and sales & marketing function to position it for accelerated growth.

At the beginning of the year, the Company further enhanced its sales team, establishing a team with combined experience of over 70 years in background screening sales. This investment contributed to an expanded pipeline with ClearStar receiving an increase in Request for Proposals (RFPs) of more than 120% year-to-date compared with the whole of 2018.

In the first half of 2019, ClearStar enhanced its MIS offering with the introduction of new services for ordering breath alcohol screening to meet both Department of Transportation (DOT) and non-DOT requirements. This includes a combined drug and breath alcohol screening offer, which facilitates the screening process for the employee and employer by allowing tests to be conducted at the same location and providing consolidated results reporting. This marks an important step towards ClearStar's goal of offering complete medical review services.

The Company gained, post period, ISO/IEC 27001:2013 accreditation, which certifies that ClearStar's information security, cybersecurity and privacy protection systems and policies comply with international standards of best practice. This was based on the successful completion of a formal audit process, which confirmed that the Company's IT security systems, policies and procedures met rigorous international standards in ensuring the confidentiality, integrity and availability of data. The accreditation also followed the Company having invested during the period to enhance its security measures, such as for automated threat monitoring.

Financial Review

ClearStar achieved strong revenue growth with an increase of 17% for the six months ended 30 June 2019 to $11.6m compared with $9.9m for the first half of 2018. This was based on strong growth in MIS, which continues to be the primary growth driver by service, coupled with increased demand in direct services.

Gross profit increased 12% to $6.3m (H1 2018: $5.7m) and gross profit margin was 54.5% (H1 2018: 57.2%). The 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, partially offset by achieving greater purchase economies.

Total operating expenses, including depreciation and amortisation, were $7.1m (H1 2018: $6.3m). This includes general and administrative expenses, which increased to $4.7m (H1 2018: $4.0m), primarily due to two non-recurring items totalling $464k: a severance payment to a former executive and exit costs associated with an early lease termination relating to the Company's office relocation. Selling and marketing expenses were also higher at $1.2m (H1 2018: $794k) as the Company invested for growth with the expansion of the direct sales team at the beginning of the year. Research and development expenses decreased to $724k (H1 2018: $804k), due to cost reduction measures, and depreciation and amortisation expenses were also lower at $558k (H1 2018: $655k).

As a result, loss before tax increased to $914k for the first half of 2019 compared with $645k for the same period of the prior year. Loss after tax was $930k (H1 2018: $666k loss).

The Company achieved strong growth in adjusted EBITDA for the first half of 2019 to $191k (H1 2018: $65k) as a result of generating higher revenue combined with cost control measures. EBITDA has been adjusted to exclude the non-recurring items, which are not reflective of the core business, including severance payment and lease exit cost referred to above.

As of 30 June 2019, total assets were $9.9m (31 December 2018: $7.8m), with the largest assets being goodwill and other intangible assets of $3.9m (31 December 2018: $4.0m), accounts receivable of $3.3m (31 December 2018: $2.2m) and cash of $1.1m (31 December 2018: $923k). At period end, the Company had up to $2.9m available under its recurring revenue credit facility with Silicon Valley Bank.

The Company's total liabilities as of 30 June 2019 were $5.7m (31 December 2018: $2.7m), with the increase primarily due to the growth in sales and a credit facility utilisation of $2.1m to finance periodic technology infrastructure investment and supporting growth in the business.

The Company utilised $793k in net cash for operating activities during the period compared with generating $283k in operational cash flow for the first half of 2018 mainly due to an increase in the net loss and working capital accounts.

The Company used $1.2m in investment activities in the first half of 2019 (H1 2018: $333k) due to increased technology-related capital expenses associated primarily with the purchase of new hardware and software to support and enhance the Company's technology platform. The Company used $2.1m in financing activities, which primarily relates to the credit facility utilisation for working capital and general corporate purposes, including the purchase of new hardware and software.

Outlook

The revenue momentum of the first six months of 2019 has been sustained into the second half of the year with the onboarding and ramp-up of previously-won contracts. For the year to the end of August 2019, total revenue increased by 18% over the same period of the prior year.

The investments that the Company has made over the last two years in technology improvements, integrations and sales & marketing are increasing ClearStar's brand awareness and enabling it to successfully target larger, higher-volume customers. The Company's sales growth continues to accelerate, and its pipeline is expanding.

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

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

	Six Months Ended 30 June 2019 (Unaudited) $	Six Months Ended 30 June 2018 (Unaudited) $	Year Ended 31 December 2018 $
Net revenue	11,559	9,886	20,113
Cost of revenue	5,254	4,236	8,773
Gross profit	6,305	5,650	11,340
Operating expenses			
Selling and marketing	1,164	794	1,655
Research and development	724	804	1,652
Depreciation and amortisation	558	655	1,226
General and administrative	4,694	4,007	8,141
Total operating expenses	7,140	6,260	12,674
Loss from operations	(835)	(610)	(1,334)
Other expense			
Interest expense	(79)	(35)	(68)
Total other expense	(79)	(35)	(68)
Net loss before taxes	(914)	(645)	(1,402)
Provision (benefit) for income taxes	16	21	(65)
Net loss	(930)	(666)	(1,337)

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

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

	As of 30 June 2019 (Unaudited) $	As of 30 June 2018 (Unaudited) $	As of 31 December 2018 $
ASSETS			
Current assets			
Cash	1,088	1,208	923
Accounts receivable - trade, net	3,264	2,409	2,197
Research and development tax credits	29	90	90
Prepaid expenses	702	340	358
Total current assets	5,083	4,047	3,568
Property and equipment, at cost			
Computer equipment	743	588	70
Furniture and fixtures	225	298	283
Leasehold improvements	76	64	57
Less accumulated depreciation	(158)	(734)	(241)
Total property and equipment, net	886	216	169
Other assets			
Goodwill and other intangible assets, net	3,908	4,187	4,028
Deferred debt issuance costs, net	16	63	40
Deposits	43	12	13
Total other assets	3,967	4,262	4,081
Total assets	9,936	8,525	7,818
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Accounts payable	2,950	2,348	2,348
Accrued liabilities	360	398	179
Deferred revenue	45	30	81
State income taxes	-	-	7
Current portion of obligations under capital lease	-	18	-
Total current liabilities	3,355	2,794	2,615
Long-term liabilities			
Line of credit	2,100	-	-
Accrued liabilities	191	36	32
Deferred income taxes	41	125	27
Total long-term liabilities	2,332	161	59
Stockholders' equity			
Common stock, $0.0001 par value; 100,000,000 shares authorised; 36,362,900 shares issued and outstanding in 2019 and 36,302,900 in 2018	4	4	4
Additional paid-in capital	13,986	13,706	13,951
Accumulated deficit	(9,741)	(8,140)	(8,811)
Stockholders' equity	4,249	5,570	5,144
Total liabilities and stockholders' equity	9,936	8,525	7,818

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 2018	**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**
Non-cash stock compensation			245		245
Net loss				(671)	(671)
Balances at 31 December 2018	**36,302,900**	**4**	**13,951**	**(8,811)**	**5,144**
Non-cash stock compensation			4		4
Issuance of common stock	60,000		31		31
Net loss				(930)	(930)
Balances at 30 June 2019 (unaudited)	**36,362,900**	**4**	**13,986**	**(9,741)**	**4,249**

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 2019 (Unaudited) $	Six Months Ended 30 June 2018 (Unaudited) $	Year Ended 31 December 2018 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	(930)	(666)	(1,337)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:			
Change in allowance for doubtful accounts	3	(22)	(22)
Depreciation and amortisation	558	655	1,226
Deferred income taxes	14	24	(73)
Non-cash stock compensation	4	20	265
Non-cash debt issuance costs	24	24	48
Loss on disposal of property and equipment	26	1	1
Loss on early lease exit costs	173	-	-
Change in operating assets and liabilities:			
Accounts receivable	(1,070)	(733)	(521)
Research and development tax credits	62	(27)	(27)
Prepaid expenses	(344)	(164)	(183)
Deposits	(30)	(1)	(1)
Accounts payable	599	893	893
Accrued liabilities	164	263	38
Deferred revenue	(36)	22	72
State income taxes	(7)	(6)	1
Total adjustments	140	949	1,717
Net cash provided by (used for) operating activities	(790)	283	380
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment	(802)	(22)	(32)
Capitalised software development costs	(374)	(311)	(665)
Net cash used for investing activities	(1,176)	(333)	(697)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from Line of credit	2,100	-	-
Proceeds from sale of common stock	31	-	-
Principal payments on capital lease obligations	-	(45)	(63)
Net cash provided by (used for) financing activities	2,131	(45)	(63)
Net cash increase (decrease) for period	165	(95)	(380)
Cash at beginning of period	923	1,303	1,303
Cash at end of period	**1,088**	**1,208**	**923**

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

Consolidated Statements of Cash Flows *(continued)*
(USD, in thousands)

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

	Six Months Ended 30 June 2019 (Unaudited)	Six Months Ended 30 June 2018 (Unaudited)	Year Ended 31 December 2018
	$	$	$
Cash paid:			
Interest	55	10	19
Income taxes	2	1	8
	57	11	27

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES

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

During the year ended 31 December 2018, the Company retired fully-amortised intangible assets of approximately $1,376,000.

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 UK has been dissolved effective 25 June 2019.

ClearStar together with its subsidiaries (collectively the "Company") is a provider of Human Capital Integrity[SM] technology-based services specialising in background and medical screening, 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 period-end receivables are collected within the following fiscal quarter. The Company has 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 six months ended 30 June 2019 and 2018, and the year ended 31 December 2018 was approximately $64,000, $83,000 and $141,000, respectively.

h) Deferred Debt Issuance Costs

Deferred debt issuance costs were incurred by the Company to obtain a revolving line facility from a lender and are amortised over the life of the respective debt agreement. The costs totalled approximately $95,000 with accumulated amortisation of approximately $79,000 and $32,000 as of 30 June 2019 and 2018, respectively. The Company amortised approximately $24,000 of these costs through interest expense for each of the six months ended 30 June 2019 and 2018 and approximately $48,000 for the year ended 31 December 2018. The remaining amortization expense as of 30 June 2019 is expected to be approximately $15,000 and will be fully amortised as interest expense during the second half of 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 evaluating goodwill impairment, the Company performs 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, a two-step process is used to test goodwill for impairment including comparing the fair value of the reporting unit to its carrying value (including attributable goodwill). Fair value for the Company's 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, the Company performs its 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 year ended 31 December 2018 as a result of the annual goodwill impairment tests performed. 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 during the six months ended 30 June 2019 and 2018, and the year ended 31 December 2018.

l) Revenue Recognition

Revenue from fixed monthly fees are derived primarily from customers' use of the Company's 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. 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. Deferred revenue includes one-time setup fees and annual certification fees. One-time setup fees are 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. Annual certification fees are billed annually and are recognised rateably over the contract period.

See Note 12 (Revenue from Contracts with Customers) for details related to the Company's revenue recognition policies.

m) Advertising

The Company expenses advertising costs as incurred. Advertising expenses for the six months ended 30 June 2019 and 2018, and the year ended 31 December 2018 were approximately $202,000, $249,000 and $470,000, 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 $724,000, $804,000 and $1,652,000, net of approximately $0 of tax credits, for the six months ended 30 June 2019 and 2018, and the year ended 31 December 2018, 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 six months ended 30 June 2019 and 2018, and the year ended 31 December 2018 was approximately $4,000, $20,000 and $265,000, 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 the Company's 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) New Accounting Principles

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 ("ASC 606"), *Revenue from Contracts with Customers (Topic 606)*. Under ASC 606, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the providing entity expects to be entitled in exchange for those goods or services. ASC 606 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue that is recognised. The Company adopted the amendments in ASC 606 on 1 January 2019 using the modified retrospective method. The adoption of ASC 606 did not result in any changes in the timing or measurement of revenue recognition for the Company's revenue.

s) Future Application of Accounting Standards

Recent accounting guidance not discussed above is not applicable, is immaterial to the Company's consolidated financial statements, or did not or is not expected to have a material impact on the Company's business. For additional information on recently-issued accounting guidance that has not yet been adopted, see Note 1 (Summary of Significant Accounting Policies) to the Company's consolidated financial statements within the 2018 Annual Report.

2. Accounts Receivable

Accounts receivable consisted of the following:

	As of 30 June 2019 (Unaudited) $000	As of 30 June 2018 (Unaudited) $000	As of 31 December 2018 $000
Trade accounts receivable	3,274	2,416	2,204
Allowance for doubtful accounts	(10)	(7)	(7)
	3,264	2,409	2,197

3. Goodwill and Other Intangible Assets

Goodwill and other intangible assets were comprised of the following as of 30 June 2019 (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	2,172	374	-	2,546	1,145	374	-	1,519	1,027
Customer Relationships	7	1,673	-	-	1,673	955	120	-	1,075	598
		6,128	374	-	6,502	2,100	494	-	2,594	3,908

Goodwill and other intangible assets were comprised of the following as of 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 as of 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

Approximate aggregate future amortisation expense is as follows:

Year Ending 30 June:

	Amount $000
2020	787
2021	586
2022	252
	1,625

4. Commitments and Contingencies

- Operating Leases

The Company leases office space and equipment. The lease agreements expire on various dates through October 2026.

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 2019 and 2018, and the year ended 31 December 2018 was approximately $117,000, $90,000, and $186,000, respectively.

Effective 1 April 2019, the Company terminated its lease of an office space. 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 was reimbursed for the lease exit costs made under the termination agreement.

As of 30 June 2019, future minimum lease payments under non-cancellable operating leases were as follows:

Year Ending 30 June:

	Amount $000
2020	260
2021	417
2022	396
2023	405
2024	416
Thereafter	788
	2,682

- 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 30 June 2019 (Unaudited) $000	As of 30 June 2018 (Unaudited) $000	As of 31 December 2018 $000
Cost of equipment and installation	–	390	–
Less: accumulated depreciation	–	(375)	–
	–	15	–

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

	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 2019 and 2018, and the year ended 31 December 2018, director fees were approximately $50,000, $50,000 and $100,000, respectively.

- Long-Term Vendor Commitment

In January 2019, the Company executed a three-year vendor contract for an application security service, requiring an annual fee of approximately $70,000, payable annually through January 2022.

5. Income Taxes

- Tax effects of temporary differences are as follows:

	As of 30 June 2019 (Unaudited) $000	As of 30 June 2018 (Unaudited) $000	As of 31 December 2018 $000
Allowance for doubtful accounts	2	2	2
Prepaid expenses	(12)	(48)	(12)
Amortisation of software development	(251)	(251)	(241)
Amortisation of intangible	(203)	126	29
Amortisation of goodwill	(152)	(118)	(27)
Accrued liabilities	62	10	9
Basis differences in property and equipment	6	(1)	7
Net operating losses	2,195	1,188	2,043
Stock-based compensation	99	94	95
Tax credits	161	190	211
Other adjustments	12	9	11
Total non-current	1,919	1,201	2,127
Less: valuation allowance	(1,960)	(1,326)	(2,154)
Net deferred tax liabilities	(41)	(125)	(27)

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 2019 (Unaudited) $000	Six Months Ended 30 June 2018 (Unaudited) $000	Year Ended 31 December 2018 $000
Current tax expense:			
Federal	-	-	-
State	2	(3)	8
Total current tax expense (benefit)	2	(3)	8
Deferred tax expense:			
Federal	14	24	(77)
State	-	-	4
Total deferred tax expense (benefit)	14	24	(73)
Total provision for income taxes	16	21	(65)

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 $194,000 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 recognise 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 recognise 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 recognise Global intangible low-taxed income as incurred or recognised it as deferred. An entity selection of an accounting policy related to the GILTI tax provisions depends, in part, on analysing 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, the Company has 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.

As of 30 June 2019, the Company had approximately $8,992,000 in net operating loss carryforwards ("NOL") available to use against taxable income. The NOLs will begin to expire starting in 2023 and through 2038.

As of 30 June 2019, 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 and requires compliance with certain financial and non-financial covenants that are customary for this type of lending. 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.

As of 30 June 2019, the amount of the Revolving Line outstanding was $2,100,000. The Company was not in compliance of certain covenants as of 30 June 2019, and in conjunction with an amendment in September 2019, the Lender waived the Company's existing covenant breach. The Revolving Line maturity date has been extended to October 2021, and certain covenant requirements were amended accordingly. See Note

15 (Subsequent Events) for additional discussion on the Revolving Line renewal.

7. Stockholders' Equity

The Board has authorised 100,000,000 shares of Ordinary Shares, $0.0001 par value. There were 36,362,900, 36,302,900, and 36,302,900 of shares issued and outstanding as of 30 June 2019 and 2018, and 31 December 2018, respectively.

8. Stock-Based Compensation

In June 2014, the Company 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 30 June 2019, 1,138,400 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 six months ended 30 June 2019 and 2018, and the year ended 31 December 2018:

	Shares	Weighted- Average Exercise Price
Outstanding as of 1 January 2018	1,776,165	$0.86
Granted	100,000	$0.60
Forfeited or cancelled [1]	(1,399,000)	$0.89
Outstanding as of 30 June 2018 (unaudited)	477,165	$0.58
Granted [2]	1,837,600	$0.84
Forfeited or cancelled	(231,165)	$0.92
Outstanding as of 31 December 2018	2,083,600	$0.79
Granted	90,000	$0.66
Exercised	(60,000)	$0.51
Forfeited or cancelled	(252,000)	$0.85
Outstanding as of 30 June 2019 (unaudited)	1,861,600	$0.78
Exercisable as of 30 June 2019 (unaudited)	1,671,600	$0.79
Exercisable as of 31 December 2018	1,859,600	$0.80
Exercisable as of 30 June 2018 (unaudited)	342,165	$0.60

[1] Consists of 442,165 forfeited shares and 1,188,000 of fully-vested awards that the Board elected to replace.
[2] Consists of 286,000 granted shares and 1,651,600 replacement awards associated with shares that the Board elected to cancel.

As of 30 June 2019, there was approximately $32,000 of total unrecognised compensation costs related to unvested stock options, which is expected to be recognised over a weighted-average period of 2.43 years.

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

	3 June 2019	2 July 2018
Weighted-average fair value on day of grant	$0.19	$0.23
Risk-free interest rate	1.83%	1.95%
Expected dividend yield	0.00%	0.00%
Expected volatility	32.29%	30.76%
Weighted-average expected life of option	4.00 years	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 October 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.

	Six Months Ended 30 June 2019 (Unaudited)	Six Months Ended 30 June 2018 (Unaudited)	Year Ended 31 December 2018
Basic income per share	($0.03)	($0.02)	($0.04)
Diluted income per share	($0.03)	($0.02)	($0.04)
Weighted-average common shares outstanding:			
Basic and diluted	36,362,900	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 2019 and 2018, and the year ended 31 December 2018, matching contributions were approximately $72,000, $78,000 and $153,000, respectively.

12. Revenue from Contracts with Customers:

The Company's revenue is derived from providing background screening and medical information services to direct and indirect customers on a transactional basis, in which distinct services are delivered over time as the customer simultaneously receives and consumes the benefits of the services provided. Under ASC 606, revenue is recognized when a performance obligation is satisfied by transferring control of a promised product or service to the customer. Revenue is measured based on the amount of consideration that the Company expects to receive in exchange for those goods or services. In accordance with ASC 606, revenue is recognized when all of the following criteria are met: (1) the Company has entered into a binding agreement, (2) the performance obligations have been identified, (3) the transaction price to the customer has been determined, (4) the transaction price has been allocated to the performance obligations in the contract, and (5) the performance obligations have been satisfied.

The Company recognizes revenue when it has an agreement with the customer that creates an enforceable right, the performance obligations are distinct, and the transaction price is determined. Revenue is recognized at the point in time the Company's performance obligation to the customer is satisfied, which is the transfer date. Payment from the customer is due and subject to normal terms. Typical payment terms range from 30 to 45 days, depending on the type of customer and relationship. The Company has no material obligations to refund fees on contracts with customers subsequent to completion of its performance obligation. Discounts provided to customers at the time of sale are recognized as a reduction in sales as the products or services are provided.

The Company does not enter into commitments to provide goods or services that have terms greater than one year. Therefore, the Company expenses direct costs of obtaining a contract when incurred because the amortization period would have been one year or less.

13. 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 2019 and 2018, and the year ended 31 December 2018, the Company had purchases from two suppliers totalling approximately \$2,678,000, \$2,284,000 and \$4,741,000 which comprised approximately 51, 54 and 54 per cent. of the Company's purchases, respectively. Accounts payable and accrued liabilities included approximately \$1,623,000, \$1,261,000 and \$1,440,000 to these vendors as of 30 June 2019 and 2018, and 31 December 2018, 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 2019, there is no significant customer whose revenue individually represented 10 per cent or more of the Company's total revenue. For the six months ended 30 June 2018 and the year ended 31 December 2018, the Company had sales to one customer totalling approximately \$1,067,000 and \$2,254,000, respectively, which comprised approximately 11 per cent. of the Company's revenue. As of 30 June 2018 and 31 December 2018, the accounts receivable balance included approximately \$233,000 and \$156,000, respectively, from this customer.

14. Related Party Transactions

The Company contracted with a certain shareholder of the Company to provide consulting services. During the six months ended 30 June 2019 and 2018, and the year ended 31 December 2018, the Company incurred approximately \$28,000, \$19,000 and \$38,000, respectively, in consulting fees to this related party.

15. Subsequent Events

The Company evaluated subsequent events through 18 September 2019, when these consolidated financial statements were available to be issued.

In September 2019, the Company amended its Revolving Line with its Lender, including extending the maturity to October 2021.

Except as disclosed above, 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.