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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2018

Or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-38498

**PLURALSIGHT, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**82-3605465**

(I.R.S. Employer  
Identification Number)

**182 North Union Avenue  
Farmington, Utah 84025**

(Address of principle executive offices, including zip code)

**(801) 784-9007**

(Registrant's telephone number, including area code)

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

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

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

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

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

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

As of October 19, 2018, the registrant had 135,070,910 shares of common stock outstanding, consisting of 62,310,270 shares of Class A common stock, 58,562,329 shares of Class B common stock, and 14,198,311 shares of Class C common stock.

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## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

As used in this Quarterly Report on Form 10-Q, unless expressly indicated or the context otherwise requires, references to “Pluralsight,” “we,” “us,” “our,” “the Company,” and similar references refer to Pluralsight, Inc. and its consolidated subsidiaries, including Pluralsight Holdings, LLC, or Pluralsight Holdings.

This Quarterly Report on Form 10-Q, including the section titled “Management's Discussion and Analysis of Financial Condition and Results of Operations,” includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and the Securities Exchange Act of 1934, as amended, or the Exchange Act. These forward-looking statements, which are subject to a number of risks, uncertainties, and assumptions, generally relate to future events or our future financial or operating performance. In some cases, you can identify these statements by forward-looking words such as “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “design,” “intend,” “expect,” “could,” “plan,” “potential,” “predict,” “seek,” “should,” “would,” “target,” “project,” “contemplate,” or the negative version of these words and other comparable terminology that concern our expectations, strategy, plans, intentions, or projections. Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements about:

- our ability to attract new customers and retain and expand our relationships with existing customers;
- our ability to expand our course library and develop new platform features;
- our future financial performance, including trends in billings, revenue, costs of revenue, gross margin, operating expenses, and free cash flow;
- the demand for, and market acceptance of, our platform or for cloud-based technology learning solutions in general;
- our ability to compete successfully in competitive markets;
- our ability to respond to rapid technological changes;
- our expectations and management of future growth;
- our ability to enter new markets and manage our expansion efforts, particularly internationally;
- our ability to attract and retain key employees and qualified technical and sales personnel;
- our ability to effectively and efficiently protect our brand;
- our ability to timely scale and adapt our infrastructure;
- our ability to maintain, protect, and enhance our intellectual property and not infringe upon others' intellectual property;
- our ability to successfully identify, acquire, and integrate companies and assets; and
- the amount and timing of any payments we make under the fourth amended and restated limited liability company agreement of Pluralsight Holdings, or the Fourth LLC Agreement, and our Tax Receivable Agreement, or TRA, with the members of Pluralsight Holdings.

These forward-looking statements are subject to a number of risks, uncertainties, and assumptions, including those described in the section titled “Risk Factors” in our prospectus dated May 16, 2018 (File No. 333-224301) as filed with the Securities and Exchange Commission, or the SEC, pursuant to Rule 424(b)(4) under the Securities Act of 1933, or the Prospectus. Moreover, we operate in a very competitive and rapidly changing environment, and new risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties, and assumptions, the forward-looking events and circumstances discussed in this Quarterly Report on Form 10-Q may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements and you should not place undue reliance on our forward-looking statements.

The forward-looking statements made in this Quarterly Report on Form 10-Q relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Quarterly Report on Form 10-Q to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect new information or the occurrence of unanticipated events, except as required by law.

You should read this Quarterly Report on Form 10-Q in conjunction with the audited consolidated financial statements and the related notes thereto as of and for the year ended December 31, 2017, included in the Prospectus.

**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements (unaudited)**

**PLURALSIGHT, INC.**  
**Condensed Consolidated Balance Sheets**  
*(in thousands, except share and per share amounts)*  
*(unaudited)*

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 208,626	\$ 28,267
Accounts receivable, net of allowances of \$2,332 and \$1,552 as of September 30, 2018 and December 31, 2017, respectively	47,801	38,229
Prepaid expenses and other current assets	8,037	5,125
Total current assets	264,464	71,621
Property and equipment, net	22,503	22,457
Content library, net	7,547	13,441
Intangible assets, net	1,935	2,854
Goodwill	123,119	123,119
Other assets	2,080	2,928
Total assets	<u>\$ 421,648</u>	<u>\$ 236,420</u>
<b>Liabilities, redeemable convertible preferred units, and stockholders' equity/members' deficit</b>		
Current liabilities:		
Accounts payable	\$ 6,834	\$ 6,029
Accrued expenses	31,415	26,514
Accrued author fees	9,331	7,879
Deferred revenue	130,555	103,107
Total current liabilities	178,135	143,529
Deferred revenue, net of current portion	8,649	8,194
Long-term debt	—	116,037
Facility financing obligation	7,500	7,513
Other liabilities	1,090	458
Total liabilities	195,374	275,731
Commitments and contingencies (Note 8)		
Redeemable convertible preferred units:		
Redeemable convertible preferred units, no par value; 48,447,880 units authorized, issued and outstanding as of December 31, 2017	—	405,766
Stockholders' equity/members' deficit:		
Preferred stock, \$0.0001 par value per share, 100,000,000 shares authorized, no shares issued and outstanding as of September 30, 2018	—	—
Class A common stock, \$0.0001 par value per share, 1,000,000,000 shares authorized, 62,310,270 shares issued and outstanding as of September 30, 2018; 1,000 shares authorized, issued and outstanding as of December 31, 2017	6	—
Class B common stock, \$0.0001 par value per share, 200,000,000 shares authorized, 58,566,789 shares issued and outstanding as of September 30, 2018	6	—
Class C common stock, \$0.0001 par value per share, 50,000,000 shares authorized, 14,198,311 shares issued and outstanding as of September 30, 2018	1	—
Additional paid-in capital	443,182	—
Members' capital	—	—
Accumulated other comprehensive (loss) income	(34)	25
Accumulated deficit	(335,863)	(445,102)
Total stockholders' equity attributable to Pluralsight, Inc./members' deficit	107,298	(445,077)
Non-controlling interests	118,976	—
Total stockholders' equity/members' deficit	226,274	(445,077)
Total liabilities, redeemable convertible preferred units, and stockholders' equity/members' deficit	<u>\$ 421,648</u>	<u>\$ 236,420</u>

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

**PLURALSIGHT, INC.**  
**Condensed Consolidated Statements of Operations**  
*(in thousands, except per share amounts)*  
*(unaudited)*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue	\$ 61,553	\$ 43,286	\$ 164,769	\$ 119,416
Cost of revenue	15,331	12,582	46,107	35,678
Gross profit	46,222	30,704	118,662	83,738
Operating expenses:				
Sales and marketing	41,392	29,410	109,792	70,254
Technology and content	17,227	12,448	47,045	33,979
General and administrative	17,398	19,094	48,138	34,773
Total operating expenses	76,017	60,952	204,975	139,006
Loss from operations	(29,795)	(30,248)	(86,313)	(55,268)
Other (expense) income:				
Interest expense	(342)	(3,252)	(6,476)	(8,376)
Loss on debt extinguishment	—	—	(4,085)	(1,882)
Other income, net	654	55	689	124
Loss before income taxes	(29,483)	(33,445)	(96,185)	(65,402)
Provision for income taxes	(254)	(90)	(506)	(216)
Net loss	\$ (29,737)	\$ (33,535)	\$ (96,691)	\$ (65,618)
Less: Net loss attributable to non-controlling interests	(15,578)	—	(28,284)	—
Net loss attributable to Pluralsight, Inc.	\$ (14,159)	\$ (33,535)	\$ (68,407)	\$ (65,618)
Less: Accretion of Series A redeemable convertible preferred units	—	(34,375)	(176,275)	(57,200)
Net loss attributable to common shares	\$ (14,159)	\$ (67,910)	\$ (244,682)	\$ (122,818)
Net loss per share, basic and diluted <sup>(1)</sup>	\$ (0.23)		\$ (0.41)	
Weighted-average common shares used in computing basic and diluted net loss per share <sup>(1)</sup>	62,472		62,400	

(1) Represents net loss per share of Class A common stock and weighted-average shares of Class A common stock outstanding for the periods following the Reorganization Transactions (as defined below) and Pluralsight, Inc.'s initial public offering described in Note 1—Organization and Description of Business. See Note 13—Net Loss Per Share for additional details.

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

**PLURALSIGHT, INC.**  
**Condensed Consolidated Statements of Comprehensive Loss**

*(in thousands)*  
*(unaudited)*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net loss	\$ (29,737)	\$ (33,535)	\$ (96,691)	\$ (65,618)
Other comprehensive (loss) income:				
Foreign currency translation (losses) gains, net	(39)	5	(97)	23
Comprehensive loss	\$ (29,776)	\$ (33,530)	\$ (96,788)	\$ (65,595)
Less: Comprehensive loss attributable to non-controlling interests	(15,599)	—	(28,326)	—
Comprehensive loss attributable to Pluralsight, Inc.	\$ (14,177)	\$ (33,530)	\$ (68,462)	\$ (65,595)

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

PLURALSIGHT, INC.

Condensed Consolidated Statements of Redeemable Convertible Preferred Units, Members' Deficit, and Stockholders' Equity

(in thousands, except share/unit amounts)  
(unaudited)

	Redeemable Convertible Preferred Units		Members' Capital		Class A Common Stock		Class B Common Stock		Class C Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Non-Controlling Interests	Total
	Units	Amount	Units	Amount	Shares	Amount	Shares	Amount	Shares	Amount					
<b>Balance at December 31, 2017</b>	48,447,880	\$405,766	48,407,645	\$ —	—	\$ —	—	\$ —	—	\$ —	—	\$ 25	\$ (445,102)	\$ —	\$ (445,077)
<i>Activity prior to the Reorganization Transactions:</i>															
Issuance of warrants to purchase shares of Class A common units	—	—	—	984	—	—	—	—	—	—	—	—	—	—	984
Equity-based compensation	—	—	—	13,155	—	—	—	—	—	—	—	—	—	—	13,155
Accretion of Series A redeemable convertible preferred units	—	176,275	—	(14,139)	—	—	—	—	—	—	—	—	(162,136)	—	(176,275)
Foreign currency translation losses, net	—	—	—	—	—	—	—	—	—	—	—	(18)	—	—	(18)
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	(42,660)	—	(42,660)
<i>Effect of the Reorganization Transactions and initial public offering:</i>															
Effect of the Reorganization Transactions	(48,447,880)	(582,041)	(48,407,645)	—	39,110,660	4	58,111,572	6	14,048,138	1	581,952	—	—	—	581,963
Initial public offering, net of offering costs	—	—	—	—	23,805,000	2	—	—	—	—	324,704	—	—	—	324,706
Allocation of equity to non-controlling interests	—	—	—	—	—	—	—	—	—	—	(474,007)	(4)	339,782	134,229	—
<i>Activity subsequent to the Reorganization Transactions and initial public offering:</i>															
Effect of the rescission transactions	—	—	—	—	(605,390)	—	455,217	—	150,173	—	—	—	—	—	—
Settlement of equity appreciation rights	—	—	—	—	—	—	—	—	—	—	(325)	—	—	—	(325)
Equity-based compensation	—	—	—	—	—	—	—	—	—	—	23,931	—	—	—	23,931
Adjustments to non-controlling interests	—	—	—	—	—	—	—	—	—	—	(13,073)	—	—	13,073	—
Foreign currency translation losses, net	—	—	—	—	—	—	—	—	—	—	—	(37)	—	(42)	(79)
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	(25,747)	(28,284)	(54,031)
<b>Balance at September 30, 2018</b>	—	\$ —	—	\$ —	62,310,270	\$ 6	58,566,789	\$ 6	14,198,311	\$ 1	\$ 443,182	\$ (34)	\$ (335,863)	\$ 118,976	\$ 226,274

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

**PLURALSIGHT, INC.**  
**Condensed Consolidated Statements of Cash Flows**  
*(in thousands)*  
*(unaudited)*

	Nine Months Ended September 30,	
	2018	2017
<b>Operating activities</b>		
Net loss	\$ (96,691)	\$ (65,618)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of property and equipment	6,331	4,367
Amortization of acquired intangible assets	7,721	6,018
Amortization of course creation costs	1,437	1,050
Equity-based compensation	36,972	18,988
Provision for doubtful accounts	493	360
Amortization of debt discount and debt issuance costs	1,215	1,074
Debt extinguishment costs	4,197	931
Deferred tax benefit	(98)	—
Changes in assets and liabilities:		
Accounts receivable	(10,352)	(2,720)
Prepaid expenses and other assets	(2,990)	(3,204)
Accounts payable	928	2,388
Accrued expenses and other liabilities	6,912	8,721
Accrued author fees	1,452	1,328
Deferred revenue	28,190	15,501
Net cash used in operating activities	<u>(14,283)</u>	<u>(10,816)</u>
<b>Investing activities</b>		
Purchases of property and equipment	(6,576)	(4,459)
Purchases of content library	(2,345)	(1,769)
Net cash used in investing activities	<u>(8,921)</u>	<u>(6,228)</u>
<b>Financing activities</b>		
Proceeds from initial public offering, net of underwriting discounts and commissions	332,080	—
Payments of costs related to initial public offering	(7,083)	(175)
Borrowings of long-term debt	20,000	115,000
Repayments of long-term debt	(137,710)	(85,000)
Payments of debt extinguishment costs	(2,179)	—
Payments of debt issuance costs	(450)	(837)
Payments to settle equity appreciation rights	(325)	—
Taxes paid related to net share settlement	(78)	—
Proceeds from the issuance of common units	—	3,136
Redemption of incentive units	—	(2,801)
Payments of facility financing obligation	(13)	(12)
Net cash provided by financing activities	<u>204,242</u>	<u>29,311</u>
Effect of exchange rate change on cash, cash equivalents, and restricted cash	(136)	38
Net increase in cash, cash equivalents, and restricted cash	180,902	12,305
Cash, cash equivalents, and restricted cash, beginning of period	28,477	19,397
Cash, cash equivalents, and restricted cash, end of period	<u>\$ 209,379</u>	<u>\$ 31,702</u>
<b>Supplemental cash flow disclosure:</b>		
Cash paid for interest	\$ 4,271	\$ 4,702
Cash paid for income taxes, net	\$ 338	\$ 284
<b>Supplemental disclosure of non-cash investing and financing activities:</b>		
Conversion of redeemable convertible preferred units	\$ 582,041	\$ —
Redeemable convertible preferred unit accretion	\$ 176,275	\$ 57,200
Unpaid capital expenditures	\$ 252	\$ 84
Offering costs, accrued but not yet paid	\$ 607	\$ 113
Equity-based compensation capitalized as internal-use software	\$ 114	\$ —
Issuance of warrants to purchase shares of Class A common stock	\$ 984	\$ —

**Reconciliation of cash, cash equivalents, and restricted cash:**

Cash and cash equivalents	\$	208,626	\$	31,492
Restricted cash included in other assets		<u>753</u>		<u>210</u>
Total cash, cash equivalents, and restricted cash	\$	<u>209,379</u>	\$	<u>31,702</u>

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

## PLURALSIGHT, INC.

### Notes to Condensed Consolidated Financial Statements

(unaudited)

#### Note 1. Organization and Description of Business

Pluralsight, Inc. was incorporated as a Delaware corporation on December 4, 2017 as a holding company for the purpose of facilitating an initial public offering (“IPO”) and other related transactions in order to carry on the business of Pluralsight Holdings, LLC (“Pluralsight Holdings”) and its subsidiaries (together with Pluralsight, Inc., the “Company” or “Pluralsight”). Pluralsight Holdings is a limited liability company (“LLC”) and was organized on August 29, 2014 in the state of Delaware and is the parent company of Pluralsight, LLC, and its directly and indirectly wholly-owned subsidiaries. Pluralsight, LLC was organized on June 17, 2004 in the state of Nevada. Pluralsight operates a cloud-based technology learning platform that provides a broad range of tools for businesses and individuals, including skill assessments, a curated library of courses, learning paths, and business analytics. As the sole managing member of Pluralsight Holdings, Pluralsight, Inc. operates and controls all of the business operations and affairs of Pluralsight.

##### *Initial Public Offering*

In May 2018, Pluralsight, Inc. completed an IPO, in which it sold 23,805,000 shares of Class A common stock at a public offering price of \$15.00 per share for net proceeds of \$332.1 million, after deducting underwriters' discounts and commissions, which Pluralsight, Inc. used to purchase newly issued common limited liability company units (“LLC Units”) from Pluralsight Holdings. As of September 30, 2018, the Company has reclassified \$7.4 million of offering costs into stockholders' equity as a reduction of the net proceeds received from the IPO.

##### *Reorganization Transactions*

In connection with the IPO, the Company completed the following transactions (“Reorganization Transactions”):

- The amended and restated limited liability company agreement of Pluralsight Holdings (“LLC Agreement”) was amended and restated to, among other things: (i) appoint Pluralsight, Inc. as its sole managing member and (ii) effectuate the conversion of all outstanding redeemable convertible preferred limited liability company units, incentive units, and Class B incentive units into a single class of common units. See Note 9—Stockholders' Equity for additional details.
- Certain members of Pluralsight Holdings that were corporations merged with and into Pluralsight, Inc. and certain members of Pluralsight Holdings contributed certain of their LLC Units to Pluralsight, Inc., in each case in exchange for shares of Class A common stock.
- The certificate of incorporation of Pluralsight, Inc. was amended and restated to authorize three classes of common stock, Class A common stock, Class B common stock, Class C common stock, and one class of preferred stock. Class B and Class C common stock were issued on a one-for-one basis to the members of Pluralsight Holdings who retained LLC Units (“Continuing Members”). Class B and Class C common stock have voting rights but no economic rights. See Note 9—Stockholders' Equity for additional details.

As the sole managing member of Pluralsight Holdings, Pluralsight, Inc. has the sole voting interest in Pluralsight Holdings and controls all of the business operations, affairs, and management of Pluralsight Holdings. Accordingly, Pluralsight, Inc. consolidates the financial results of Pluralsight Holdings and reports the non-controlling interests of the Continuing Members' LLC Units on its consolidated financial statements. As of September 30, 2018, Pluralsight, Inc. owned 47.4% of Pluralsight Holdings and the Continuing Members owned the remaining 52.6% of Pluralsight Holdings.

As the Reorganization Transactions are considered transactions between entities under common control, the financial statements for periods prior to the IPO and Reorganization Transactions have been adjusted to combine the previously separate entities for presentation purposes. Prior to the Reorganization Transactions, Pluralsight, Inc. had no operations.

#### Note 2. Summary of Significant Accounting Policies and Recent Accounting Pronouncements

##### *Basis of Presentation*

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) and the applicable regulations of the U.S. Securities and Exchange Commission (“SEC”) regarding interim financial reporting. Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. Therefore, these unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the related notes thereto as of and for the year ended December 31, 2017 included in the prospectus dated May 16, 2018 (File No. 333-224301), as filed with the SEC pursuant to Rule 424(b)(4) under the Securities Act of 1933, as amended (“Prospectus”).

These unaudited condensed consolidated financial statements include the accounts of Pluralsight, Inc. and its directly and indirectly wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

As discussed in Note 1—Organization and Description of Business, Pluralsight, Inc. consolidates the financial results of Pluralsight Holdings as a Variable Interest Entity (“VIE”). The Company periodically evaluates entities for consolidation either through ownership of a majority voting interest, or through means other than a voting interest, in accordance with the VIE accounting model. A VIE is an entity in which the equity investors as a group, if any, lack the power through voting or similar rights to direct the activities of such entity that most significantly impact such entity's economic performance or the equity investment at risk is insufficient to finance that entity's activities without additional subordinated financial support.

#### ***Interim Unaudited Condensed Consolidated Financial Statements***

The accompanying interim condensed consolidated balance sheet as of September 30, 2018, the interim condensed consolidated statements of operations for the three and nine months ended September 30, 2018 and 2017, the interim condensed consolidated statements of redeemable convertible preferred units, members' deficit, and stockholders' equity for the nine months ended September 30, 2018, and the interim condensed consolidated statements of cash flows for the nine months ended September 30, 2018 and 2017 are unaudited. The condensed consolidated balance sheet as of December 31, 2017 was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. The interim unaudited condensed consolidated financial statements have been prepared on a basis consistent with the annual consolidated financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to state fairly the Company's financial position, its operations and cash flows for the periods presented. The historical results are not necessarily indicative of future results, and the results of operations for the three and nine months ended September 30, 2018 are not necessarily indicative of the results to be expected for the full year or any other period.

#### ***Use of Estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses for the reporting period. On an ongoing basis, the Company evaluates its estimates, including those related to the determination of fair value of equity awards, the fair value of warrants to purchase Class A common stock, useful lives of property and equipment, content library and intangible assets, provisions for doubtful accounts receivable and deferred revenue, impairment of long-lived and intangible assets, including goodwill, and certain accrued expenses, including author fees. These estimates and assumptions are based on the Company's historical results and management's future expectations. Actual results could differ from those estimates.

#### ***Significant Accounting Policies***

The Company's significant accounting policies are discussed in “Note 1—Description of Business and Summary of Significant Accounting Policies” in the Prospectus. There have been no significant changes to these policies that have had a material impact on the Company's unaudited condensed consolidated financial statements and related notes during the three and nine months ended September 30, 2018, except as noted below.

#### ***Leases***

For build-to-suit lease arrangements, the Company evaluates the extent of its financial and operational involvement during the construction period to determine whether it is considered the owner of the construction project for accounting purposes. When the Company is considered the owner of a project under lease accounting guidance, the Company records the fair value of the building as the building is constructed with a corresponding build-to-suit facility financing obligation. Improvements to the facility during the construction project are capitalized. Lessor-afforded incentives are classified as deemed landlord financing proceeds and are included in the facility financing obligation. During the construction period, the Company estimates and records ground rent expense based on the estimated fair value of the land and an estimated incremental borrowing rate. At the end of the construction period, the Company evaluates whether it remains the owner of the building based on its ongoing involvement in the leased property. If deemed the owner of the facility following construction completion, the Company allocates rent payments to ground rent expense, reductions of the facility financing obligation, and interest expense recognized on the outstanding obligation. To the extent gross future payments do not equal the recorded liability, the liability is settled upon return of the facility to the lessor.

#### ***Advertising Costs***

Advertising costs are expensed as incurred. The Company recorded advertising costs of \$3.0 million and \$3.9 million for the three months ended September 30, 2018 and 2017, respectively, and \$8.7 million and \$10.8 million for the nine months ended September 30, 2018 and 2017, respectively.

### ***Equity-Based Compensation***

In connection with the IPO, the Company granted Class A common stock options to certain employees. Equity-based compensation expense for Class A common stock options granted to employees is recognized based on the fair value of the awards granted, determined using the Black-Scholes option pricing model. Equity-based compensation expense is recognized as expense on a straight-line basis over the requisite service period.

Equity-based compensation expense related to purchase rights issued under the 2018 Employee Stock Purchase Plan (“ESPP”) is based on the Black-Scholes option pricing model fair value of the estimated number of awards as of the beginning of the offering period. Equity-based compensation expense is recognized following the straight-line attribution method over the offering period.

The Black-Scholes option pricing model is affected by the share price and a number of assumptions, including the award’s expected life, risk-free interest rate, the expected volatility of the underlying stock, and expected dividends. The assumptions used in the Black Scholes pricing model are estimated as follows:

- *Fair Value of Common Stock:* Prior to the IPO, the fair value of the common units underlying equity awards was determined considering numerous objective and subjective factors and required judgment to determine the fair value as of each grant date. Subsequent to the IPO, the Company determines the fair value of common stock as of each grant date using the market closing price of Pluralsight, Inc.’s Class A common stock on the date of grant.
- *Risk-free Interest Rate:* The risk-free interest rate is derived from the implied yield available on U.S. Treasury zero-coupon issues with remaining terms similar to the expected term of the options.
- *Expected Term:* The expected term is estimated using the simplified method due to a lack of historical exercise activity for the Company. The simplified method calculates the expected term as the mid-point between the vesting date and the contractual expiration date of the award. For the ESPP, the Company uses the period from the beginning of the offering period to the end of each purchase period.
- *Volatility:* The price volatility factor is based on the historical volatilities of comparable companies as the Company does not have sufficient trading history for its common stock. To determine comparable companies, the Company considers public enterprise cloud-based application providers and selects those that are similar in size, stage of life cycle, and financial leverage. The Company will continue to use this process until a sufficient amount of historical information regarding volatility becomes available, or until circumstances change such that the identified companies are no longer relevant, in which case, more suitable companies whose share prices are publicly available would be utilized in the calculation.
- *Dividend Yield:* The Company has not and does not expect to pay dividends for the foreseeable future.

### ***Non-Controlling Interests***

The non-controlling interests balance represents the economic interests of LLC Units of Pluralsight Holdings held by Continuing Members, based on the portion of LLC Units owned by Continuing Members. Income or loss is attributed to the non-controlling interests based on the weighted-average LLC Units outstanding during the period, excluding LLC Units that are subject to time-based vesting requirements. As of September 30, 2018, the non-controlling interests owned 52.6% of the vested LLC Units outstanding. The non-controlling interests’ ownership percentage can fluctuate over time as LLC Units vest and as Continuing Members elect to exchange LLC Units for Class A common stock of Pluralsight, Inc.

### ***Net Loss Per Share***

Basic net loss per share is computed by dividing net loss attributable to Pluralsight, Inc. for the periods following the Reorganization Transactions by the weighted-average number of shares of Class A common shares outstanding during the same periods after giving effect to weighted-average shares of Class A common stock that remain subject to time-based vesting requirements.

Diluted net loss per share is computed giving effect to all potential weighted-average dilutive shares for the periods following the Reorganization Transactions including LLC Units held by Continuing Members that are convertible into Class A common stock, stock options, restricted stock units (“RSUs”), warrants to purchase Class A common stock, and shares issuable under the ESPP for the periods after the Reorganization Transactions. The dilutive effect of outstanding awards, if any, is reflected in diluted earnings per share by application of the treasury stock method or if-converted method, as applicable.

### ***Recent Accounting Pronouncements***

Under the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”), the Company meets the definition of an emerging growth company. Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. The Company has elected to use this extended transition period for complying with new or revised accounting standards that have different effective

dates for public and private companies until the Company is no longer an emerging growth company or until the Company affirmatively and irrevocably opts out of the extended transition period. As a result, the Company's financial statements may not be comparable to companies that comply with new or revised accounting pronouncements as of public company effective dates.

#### *Recently Adopted Accounting Pronouncements*

In August 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. This update clarifies how certain cash flows should be classified with the objective of reducing the existing diversity in practice. This update is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. The amendments in this ASU should be applied using a retrospective transition method to each period presented. Among other provisions, the ASU requires that cash payments for certain debt prepayment or debt extinguishment costs be classified as cash outflows for financing activities. The Company early adopted the standard during the second quarter of 2018. As a result of the adoption, the Company recorded \$2.2 million in payments of debt extinguishment costs within financing activities on the condensed consolidated statements of cash flows for the nine months ended September 30, 2018. The retrospective adoption had no material effect on any prior periods.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This update clarifies that transfers between cash and restricted cash are not part of the entity's operating, investing, and financing activities, and details of those transfers are not reported as cash flow activities in the statements of cash flows. For public business entities, this update is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other entities, this update is effective for annual periods beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption for all entities is permitted. The amendments in this update should be applied using a retrospective transition method to each period presented. The Company early adopted this standard during the year ended December 31, 2017, and retroactively adjusted the consolidated statements of cash flows for all periods presented. The retrospective adoption had no material effect on any prior periods.

In January 2017, the FASB issued ASU 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which eliminates the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge. For public business entities that are SEC filers, the ASU is effective for the annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. For public business entities that are not SEC filers, the ASU is effective for the annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2020. For all other entities, the ASU is effective for the annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2021. The Company early adopted this ASU for its annual goodwill impairment test as of October 1, 2018. The adoption had no material effect on the unaudited condensed consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, *Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting*, which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in the ASU. The ASU is effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. During the first quarter of 2018, the Company adopted the ASU prospectively. The adoption of the ASU had no material effect on the unaudited condensed consolidated financial statements.

#### *Accounting Pronouncements Not Yet Adopted*

In August 2018, the FASB issued ASU 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which aligns the accounting for implementation costs incurred in a hosting arrangement that is a service contract with the accounting for implementation costs incurred to develop or obtain internal-use software under ASC 350-40, in order to determine which costs to capitalize and recognize as an asset. The new guidance is effective for public business entities for annual periods beginning after December 15, 2019, including interim periods within those periods. For all other entities, the ASU is effective for annual periods beginning after December 15, 2020, and interim periods within annual periods beginning after December 15, 2021. Early adoption is permitted for all entities. The Company is currently in the process of evaluating the impact of new guidance on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The new guidance is effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those periods. For all other entities, the ASU is effective for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The impact to the Company's consolidated financial statements will depend on the facts and circumstances of any specific future transactions.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for all leases (with the exception of short-term leases) at the commencement date. For public business entities, the ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2018. For all other entities, the amendments in this update are effective for fiscal years beginning after December 15, 2019 and interim periods within fiscal years beginning after December 15, 2020. As the Company has elected to use the extended transition period available to emerging growth companies, the Company does not anticipate adopting the standard until the fiscal year ended December 31, 2020. The Company is currently evaluating the potential changes from this ASU to its future financial reporting and disclosures. As part of its preliminary assessment, the Company expects to record right-of-use assets and lease liabilities for its operating leases as a result of adopting the standard. While the Company continues to assess all potential impacts under the new standard, including the areas described above, the Company does not know or cannot reasonably estimate quantitative information related to the impact of the adoption of the new standard on its consolidated financial statements at this time.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* and *Other Assets and Deferred Costs—Contracts with Customers (Subtopic 340-40)*, which will supersede nearly all existing revenue recognition guidance. The core principle behind ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for delivering those goods and services. To achieve this core principle, the ASU provides a model, which involves a five-step process that includes identifying the contract with the customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction prices to the performance obligations in the contract, and recognizing revenue when (or as) the entity satisfies the performance obligations. The standard also provides guidance on the recognition of costs related to obtaining customer contracts.

The ASU permits adoption either by using a full retrospective approach, in which all comparative periods are presented in accordance with the new standard, or a modified retrospective approach with the cumulative effect of initially applying the new standard recognized at the date of initial application and providing certain additional disclosures. For public business entities, the standard is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. For all other entities, the standard is effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted for annual periods beginning after December 15, 2016. As the Company has elected to use the extend transition period available to emerging growth companies, the Company anticipates adopting the standard for the fiscal year ending December 31, 2019. The Company anticipates adopting the standard using the modified retrospective adoption method described above.

The Company is continuing to evaluate the impact of the adoption of the new standard on its accounting policies, processes, and system requirements. The Company has assigned internal resources to assist in the evaluation. Furthermore, the Company has made and will continue to make investments in systems to enable timely and accurate reporting under the new standard. While the Company continues to assess all potential impacts under the new standard, there is potential the standard could have an impact on the timing of recognition of revenue and contract acquisition costs. Under the current revenue recognition guidance, the Company limits the amount of revenue recognition for delivered elements to the amount that is not contingent on the delivery of future services. Under the new standard, the concept of contingent revenue no longer exists. As a result, the Company expects the timing of revenue recognition on multi-year subscription agreements with tiered pricing could accelerate under the new standard. Additionally, for certain contracts, the Company sells licenses that can be redeemed for subscriptions to the Company's platform at a future date. The Company earns revenue as licenses are redeemed, and subscription services are subsequently rendered. A portion of the consideration from these contracts is allocated to licenses that are ultimately not redeemed, or breakage revenue. Under current accounting literature, the Company recognizes breakage revenue when it is legally released from its obligation to provide services. Under the new standard, breakage revenue will be estimated and recognized as services are performed. As a result of the Company's evaluation, the timing of when revenue is recognized could accelerate for contracts with breakage revenue. The Company currently anticipates that impact of adopting the standard on its revenues will not be material; however, the Company's evaluation will depend on its complete analysis of existing contracts at the time of adoption.

As part of its evaluation, the Company has also considered the impact of the standard's requirements with respect to the capitalization and amortization of incremental costs of obtaining a contract. Under the Company's current accounting policy, incremental costs of obtaining a contract are expensed as incurred. The new standard requires the capitalization of all incremental costs that are incurred to obtain a contract with a customer that would not have been incurred if the contract had not been obtained, provided the Company expects to recover those costs. As a result of this standard, the Company expects to capitalize incremental contract costs. The period over which these costs are expected to be recognized is still being evaluated by the Company. The Company expects the impact of adopting the standard on its sales and marketing expenses could be material; however, such evaluation will depend on the Company's full evaluation of contract costs at the time of adoption.

In addition, the standard will require additional financial statement disclosures, including additional disclosures for the disaggregation of revenue, contract balances, and performance obligations. The Company expects the additional disclosure requirements could be material to its consolidated financial statements.

While the Company continues to assess all potential impacts under the new standard, including the areas described above, and anticipates this standard could have a material impact on its consolidated financial statements, the Company does not know or cannot reasonably estimate quantitative information related to the impact of the adoption of the new standard on its unaudited condensed consolidated financial statements at this time.

### Note 3. Fair Value Measurements

The Company measures and records certain financial assets at fair value on a recurring basis. Fair value is based on the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company's financial instruments that are measured at fair value on a recurring basis consist of money market funds. The following three levels of inputs are used to measure the fair value of financial instruments:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

The fair value of the Company's financial instruments were as follows (in thousands):

	September 30, 2018			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents:				
Money market funds	\$ 201,264	\$ —	\$ —	\$ 201,264

  

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents:				
Money market funds	\$ 25,146	\$ —	\$ —	\$ 25,146

#### *Fair Value of Other Financial Instruments*

The carrying amounts of the Company's accounts receivable, accounts payable, accrued expenses, and other liabilities approximate their fair values due to the short maturities of these assets and liabilities.

### Note 4. Balance Sheet Components

#### *Prepaid Expenses and Other Current Assets*

Prepaid expenses and other current assets consisted of the following (in thousands):

	September 30, 2018	December 31, 2017
Prepaid expenses	\$ 7,503	\$ 4,586
Other current assets	534	539
Prepaid expenses and other current assets	\$ 8,037	\$ 5,125

#### *Accrued Expenses*

Accrued expenses consisted of the following (in thousands):

	September 30, 2018	December 31, 2017
Accrued compensation	\$ 22,545	\$ 18,568
Accrued income and other taxes payable	4,891	3,492
Accrued other current liabilities	3,979	4,454
Accrued expenses	\$ 31,415	\$ 26,514

**Note 5. Property and Equipment**

Property and equipment, net consisted of the following (in thousands):

	September 30, 2018	December 31, 2017
Computer equipment	\$ 8,951	\$ 7,482
Software	2,026	1,982
Capitalized internal-use software costs	12,370	8,631
Furniture and fixtures	5,364	5,234
Buildings	11,251	11,251
Leasehold improvements	1,481	1,324
Construction in progress	882	587
Total property and equipment	42,325	36,491
Less: Accumulated depreciation	(19,822)	(14,034)
Property and equipment, net	<u>\$ 22,503</u>	<u>\$ 22,457</u>

Depreciation expense totaled \$2.0 million and \$1.7 million for the three months ended September 30, 2018 and 2017, respectively, and \$6.3 million and \$4.4 million for the nine months ended September 30, 2018 and 2017, respectively.

**Note 6. Intangible Assets**

Intangible assets, net are summarized as follows (in thousands):

	September 30, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value
<b>Content library:</b>			
Acquired content library	\$ 32,835	\$ 31,446	\$ 1,389
Course creation costs	12,986	6,828	6,158
Total	<u>\$ 45,821</u>	<u>\$ 38,274</u>	<u>\$ 7,547</u>
<b>Intangible assets:</b>			
Technology	\$ 4,500	\$ 2,610	\$ 1,890
Trademarks	162	162	—
Noncompetition agreements	390	390	—
Customer relationships	2,750	2,750	—
Database	40	40	—
Domain names	45	—	45
Total	<u>\$ 7,887</u>	<u>\$ 5,952</u>	<u>\$ 1,935</u>

	December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value
<b>Content library:</b>			
Acquired content library	\$ 32,835	\$ 24,643	\$ 8,192
Course creation costs	10,640	5,391	5,249
Total	<u>\$ 43,475</u>	<u>\$ 30,034</u>	<u>\$ 13,441</u>
<b>Intangible assets:</b>			
Technology	\$ 4,500	\$ 2,080	\$ 2,420
Trademarks	1,162	773	389
Noncompetition agreements	390	390	—
Customer relationships	2,750	2,750	—
Database	40	40	—
Domain names	45	—	45
Total	<u>\$ 8,887</u>	<u>\$ 6,033</u>	<u>\$ 2,854</u>

Intangible assets are amortized using the straight-line method over the estimated useful lives. Amortization expense of acquired intangible assets was \$1.1 million and \$2.0 million for the three months ended September 30, 2018, and 2017, respectively, and \$7.7 million and \$6.0 million for the nine months ended September 30, 2018 and 2017, respectively. Amortization expense of course creation costs was \$0.5 million and \$0.4 million for the three months ended September 30, 2018, and 2017, respectively, and \$1.4 million and \$1.1 million for the nine months ended September 30, 2018 and 2017, respectively.

In December 2017, the Company committed to a plan to retire the website of an acquired subsidiary in order to provide a more unified user experience on the Pluralsight platform. Accordingly, the estimated useful lives of certain content library and trademark assets were adjusted. The revised useful lives resulted in a decrease in amortization expense of \$0.6 million and an increase of \$2.3 million during the three and nine months ended September 30, 2018, respectively. The fully-amortized assets were disposed of in June 2018.

#### **Note 7. Credit Facilities**

##### ***Silicon Valley Bank Credit Agreement***

On November 17, 2014, the Company entered into the amended and restated credit agreement (“Second Amended and Restated Credit Agreement”) with a lending syndicate, which was led by Silicon Valley Bank. The agreement provided for a total term loan of \$100.0 million and a revolving line of credit of up to \$10.0 million, which was used to finance the acquisitions of Code School LLC and Smarterer, Inc.

Under the terms of the Second Amended and Restated Credit Agreement, the Company was required to maintain compliance with certain negative and affirmative covenants, including financial covenants and covenants relating to the incurrence of other indebtedness, the occurrence of a material adverse change, the maintenance of depository accounts, the disposition of assets, mergers, acquisitions, investments, the granting of liens, and the payment of dividends. On March 1, 2017, the Company entered into a waiver and amendment to the Second Amended and Restated Credit Agreement with its lenders, which provided a waiver on certain events of default that occurred in fiscal quarter ended September 30, 2016, for failure to comply with the consolidated total leverage ratio covenant. The Second Amended and Restated Credit Agreement was secured with a lien against substantially all of the assets of the Company.

The outstanding borrowings under the Second Amended and Restated Credit Agreement of \$82.5 million were repaid in full in June 2017. The repayment of the borrowings resulted in a loss on extinguishment of \$1.9 million.

##### ***Guggenheim Credit Agreement***

In June 2017, the Company entered into a long-term debt facility with Guggenheim Corporate Funding, LLC pursuant to a credit agreement (“Guggenheim Credit Agreement”), consisting of a term loan facility of \$115.0 million and a revolving credit facility of \$5.0 million from Guggenheim Corporate Funding, LLC. Upon signing the Guggenheim Credit Agreement, the Company borrowed the \$115.0 million term loan capacity available and used the majority of the proceeds to repay the full outstanding borrowings of \$82.5 million under the Second Amended and Restated Credit Agreement with Silicon Valley Bank and a lending syndicate.

In February 2018, the Company amended the Guggenheim Credit Agreement and increased its term loan facility and its borrowings thereunder by an additional \$20.0 million. In connection with the amendment, the Company issued warrants to the lenders to purchase 424,242 shares of Class A common stock at an exercise price of \$8.25 per share. See Note 9—Stockholders’

Equity for additional details. The warrants were measured at the estimated fair value of \$1.0 million on the date of issuance and were recorded as debt issuance costs.

Under the terms of the Guggenheim Credit Agreement, the Company was required to maintain compliance with certain negative and affirmative covenants, including financial covenants and covenants relating to the incurrence of other indebtedness, the occurrence of a material adverse change, the disposition of assets, mergers, acquisitions and investments, the granting of liens, and the payment of dividends. In addition, on a quarterly basis, the Company was required to maintain a maximum ratio of indebtedness to total recurring revenue for the most recent trailing twelve-month period ranging from 0.55 to 1 to 0.65 to 1. The Company was also required to maintain \$10.0 million in liquidity, including amounts available under revolving loan commitments as of the last day of any calendar month. The Guggenheim Credit Agreement was secured with a lien against substantially all of the assets of the Company.

Interest accrued under the credit agreement at an adjusted LIBOR rate plus 8.50%. Adjusted LIBOR was defined as the greater LIBOR rate in effect for each interest period divided by 1 minus the Statutory Reserves (if any) for such Eurodollar borrowing for such interest period, and with respect to the term loan only, a minimum LIBOR floor of 1.00%. Under these borrowings, the Company elected to pay 2.50% of the interest due on each interest payment date in-kind rather than in cash.

A portion of the net proceeds from the IPO were used to repay the outstanding principal balance of \$137.7 million and extinguish the Guggenheim Credit Agreement in May 2018. The Company incurred a loss on debt extinguishment of \$4.1 million in connection with the repayment.

The Company's debt consisted of the following (in thousands):

	<b>December 31, 2017</b>
Principal borrowings outstanding	\$ 116,620
Less: Debt issuance costs, net of amortization	(583)
Net carrying amount	<u>\$ 116,037</u>

## **Note 8. Commitments and Contingencies**

### *Letters of Credit*

As of September 30, 2018 and December 31, 2017, the Company had a total of \$0.8 million and \$0.2 million, respectively, in letters of credit outstanding. These outstanding letters of credit were issued for purposes of securing the Company's obligations under facility leases. The letters of credit are collateralized by a portion of the Company's cash, which is reflected as restricted cash and classified within other assets on the condensed consolidated balance sheets.

### *Lease Commitments*

The Company is committed under certain operating leases with third parties for office space. These leases expire at various times through 2035. The Company recognizes rent expense on a straight-line basis over the lease period. Payments made under the Company's lease for its corporate headquarters in Farmington, Utah are not recorded as rent expense in the condensed consolidated statements of operations. These payments are effectively recorded as repayments of the financing obligation and interest expense in the condensed consolidated statements of operations as the Company did not qualify for sale-leaseback accounting upon completion of the facilities build out and is considered to be the owner of the buildings for accounting purposes.

In August 2018, the Company entered into a new non-cancellable operating lease agreement to rent office space for the Company's future headquarters to be constructed in Draper, Utah for a period of 15 years beginning on the earlier to occur of the date that the Company opens for business in the leased premises or the commencement date of June 24, 2020 (which date may be extended by construction delays). The Company will pay basic annual rent in monthly installments beginning on the rent commencement date, which are reflected in the table of future minimum lease payments below. The annual rent amount will be determined based on the cost of construction of the premises. Based on the current estimate of the cost of construction, the basic rent amount for the first year is expected to be \$7.9 million, and the annual rent amount will increase by two percent each year following the rent commencement date. In the event the costs incurred by the landlord exceed the agreed upon cost of construction, the landlord may elect to pay such amounts and add such amounts to the cost of construction and increase the basic rent amount or require the Company to pay such amounts. The landlord has agreed to an abatement of basic rent payments at the commencement of the initial lease term of up to approximately \$3.2 million.

Based on the Company's involvement in the construction of its future headquarters, the lease qualifies for build-to-suit accounting. As a result, the Company will record the fair value of the building and a corresponding build-to-suit facility financing obligation as the building is constructed. Additionally, the Company will record ground rent expense during the construction period.

based on its estimate of the fair value of the land. As of September 30, 2018, the construction period for the future headquarters had not yet commenced.

At September 30, 2018, future minimum lease payments, including lease payments for the Company's facilities in Farmington, Utah, and lease payments for the Company's future headquarters in Draper, Utah were as follows (in thousands):

<b>Years Ending December 31,</b>	
2018 (remaining three months)	\$ 1,668
2019	5,804
2020	7,466
2021	9,879
2022	9,871
Thereafter	109,185
<b>Total future minimum lease payments</b>	<b>\$ 143,873</b>

Rent expense under operating leases was \$1.3 million and \$0.4 million for the three months ended September 30, 2018 and 2017, respectively, and \$3.4 million and \$1.2 million for the nine months ended September 30, 2018 and 2017, respectively.

#### ***Other Commitments***

The Company has also entered into certain non-cancellable agreements primarily related to cloud infrastructure and software subscriptions in the ordinary course of business. There have been no material changes in the Company's commitments and contingencies, as disclosed in the Prospectus.

#### ***Legal Proceedings***

The Company is involved in legal proceedings from time to time arising in the normal course of business. Management believes that the outcome of these proceedings will not have a material impact on the Company's financial position, results of operations, or liquidity.

#### ***Warranties and Indemnification***

The performance of the Company's cloud-based technology learning platform is typically warranted to perform in a manner consistent with general industry standards that are reasonably applicable. The Company's contractual arrangements generally include certain provisions for indemnifying customers against liabilities if its products or services infringe a third party's intellectual property rights. To date, the Company has not incurred any material costs as a result of such obligations and has not accrued any material liabilities related to such obligations in the accompanying consolidated financial statements.

The Company has also agreed to indemnify its directors and executive officers for costs associated with any fees, expenses, judgments, fines, and settlement amounts incurred by any of these persons in any action or proceeding to which any of those persons is, or is threatened to be, made a party by reason of the person's service as a director or officer, including any action by the Company, arising out of that person's services as the Company's director or officer or that person's services provided to any other company or enterprise at the Company's request. The Company maintains director and officer insurance coverage that would generally enable the Company to recover a portion of any future amounts paid. The Company may also be subject to indemnification obligations by law with respect to the actions of its employees under certain circumstances and in certain jurisdictions.

### **Note 9. Stockholders' Equity**

#### ***Amendment and Restatement of Certificate of Incorporation***

In connection with the Reorganization Transactions, the certificate of incorporation of Pluralsight, Inc. was amended and restated to, among other things, provide for the (i) authorization of 1,000,000,000 shares of Class A common stock with a par value of \$0.0001 per share; (ii) authorization of 200,000,000 shares of Class B common stock with a par value of \$0.0001 per share; (iii) authorization of 50,000,000 shares of Class C common stock with a par value of \$0.0001 per share; (iv) authorization of 100,000,000 shares of undesignated preferred stock that may be issued from time to time; and (v) establishment of a classified board of directors, divided into three classes, each of whose members will serve for staggered three-year terms.

Holders of Class A and Class B common stock are entitled to one vote per share and holders of Class C common stock are entitled to ten votes per share. Except as otherwise required by applicable law, holders of Class A common stock, Class B common stock, and Class C common stock vote together as a single class on all matters on which stockholders generally are entitled to vote. Holders of Class B and Class C common stock are not entitled to receive dividends and will not be entitled to receive any distributions upon the liquidation, dissolution or winding up of the Company. Shares of Class B and Class C common stock may only be issued to the extent necessary to maintain the one-to-one ratio between the number of LLC Units held by the Continuing

Members and the number of Class B or Class C common shares held by the Continuing Members. Shares of Class B and Class C common stock are transferable only together with an equal number of LLC Units. Subject to certain limitations and exceptions, Continuing Members may exchange or redeem LLC Units and shares of Class B or Class C common stock, as applicable, for, at the option of Pluralsight, Inc., cash or shares of Class A common stock, on a one-for-one basis.

Pluralsight, Inc. must at all times maintain a ratio of one LLC Unit for each share of Class A common stock issued, and Pluralsight Holdings must at all times maintain a one-to-one ratio between the number of shares of Class B or Class C common stock owned by the Continuing Members and the number of LLC Units owned by the Continuing Members.

#### ***Recapitalization of Pluralsight Holdings***

In connection with the Reorganization Transactions and the amendment and restatement of the LLC Agreement, all membership interests in Pluralsight Holdings were converted into a single-class of common LLC Units and certain holders of LLC Units elected to exchange LLC Units for Class A common stock of Pluralsight, Inc. The following is a summary of the shares converted or exchanged in connection with the Reorganization Transactions:

- 48,407,645 common units of Pluralsight Holdings outstanding prior to the Reorganization Transactions were converted on a one-for-one basis into LLC Units.
- 48,447,880 redeemable convertible preferred units of Pluralsight Holdings outstanding prior to the Reorganization Transactions were converted on a one-for-one basis into LLC Units.
- 15,783,689 incentive units of Pluralsight Holdings outstanding prior to the Reorganization Transactions were converted into 12,667,778 LLC Units after giving effect to the threshold price and catch-up price per unit.
- 3,000,000 Class B incentive units of Pluralsight Holdings outstanding prior to the Reorganization Transactions were converted into 1,747,067 LLC Units after giving effect to the threshold price and catch-up price per unit.

In connection with the recapitalization, a total of 39,110,660 LLC Units were exchanged for shares of Class A common stock of Pluralsight, Inc. In addition, the Company issued 58,111,572 shares of Class B common stock and 14,048,138 shares of Class C common stock to the Continuing Members on a one-for-one basis to the corresponding LLC Units held by the Continuing Members.

The amended and restated LLC Agreement requires that Pluralsight Holdings at all times maintain (i) a one-to-one ratio between the number of outstanding shares of Class A common stock of Pluralsight, Inc. and the number of LLC Units and (ii) a one-to-one ratio between the number of shares of Class B or Class C common stock owned by the Continuing Members and the number of LLC Units held by the Continuing Members.

#### ***Rescission Transactions***

In September 2018, the Company entered into agreements of rescission (“Rescission Transactions”) with certain stockholders of the Company (the “Rescinding Holders”) holding an aggregate of 605,390 shares of Class A common stock, pursuant to which the Company agreed to rescind the individuals' prior exchange of unvested LLC Units of Pluralsight Holdings for unvested shares of Class A common stock in connection with the Reorganization Transactions. As a result of the Rescission Transactions, a total of 605,390 LLC Units of Pluralsight Holdings and a corresponding 455,217 shares of Class B common stock and 150,173 shares of Class C common stock were issued to Rescinding Holders. In addition, the issuance of 605,390 shares of Class A common stock was rescinded. The LLC Units and corresponding shares of Class B and Class C common stock, where applicable, are subject to the same vesting conditions that existed prior to the Rescission Transactions, and the Rescinding Holders are eligible to participate in the TRA. All Rescinding Holders are employees of the Company, including employees and officers who are related parties to the Company.

#### ***Redeemable Convertible Preferred Units Conversion***

As described in Note 1—Organization and Description of Business, in connection with the Reorganization Transactions, the LLC Agreement of Pluralsight Holdings was amended and restated to, among other things, effectuate the conversion of 48,447,880 redeemable convertible preferred units into LLC Units of Pluralsight Holdings. Prior to the Reorganization Transactions, Series A redeemable convertible preferred units were redeemable at the option of the holder at an amount equal to the greater of the original issuance price or the aggregate fair value of the Series A redeemable convertible preferred units. Accordingly, prior to the Reorganization Transactions, the Series A redeemable convertible preferred units were accreted to the fair value on the date of conversion of the IPO price of \$15.00 per share, or \$412.5 million.

As the redeemable convertible preferred units were converted into common LLC Units of Pluralsight Holdings, and are no longer redeemable at the option of the holder, the Company reclassified the carrying value of the redeemable convertible preferred units of \$582.0 million on the date of the Reorganization Transactions to stockholders' equity.

### ***Initial Public Offering***

As described in Note 1—Organization and Description of Business, in May 2018, Pluralsight, Inc. completed an IPO of 23,805,000 shares of Class A common stock at a public offering price of \$15.00 per share. Pluralsight, Inc. received proceeds of \$332.1 million, net of underwriting discounts and commissions, which Pluralsight, Inc. used to purchase newly-issued LLC Units of Pluralsight Holdings at a price per unit equal to the IPO price per share.

### ***Warrants to Purchase Shares of Class A Common Stock***

In connection with the first amendment of the Guggenheim Credit Agreement, the Company issued warrants to the lenders to purchase 424,242 shares of Class A common stock of Pluralsight, Inc. at an exercise price of \$8.25 per share. See Note 7—Credit Facilities for additional details. The warrants are fully vested and exercisable, in whole or in part, prior to their expiration. The warrants will expire at the earlier of (i) the acquisition of the Company by another entity or (ii) six months after the effectiveness of the IPO. The warrants were measured at the fair value on the date of issuance, which was determined to be \$1.0 million using a Black-Scholes option pricing model and a probability-weighted expected return methodology. As the warrants are exercisable for shares of the Company's Class A common stock, the Company recorded the warrants within stockholders' equity.

### **Note 10. Non-Controlling Interests**

In connection with the Reorganization Transactions, Pluralsight, Inc. became the sole managing member of Pluralsight Holdings and as a result consolidates the results of operations of Pluralsight Holdings. The non-controlling interests balance represents the LLC Units held by Continuing Members, based on the portion of LLC Units owned by Continuing Members. Following the Reorganization Transactions, the total adjustments to the non-controlling interests were \$13.1 million and were primarily related to equity-based compensation and the settlement of equity-based awards. Income or loss is attributed to the non-controlling interests based on the weighted-average ownership percentages of LLC Units outstanding during the period, excluding LLC Units that are subject to time-based vesting requirements. As of September 30, 2018, the non-controlling interests of Pluralsight Holdings owned 52.6% of the outstanding LLC Units, with the remaining 47.4% owned by Pluralsight, Inc. The ownership of the LLC Units is summarized as follows:

	September 30, 2018	
	Units	Ownership %
Pluralsight, Inc.'s ownership of LLC Units	62,310,270	47.4%
LLC Units owned by the Continuing Members <sup>(1)</sup>	69,092,179	52.6%
	<u>131,402,449</u>	<u>100.0%</u>

(1) Excludes 3,672,921 LLC Units still subject to time-based vesting requirements.

### **Note 11. Equity-Based Compensation**

#### ***Incentive Unit Plan***

Certain employees and directors were granted incentive units in Pluralsight Holdings, pursuant to the Incentive Unit Plan ("2013 Plan"). In connection with the Reorganization Transactions, all outstanding incentive units were converted into LLC Units of Pluralsight Holdings and certain holders of incentive units elected to exchange LLC Units for shares of Class A common stock of Pluralsight, Inc. Shares of Class A common stock and LLC Units issued as a result of the exchange or conversion of unvested incentive units remain subject to the same time-based vesting requirements that existed prior to the Reorganization Transactions. In connection with the IPO, the 2013 Plan was terminated.

As discussed in Note 9—Stockholders' Equity, in September 2018, the Company entered into the Rescission Transactions with the Rescinding Holders. In connection with the Rescission Transactions, the Company issued LLC Units and corresponding shares of Class B or Class C common stock, as applicable, to the Rescinding Holders in exchange for the rescission of an equivalent number of shares of Class A common stock. The LLC Units and corresponding shares of Class B and Class C common stock are subject to the same time-based vesting requirements that existed prior to the Rescission Transactions.

The unvested shares of Class A common stock following the exchange of unvested incentive units are summarized as follows:

	Unvested Shares	Weighted-Average Grant Date Fair Value
Unvested Class A common shares outstanding following the Reorganization Transactions	605,390	\$ 6.55
Vested	(237,530)	8.40
Effect of the Rescission Transactions	(367,860)	5.35
Unvested Class A common shares outstanding—September 30, 2018	—	\$ —

The unvested LLC Units following the conversion of unvested incentive units are summarized as follows:

	Unvested Units	Weighted-Average Grant Date Fair Value
Unvested LLC Units outstanding following the Reorganization Transactions	3,942,674	\$ 7.73
Vested	(637,613)	7.74
Effect of the Rescission Transactions	367,860	5.35
Unvested LLC Units outstanding—September 30, 2018	3,672,921	\$ 7.49

The Company evaluated the conversion and exchange of incentive units as part of the Reorganization Transactions and the effect of the Rescission Transactions, and concluded the transactions were not a modification of the equity awards. Accordingly, the Company will continue to recognize equity-based compensation using the grant date fair value as measured on the original grant date of the incentive units. As of September 30, 2018, total unrecognized equity-based compensation related to all unvested Class A common shares and unvested LLC Units was \$25.1 million, which is expected to be recognized over a weighted-average period of 2.4 years. The total fair value of Class A common shares and LLC Units vested during the period from the date of the Reorganization Transactions to September 30, 2018 was \$22.0 million. If a forfeiture of an unvested LLC Unit occurs, the associated shares of Class B common stock or Class C common stock, as applicable, are also forfeited.

#### ***Equity Incentive Plans***

In June 2017, Pluralsight Holdings adopted the 2017 Equity Incentive Plan (“2017 Plan”) and issued RSUs to employees. In May 2018, Pluralsight, Inc. adopted the 2018 Equity Incentive Plan (“2018 Plan”). The 2018 Plan provides for the grant of nonstatutory stock options, restricted stock, RSUs, stock appreciation rights, performance units, and performance shares to employees, directors, and consultants of the Company. A total of 22,149,995 shares of Class A common stock were reserved for issuance under the 2018 Plan. The number of shares available for issuance under the 2018 Plan also includes an annual increase on the first day of each fiscal year beginning in 2019, equal to the lesser of: (i) 14,900,000 shares, (ii) 5.0% of the outstanding shares of capital stock as of the last day of the immediately preceding fiscal year, or (iii) a lower number of shares determined by the 2018 Plan’s administrator.

In connection with the IPO, the 2017 Plan was terminated. At the time the 2017 Plan was terminated, a total of 4,508,835 RSUs granted under the 2017 Plan remained outstanding. With the establishment of the 2018 Plan, the Company no longer grants equity-based awards under the 2017 Plan and any shares that expire, terminate, are forfeited or repurchased by the Company, or are withheld by the Company to cover tax withholding obligations, under the 2017 Plan, up to 4,508,835 shares, will automatically be transferred to the 2018 Plan.

#### ***Stock Options***

In connection with the IPO, the Company granted to employees stock options under the 2018 Plan to purchase shares of Class A common stock at an exercise price equal to the IPO price of \$15.00 per share. The stock options will vest ratably in equal six-month periods over a period of two years from the IPO date.

The following table summarizes the stock option activity for the nine months ended September 30, 2018:

	Stock Options Outstanding	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Balance as of December 31, 2017	—	\$ —		
Granted	5,236,155	15.00		
Forfeited or cancelled	(3,979)	15.00		
Balance as of September 30, 2018	<u>5,232,176</u>	\$ 15.00	9.6	\$ 88.9

As of September 30, 2018, no options were vested or exercisable. The total unrecognized equity-based compensation related to the stock options was \$33.8 million, which is expected to be recognized over a weighted-average period of 1.6 years.

The grant date fair value of the stock options was determined using the Black-Scholes model with the following assumptions:

Dividend yield	None
Volatility	55.0%
Risk-free interest rate	2.97%
Expected term (years)	5.63

#### RSUs

The Company has granted RSUs to employees under the 2018 Plan and previously under the 2017 Plan. RSUs represent the right to receive shares of Pluralsight, Inc.'s Class A common stock at a specified future date. Restricted share units of Pluralsight Holdings under the 2017 Plan are generally subject to both a service condition and a liquidity condition. RSUs under the 2018 Plan are generally subject to a service condition. The service condition is generally satisfied over four years, whereby 25% of the share units satisfy this condition on the first anniversary of the grant date and then ratably on a quarterly basis thereafter through the end of the vesting period. The liquidity condition is satisfied upon the occurrence of a qualifying event, which is defined as a change of control transaction or upon expiration of a lock-up period following the IPO. Prior to the IPO, the Company had not recorded any equity-based compensation expense associated with the RSUs as the liquidity condition was not deemed probable. Following the completion of the IPO, the Company recorded a cumulative adjustment to equity-based compensation expense totaling \$7.8 million. The remaining unrecognized equity-based compensation expense related to RSUs will be recognized over the remaining requisite service period, using the straight-line attribution method.

Under the 2017 Plan, all restricted share units granted were initially restricted share units of Pluralsight Holdings. In connection with the IPO, all restricted share units were converted into RSUs of Pluralsight, Inc., except for Class B restricted share units of Pluralsight Holdings, which remain restricted share units of Pluralsight Holdings, and represent the right to receive LLC Units and corresponding shares of Class C common stock of Pluralsight, Inc. upon vesting.

The activity for RSUs for the nine months ended September 30, 2018 was as follows:

	Number of RSUs or Units	Weighted-Average Grant Date Fair Value
<b>RSUs of Pluralsight, Inc.</b>		
Balance at December 31, 2017	2,178,450	\$ 7.06
Granted	3,464,817	11.93
Forfeited or cancelled	(244,500)	7.62
Balance at September 30, 2018	<u>5,398,767</u>	\$ 10.16
<b>Restricted Share Units of Pluralsight Holdings:</b>		
Balance at December 31, 2017 and September 30, 2018	3,000,000	\$ 8.24

As of September 30, 2018, unrecognized compensation cost related to the RSUs, including restricted share units of Pluralsight Holdings, was \$63.3 million, which is expected to be recognized over a weighted-average period of 3.1 years.

### **Employee Stock Purchase Plan**

In May 2018, Pluralsight, Inc.'s board of directors adopted the ESPP. A total of 2,970,000 shares of Class A common stock were initially reserved for issuance under the ESPP. The number of shares of Class A common stock available for issuance under the ESPP will be increased on the first day of each fiscal year beginning in 2019 equal to the lesser of: (i) 2,970,000 shares of Class A common stock, (ii) 1.5% of the outstanding shares of all classes of common stock of the Company on the last day of the immediately preceding fiscal year, or (iii) an amount determined by the plan administrator.

The ESPP generally provides for consecutive overlapping 24-month offering periods comprised of four six-month purchase periods. The offering periods are scheduled to start on the first trading day on or after May 31 and November 30 of each year. The first offering period commenced on the IPO date and is scheduled to end on the first trading day on or after May 31, 2020.

The ESPP permits participants to elect to purchase shares of Class A common stock through fixed contributions from eligible compensation paid during each purchase period during an offering period, provided that this fixed contribution amount will not exceed 75.0% of the eligible compensation a participant receives during a purchase period or \$12,500 (increased to \$25,000 for purposes of the first purchase period under the ESPP). A participant may purchase a maximum of 5,000 shares during each purchase period. Amounts deducted and accumulated by the participant will be used to purchase shares of Class A common stock at the end of each purchase period. The purchase price of the shares will be 85% of the lower of the fair market value of Class A common stock on the first trading day of each offering period or on the purchase date, except for the first offering period, during which the purchase price of the shares will be 85% of the lower of (i) the IPO price or (ii) the fair market value of common stock on the purchase date. If the fair market value of the common stock on any purchase date within an offering period is lower than the stock price as of the beginning of the offering period, the offering period will immediately reset after the purchase of shares on such purchase date and participants will automatically be re-enrolled in a new offering period. Participants may end their participation at any time during an offering period and will be paid their accrued contributions that have not yet been used to purchase shares of common stock. Participation ends automatically upon termination of employment.

The initial offering period began on the IPO date. As of September 30, 2018, a total of 2,823,657 shares were issuable to employees based on contribution elections made under the ESPP and no shares had yet been purchased. As of September 30, 2018, total unrecognized equity-based compensation was \$13.3 million, which is expected to be recognized over a weighted-average period of 1.7 years.

The fair value of the purchase right for the ESPP is estimated on the date of grant using the Black-Scholes model with the following assumptions:

Dividend yield	None
Volatility	55.0%
Risk-free interest rate	2.05%—2.50%
Expected term (years)	0.5—2.0

### **Equity Appreciation Rights**

In connection with the IPO, the Company elected to settle all vested equity appreciation rights ("EARs") for a cash payment of \$0.3 million. The EARs vest upon satisfaction of both time and a liquidity condition, which was satisfied upon completion of the IPO. The remaining unvested EARs were cancelled on the date of the IPO. Prior to the IPO, the vesting of EARs was not probable and no equity-based compensation related to the EARs had been recognized. The Company recognized \$0.1 million in compensation cost on the date of the IPO measured using the grant date fair value of the award using a Black-Scholes model.

### **Equity-Based Compensation Expense**

Equity-based compensation expense was classified as follows in the accompanying condensed consolidated statements of operations (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Cost of revenue	\$ 40	\$ 5	\$ 86	\$ 15
Sales and marketing	4,372	631	9,343	2,010
Technology and content	2,790	499	5,839	1,489
General and administrative	8,842	11,762	21,704	15,474
Total equity-based compensation	\$ 16,044	\$ 12,897	\$ 36,972	\$ 18,988

Equity-based compensation capitalized as internal-use software was \$0.1 million for the three and nine months ended September 30, 2018.

## **Note 12. Income Taxes**

As a result of the Reorganization Transactions, Pluralsight, Inc. became the sole managing member of Pluralsight Holdings, which is treated as a partnership for U.S. federal and most applicable state and local income tax purposes. As a partnership, Pluralsight Holdings is not subject to U.S. federal and certain state and local income taxes. Any taxable income or loss generated by Pluralsight Holdings is passed through to and included in the taxable income or loss of its members, including Pluralsight, Inc. following the Reorganization Transactions, on a pro rata basis. Pluralsight, Inc. is subject to U.S. federal income taxes, in addition to state and local income taxes with respect to its allocable share of any taxable income of Pluralsight Holdings following the Reorganization Transactions. The Company is also subject to taxes in foreign jurisdictions.

The tax provision for interim periods is determined using an estimate of the Company's annual effective tax rate, adjusted for discrete items, if any, that arise during the period. Each quarter, the Company updates its estimate of its annual effective tax rate, and if the estimated annual effective tax rate changes, the Company makes a cumulative adjustment in such period. The quarterly tax provision, and estimate of the Company's annual effective tax rate, are subject to variation due to several factors, including variability in pre-tax income (or loss), the mix of jurisdictions to which such income relates, changes in how the Company conducts business, and tax law developments.

For the three months ended September 30, 2018 and 2017 the Company's estimated effective tax rate was (1.8)% and (0.3)%, respectively. For the nine months ended September 30, 2018 and 2017, the Company's estimated effective tax rate was (0.8)% and (0.3)%, respectively. The variations between the Company's estimated effective tax rate and the U.S. statutory rate are primarily due to the portion of the Company's earnings (or loss) attributable to non-controlling interests following the Reorganization Transactions and the full domestic valuation allowance.

The Company is subject to income tax in the U.S. as well as other tax jurisdictions in which the Company operates. The provision for income taxes consists primarily of income taxes and withholding taxes in foreign jurisdictions in which the Company conducts business. The Company's U.S. operations have resulted in losses, and as such, the Company maintains a full valuation allowance against its U.S. deferred tax assets, including the deferred tax assets acquired in connection with the Reorganization Transactions as described below. While the Company believes its current valuation allowance is appropriate, the Company assesses the need for an adjustment to the valuation allowance on a quarterly basis. The assessment is based on estimates of future sources of taxable income for the jurisdictions in which the Company operates and the periods over which deferred tax assets will be realizable. In the event the Company determines that it will be able to realize all or part of its net deferred tax assets in the future, all or part of the valuation allowance will be reversed in the period in which the Company makes such determination. The release of all or part of the valuation allowance against deferred tax assets may cause greater volatility in the effective tax rate in the periods in which it is reversed.

### ***Tax Receivable Agreement and Reorganization Transactions***

In connection with the Reorganization Transactions, certain members of Pluralsight Holdings ("Former Members") exchanged LLC Units for shares of Class A common stock of Pluralsight, Inc. As a result of this exchange, the Company acquired certain tax attributes held by the Former Members. Additionally, the Company could obtain future increases in its tax basis of the assets of Pluralsight Holdings when LLC Units are redeemed or exchanged by the Continuing Members. This increase in tax basis may have the effect of reducing the amounts paid in the future to various tax authorities. The increase in tax basis may also decrease gains (or increase losses) on future dispositions of certain capital assets to the extent tax basis is allocated to those capital assets.

On the date of the IPO, the Company entered into a Tax Receivable Agreement ("TRA") with Continuing Members that provides for a payment to the Continuing Members of 85% of the amount of tax benefits, if any, that Pluralsight, Inc. realizes, or is deemed to realize as a result of redemptions or exchanges of LLC Units.

The Company maintains a full valuation allowance against deferred tax assets related to the tax attributes generated as a result of redemptions of LLC Units or exchanges described above until it is determined that the benefits are more-likely-than-not to be realized. As of September 30, 2018, no members of the TRA had exchanged LLC Units for Class A common shares and therefore the Company had not recorded any liabilities under the TRA.

As discussed in Note 9—Stockholders' Equity, the Company entered into the Rescission Transactions in September 2018, whereby the Rescinding Holders rescinded their exchange of LLC Units of Pluralsight Holdings for shares of Class A common stock. As a result of the Rescission Transactions, the Rescinding Holders are eligible to participate in the TRA. The TRA liability, if any, that may be owed to new TRA members as a result of the Rescission Transactions is not expected to be recorded until the tax benefits derived from future exchanges are more-likely-than-not to be realized.

### ***Tax Reform Legislation***

On December 22, 2017, the Tax Cuts and Jobs Act (“Tax Act”) was enacted in the United States resulting in a reduction of the corporate income tax rate to 21%. In addition, the Tax Act limits the deductibility of interest expense, implements a modified territorial tax system, and imposes a one-time repatriation tax on deemed repatriated untaxed earnings and profits of U.S.-owned foreign subsidiaries (“Toll Charge”).

In the fourth quarter of 2017, the Company recorded a provisional Toll Charge and remeasured its deferred tax assets and liabilities to reflect the lower corporate income tax rate. The amounts were computed based on information available to the Company; however, there is still uncertainty as to the application of the Tax Act. As of September 30, 2018, the Company had not yet completed its analysis of the effects of the Tax Act, including the Toll Charge computation. The analysis is expected to be completed within one year of the enactment date of the Tax Act. Because the Company has recorded a full valuation allowance in the United States, changes to the reported impact of the Tax Act based on additional guidance or further analysis are not expected to materially affect the effective tax rate in future periods. No adjustments to the provisional amounts recorded in the fourth quarter of 2017 had been made as of September 30, 2018.

As a result of the Toll Charge, all previously unremitted earnings have now been subject to federal tax in the United States; however, the Company plans to, and has the ability to, indefinitely reinvest such earnings in their respective foreign jurisdictions; therefore, no additional tax liability such as state or withholding tax has been provided for on such earnings.

The Company continues to analyze the effects of new taxes due on certain foreign income, such as GILTI (global intangible low-taxed income), BEAT (base-erosion anti-abuse tax), FDII (foreign-derived intangible income) and limitations on interest expense deductions (if certain conditions apply) that became effective starting January 1, 2018, and other provisions of the Tax Act. The Company has delayed finalizing its GILTI policy election under SAB 118 until it has the necessary information available to analyze and make an informed policy decision. Because the Company is still evaluating the GILTI provisions and the future taxable income that is subject to GILTI, the Company has included GILTI related to current-year operations only in its estimated annual effective tax rate for the three and nine months ended September 30, 2018 and has not provided additional GILTI on deferred items.

### **Note 13. Net Loss Per Share**

The following table presents the calculation of basic and diluted net loss per share for the periods following the Reorganization Transactions (in thousands, except per share amounts):

	<b>Three Months Ended September 30, 2018</b>	<b>May 16, 2018 through September 30, 2018</b>
<b>Numerator:</b>		
Net loss	\$ (29,737)	\$ (54,031)
Less: Net loss attributable to non-controlling interests	(15,578)	(28,284)
Net loss attributable to Pluralsight, Inc.	<u>\$ (14,159)</u>	<u>\$ (25,747)</u>
<b>Denominator:</b>		
Weighted-average common shares outstanding	62,876	62,867
Less: Weighted-average common shares subject to time-based vesting	(404)	(467)
Weighted-average common shares outstanding, basic and diluted	<u>62,472</u>	<u>62,400</u>
Net loss per share, basic and diluted	<u>\$ (0.23)</u>	<u>\$ (0.41)</u>

During the three months ended September 30, 2018, and the period from May 16, 2018 through September 30, 2018, the Company incurred net losses and, therefore, the effect of the Company’s potentially dilutive securities were not included in the calculation of diluted loss per share as the effect would be anti-dilutive.

The following table contains share/unit totals with a potentially dilutive impact (in thousands):

	As of September 30, 2018
LLC Units held by Continuing Members	72,765
Stock options	5,232
RSUs of Pluralsight, Inc.	5,399
Restricted Share Units of Pluralsight Holdings	3,000
Shares issuable under ESPP	2,824
Warrants to purchase Class A common shares	424
<b>Total</b>	<b>89,644</b>

#### Note 14. Segment and Geographic Information

The Company operates in a single operating segment. Operating segments are defined as components of an enterprise for which separate financial information is regularly evaluated by the chief operating decision makers, who in the Company's case are the Chief Executive Officer and Chief Financial Officer, in deciding how to allocate resources and assess performance. The chief operating decision makers evaluate the Company's financial information and resources and assess the performance of these resources on a consolidated basis. Since the Company operates in one operating segment, all required financial segment information can be found in the unaudited condensed consolidated financial statements.

Revenue by geographic region, based on the physical location of the customer, was as follows (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
United States	\$ 39,368	\$ 28,543	\$ 104,901	\$ 77,263
United Kingdom	6,375	4,570	17,463	13,023
Other foreign locations	15,810	10,173	42,405	29,130
Total revenue	\$ 61,553	\$ 43,286	\$ 164,769	\$ 119,416
Percentage of revenue generated outside of the United States	36%	34%	36%	35%

With the exception of the United Kingdom, no other foreign country accounted for 10% or more of revenue during the three months ended September 30, 2018 and 2017, and the nine months ended September 30, 2018 and 2017.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q and with our Management's Discussion and Analysis of Financial Condition and Results of Operations and financial statements included in the Prospectus. As discussed in the section titled "Special Note Regarding Forward-Looking Statements," the following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed below. Factors that could cause or contribute to such differences include, but are not limited to, those identified below and those discussed in the section titled "Risk Factors" in the Prospectus.

### Overview

We are a leading provider of technology skill development solutions for businesses and individuals. We enable businesses to innovate in an era of rapid technological change and digital transformation by equipping their employees with the latest technology skills. We provide businesses with visibility into the technical strengths of their workforce, allowing them to better align resources, provide targeted skill development in line with company goals, and advance the skills of individuals and teams.

We started operations in 2004 and focused initially on in-person instructor-led training. Anticipating the increasing demand for online solutions, we began offering online courses in 2008 and shifted entirely to an online delivery model in 2011. Since 2011, we have extended our offering to include new content areas and additional features that have enabled us to expand our addressable market, attract new users, and deepen our foothold within businesses. We have expanded our platform both organically through internal initiatives and through acquisitions, which have all been focused on adding capabilities to our offerings. All of our features and content areas are fully integrated into our platform, allowing a seamless and unified experience for our customers.

Our additions and improvements to our product offering have allowed us to accelerate our revenue growth and enabled us to strengthen our relationships with our business customers. We derive substantially all of our revenue from the sale of subscriptions to our platform. We sell subscriptions to our platform primarily to business customers through our direct sales team, as well as through our website. We also sell subscriptions to our platform to individual customers directly through our website. In addition, small teams often represent the "top of the funnel" for larger deployments, bringing our technology into their workplaces and proliferating usage of our platform within their companies.

We are focused on attracting businesses, particularly large enterprises, to our platform and expanding their use of our platform over time. We believe that there exists a significant opportunity to drive sales to large enterprises, including expanding relationships with existing customers and attracting new customers. Our ability to attract large enterprises to our platform and to expand their use of our platform will be important for the success of our business and our results of operations.

In May 2018, Pluralsight, Inc. completed an initial public offering, or IPO, in which it issued and sold 23,805,000 shares of Class A common stock. The price per share to the public was \$15.00. We received net proceeds of \$332.1 million, after deducting underwriting discounts and commissions.

### Key Business Metrics

We monitor billings and certain related key business metrics to help us evaluate our business, identify trends affecting our business, formulate business plans, and make strategic decisions.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(dollars in thousands)			
Billings	\$ 72,243	\$ 50,005	\$ 192,959	\$ 134,917
Billings from business customers	\$ 61,143	\$ 39,920	\$ 161,018	\$ 105,092
% of billings from business customers	85%	80%	83%	78%

### Billings

We use billings to measure and monitor our ability to provide our business with the working capital generated by upfront payments from our customers and our ability to sell subscriptions to our platform to both existing and new customers. Billings represent our total revenue plus the change in deferred revenue in the period, as presented in our condensed consolidated statements of cash flows. Billings in any particular period represent amounts invoiced to our customers and reflect subscription renewals and upsells to existing customers plus sales to new customers. Our pricing and subscription periods vary for business customers and individual customers. Subscription periods for our business customers generally range from one to three years, with a majority being one year. We typically invoice our business customers in advance in annual installments. Subscription periods for our individual customers range from one month to one year and we typically invoice them in advance in monthly or annual installments.

We use billings from business customers and our percentage of billings from business customers to measure and monitor our ability to sell subscriptions to our platform to business customers. We believe that billings from business customers will be a significant source of future revenue growth and a key factor affecting our long-term performance. We expect our billings from business customers to continue to increase as a percentage of billings over the long term.

As our billings continue to grow in absolute terms, we expect our billings growth rate to decline over the long term as we achieve scale in our business. As we recognize revenue from subscription fees ratably over the term of the contract, due to the difference in timing of billings received and when we recognize revenue, changes to our billings and billings growth rates are not immediately reflected in our revenue and revenue growth rates.

## **Components of Results of Operations**

### ***Revenue***

We derive substantially all of our revenue from the sale of subscriptions to our platform. A small portion of our revenue is derived from providing professional services, which generally consist of content creation or other consulting services. Amounts that have been invoiced are initially recorded as deferred revenue and are recognized ratably as revenue over the subscription period. Subscription terms generally range from one year to three years for business customers and one month to one year for individual customers, and begin on the date access to our platform is made available to the customer. Nearly all of our subscriptions to business customers are billed in annual installments even if customers are contractually committed to multi-year agreements.

### ***Cost of Revenue, Gross Profit and Gross Margin***

Cost of revenue includes certain direct costs associated with delivering our platform and includes costs for author fees, amortization of our content library, hosting and delivery fees, merchant processing fees, depreciation of capitalized software development costs for internal-use software, employee-related costs, including equity-based compensation expense associated with our customer support organization, and third-party transcription costs.

Gross profit, or revenue less cost of revenue, and gross margin, or gross profit as a percentage of revenue, has been and will continue to be affected by various factors, including the mix of subscriptions we sell, the costs of author fees and costs associated with third-party hosting services, and the extent to which we expand our customer support and professional services organizations. We expect our gross margin to increase over the long term primarily due to a decrease in author fees as a percentage of revenue, although our gross margin may fluctuate from period to period depending on the interplay of the factors described above.

### ***Operating Expenses***

Our operating expenses are classified as sales and marketing, technology and content, and general and administrative. For each of these categories, the largest component is employee-related costs, which include salaries and bonuses, equity-based compensation expense, and employee benefit costs. We allocate shared overhead costs such as information technology infrastructure and facility-related costs based on headcount in that category.

#### ***Sales and Marketing***

Sales and marketing expenses consist primarily of employee compensation costs of our sales and marketing employees, including salaries, benefits, bonuses, commissions, equity-based compensation expense, and allocated overhead costs. Commissions earned by our sales force are expensed as incurred. Other sales and marketing costs include user events, search engine and email marketing, content syndication, lead generation, and online banner and video advertising. We expect that our sales and marketing expenses will increase in absolute dollars for the foreseeable future and, in the near term, may increase as a percentage of our revenue as we hire additional sales and marketing personnel, increase our marketing activities, and grow our domestic and international operations. Additionally, our sales and marketing expenses may fluctuate as a percentage of our revenue from period to period depending on the timing of expenditures. However, we expect sales and marketing expenses to decrease as a percentage of revenue over the long term.

#### ***Technology and Content***

Technology costs consist principally of research and development activities including personnel costs, consulting services, other costs associated with platform development efforts, and allocated overhead costs. Content costs consist principally of personnel costs and other activities associated with content development, course production, curriculum direction, and allocated overhead costs. Technology and content costs are expensed as incurred, except for certain costs relating to the development of internal-use software, including software used to upgrade and enhance our platform and applications supporting our business, which are capitalized and amortized over the estimated useful lives of one to three years. We expect that our technology and content expenses will increase in absolute dollars for the foreseeable future and, in the near term, may increase as a percentage of our revenue as we continue to increase the functionality of and enhance our platform and develop new content and features. Additionally, our technology and content expense may fluctuate as a percentage of our revenue from period to period depending on the timing of expenditures. However, we expect technology and content expenses to decrease as a percentage of revenue over the long term.

### General and Administrative

General and administrative expenses consist of personnel costs and related expenses for executive, finance, legal, people operations, and administrative personnel, including salaries, benefits, bonuses, and equity-based compensation expense; professional fees for external legal, accounting, recruiting, and other consulting services; and allocated overhead costs. We are incurring additional general and administrative expenses as a result of operating as a public company and our UP-C structure, including additional expenses related to compliance with the rules and regulations of the SEC, additional insurance expenses, investor relations activities, and professional services. In addition, we expect to increase the size of our general and administrative function to support our increased compliance requirements and the growth of our business. As a result, we expect that our general and administrative expenses will increase in absolute dollars for the foreseeable future and, in the near term, may increase as a percentage of our revenue. Additionally, our general and administrative expenses may fluctuate as a percentage of our revenue from period to period depending on the timing of expenditures. However, we expect general and administrative expenses to decrease as a percentage of revenue over the long term.

### Other (Expense) Income

Other (expense) income consists primarily of interest expense on long-term debt, gains or losses on foreign currency transactions, and interest income earned on our cash and cash equivalents. We repaid our long-term debt following the completion of the IPO, and as a result, interest expense has significantly decreased.

### Results of Operations

The following tables set forth selected unaudited condensed consolidated statements of operations data and such data as a percentage of revenue for each of the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Revenue	\$ 61,553	\$ 43,286	\$ 164,769	\$ 119,416
Cost of revenue <sup>(1)(2)</sup>	15,331	12,582	46,107	35,678
Gross profit	46,222	30,704	118,662	83,738
Operating expenses <sup>(1)(2)</sup> :				
Sales and marketing	41,392	29,410	109,792	70,254
Technology and content	17,227	12,448	47,045	33,979
General and administrative	17,398	19,094	48,138	34,773
Total operating expenses	76,017	60,952	204,975	139,006
Loss from operations	(29,795)	(30,248)	(86,313)	(55,268)
Other (expense) income:				
Interest expense	(342)	(3,252)	(6,476)	(8,376)
Loss on debt extinguishment	—	—	(4,085)	(1,882)
Other income, net	654	55	689	124
Loss before income taxes	(29,483)	(33,445)	(96,185)	(65,402)
Provision for income taxes	(254)	(90)	(506)	(216)
Net loss	<u>\$ (29,737)</u>	<u>\$ (33,535)</u>	<u>\$ (96,691)</u>	<u>\$ (65,618)</u>

(1) Includes equity-based compensation expense as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Cost of revenue	\$ 40	\$ 5	\$ 86	\$ 15
Sales and marketing	4,372	631	9,343	2,010
Technology and content	2,790	499	5,839	1,489
General and administrative	8,842	11,762	21,704	15,474
Total equity-based compensation	\$ 16,044	\$ 12,897	\$ 36,972	\$ 18,988

(2) Includes amortization of acquired intangible assets as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Cost of revenue	\$ 880	\$ 1,642	\$ 6,803	\$ 4,926
Sales and marketing	—	161	389	483
Technology and content	176	176	529	528
General and administrative	—	27	—	81
Total amortization of acquired intangible assets	\$ 1,056	\$ 2,006	\$ 7,721	\$ 6,018

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue	100 %	100 %	100 %	100 %
Cost of revenue	25	29	28	30
Gross profit	75	71	72	70
Operating expenses:				
Sales and marketing	67	68	67	59
Technology and content	28	29	29	28
General and administrative	28	44	29	29
Total operating expenses	123	141	125	116
Loss from operations	(48)	(70)	(53)	(46)
Other (expense) income:				
Interest expense	(1)	(8)	(4)	(7)
Loss on debt extinguishment	—	—	(2)	(2)
Other income, net	1	—	—	—
Loss before income taxes	(48)	(78)	(59)	(55)
Provision for income taxes	—	—	—	—
Net loss	(48)%	(78)%	(59)%	(55)%

#### Comparison of the Three Months Ended September 30, 2018 and 2017

##### Revenue

	Three Months Ended September 30,		Change	
	2018	2017	Amount	%
	(dollars in thousands)			
Revenue	\$ 61,553	\$ 43,286	\$ 18,267	42%

Revenue was \$61.6 million for the three months ended September 30, 2018, compared to \$43.3 million for the three months ended September 30, 2017, an increase of \$18.3 million, or 42%. The increase in revenue was primarily due to a \$17.8 million, or 55%, increase in revenue from business customers, driven by an increase of 2,298 business customers from 13,887 business customers as of September 30, 2017 to 16,185 business customers as of September 30, 2018, as well as increased sales to our existing business customers. In addition, there was an increase of \$0.5 million in revenue from individual customers.

#### *Cost of Revenue and Gross Profit*

	Three Months Ended September 30,		Change	
	2018	2017	Amount	%
(dollars in thousands)				
Cost of revenue	\$ 15,331	\$ 12,582	\$ 2,749	22%
Gross profit	46,222	30,704	15,518	51%

Cost of revenue was \$15.3 million for the three months ended September 30, 2018, compared to \$12.6 million for the three months ended September 30, 2017, an increase of \$2.7 million, or 22%. The increase in cost of revenue was primarily due to an increase of \$2.3 million in author fees, an increase of \$0.4 million in depreciation of capitalized software development costs, and an increase of \$0.3 million in hosting and delivery fees to accommodate our growing customer base. These increases were partially offset by a decrease of \$0.6 million in amortization of acquired intangible assets and course creation costs.

Gross profit was \$46.2 million for the three months ended September 30, 2018, compared to \$30.7 million for the three months ended September 30, 2017, an increase of \$15.5 million, or 51%. The increase in gross profit was the result of the increase in our revenue during the three months ended September 30, 2018. Gross margin increased from 71% for the three months ended September 30, 2017 to 75% for the three months ended September 30, 2018. The increase in gross margin was due to a decrease in amortization of acquired intangible assets from \$1.6 million for the three months ended September 30, 2017 to \$0.9 million for the three months ended September 30, 2018. The remaining increase was due to general improvements in efficiency as the growth in revenue exceeded the growth in costs.

#### *Operating Expenses*

	Three Months Ended September 30,		Change	
	2018	2017	Amount	%
(dollars in thousands)				
Sales and marketing	\$ 41,392	\$ 29,410	\$ 11,982	41 %
Technology and content	17,227	12,448	4,779	38 %
General and administrative	17,398	19,094	(1,696)	(9)%
Total operating expenses	\$ 76,017	\$ 60,952		

#### *Sales and Marketing*

Sales and marketing expenses were \$41.4 million for the three months ended September 30, 2018, compared to \$29.4 million for the three months ended September 30, 2017, an increase of \$12.0 million, or 41%. The increase was primarily due to an increase of \$11.7 million in employee compensation costs, including \$3.7 million in equity-based compensation expense, as we added headcount to support our growth. In addition, there was an increase of \$1.7 million related to allocated overhead costs primarily driven by our headcount growth and an increase of \$1.0 million due to additional travel expenses related to additional headcount. These increases were partially offset by a decrease of \$2.2 million in certain marketing and event costs.

#### *Technology and Content*

Technology and content expenses were \$17.2 million for three months ended September 30, 2018, compared to \$12.4 million for the three months ended September 30, 2017, an increase of \$4.8 million, or 38%. The increase was primarily due to an increase of \$4.8 million in employee compensation costs, including \$2.3 million in equity-based compensation expense, as we added headcount to support our growth. In addition, there was an increase of \$0.3 million related to allocated overhead costs primarily driven by our headcount growth. These increases were partially offset by a \$0.6 million increase in capitalized software development costs.

#### *General and Administrative*

General and administrative expenses were \$17.4 million for the three months ended September 30, 2018, compared to \$19.1 million for the three months ended September 30, 2017, a decrease of \$1.7 million, or 9%. The decrease was primarily due

to a decrease of \$2.7 million in employee compensation costs, including \$2.9 million less in equity-based compensation expense. These decreases were primarily due to equity-based compensation charges during the three months ended September 30, 2017 of \$9.9 million associated with the sale of common units held by an affiliate of one of our co-founders to certain existing investors at a price in excess of fair value. These decreases were partially offset by an increase of \$7.2 million in employee compensation costs due to additional headcount to support our growth and ongoing costs as a public company, an increase of \$0.6 million related to allocated overhead costs primarily driven by our headcount growth and an increase of \$0.2 million due to additional travel expenses related to additional headcount.

#### *Other (Expense) Income*

	Three Months Ended September 30,		Change	
	2018	2017	Amount	%
(dollars in thousands)				
Interest expense	\$ (342)	\$ (3,252)	\$ 2,910	(89)%
Other income, net	654	55	599	1,089 %

Interest expense decreased primarily as a result of our repayment of long-term debt in May 2018.

Other income, net was \$0.7 million for the three months ended September 30, 2018, compared to \$0.1 million for three months ended September 30, 2017, an increase of \$0.6 million. The increase was primarily due to additional interest income earned from our increased cash and cash equivalents as a result of net proceeds from our IPO.

#### **Comparison of the Nine Months Ended September 30, 2018 and 2017**

##### *Revenue*

	Nine Months Ended September 30,		Change	
	2018	2017	Amount	%
(dollars in thousands)				
Revenue	\$ 164,769	\$ 119,416	\$ 45,353	38%

Revenue was \$164.8 million for the nine months ended September 30, 2018, compared to \$119.4 million for the nine months ended September 30, 2017, an increase of \$45.4 million, or 38%. The increase in revenue was primarily due to a \$44.0 million, or 50%, increase in revenue from business customers, driven by an increase of 2,298 business customers from 13,887 business customers as of September 30, 2017 to 16,185 business customers as of September 30, 2018, as well as increased sales to our existing business customers. In addition, there was an increase of \$1.4 million in revenue from individual customers.

##### *Cost of Revenue and Gross Profit*

	Nine Months Ended September 30,		Change	
	2018	2017	Amount	%
(dollars in thousands)				
Cost of revenue	\$ 46,107	\$ 35,678	\$ 10,429	29%
Gross profit	118,662	83,738	34,924	42%

Cost of revenue was \$46.1 million for the nine months ended September 30, 2018, compared to \$35.7 million for the nine months ended September 30, 2017, an increase of \$10.4 million, or 29%. The increase in cost of revenue was primarily due to an increase of \$5.5 million in author fees, an increase of \$2.3 million in amortization of acquired intangible assets and course creation costs, an increase of \$0.9 million in depreciation of capitalized software development costs primarily due to an increase in amounts capitalized for internal-use software related to features added to our platform, and an increase of \$0.6 million in hosting and delivery fees to accommodate our growing customer base.

Gross profit was \$118.7 million for the nine months ended September 30, 2018, compared to \$83.7 million for the nine months ended September 30, 2017, an increase of \$34.9 million, or 42%. The increase in gross profit was the result of the increase in our revenue during the nine months ended September 30, 2018. Gross margin increased from 70% for the nine months ended September 30, 2017 to 72% for the nine months ended September 30, 2018.

## Operating Expenses

	Nine Months Ended September 30,		Change	
	2018	2017	Amount	%
	(dollars in thousands)			
Sales and marketing	\$ 109,792	\$ 70,254	\$ 39,538	56%
Technology and content	47,045	33,979	13,066	38%
General and administrative	48,138	34,773	13,365	38%
Total operating expenses	<u>\$ 204,975</u>	<u>\$ 139,006</u>		

### Sales and Marketing

Sales and marketing expenses were \$109.8 million for the nine months ended September 30, 2018, compared to \$70.3 million for the nine months ended September 30, 2017, an increase of \$39.5 million, or 56%. The increase was primarily due to an increase of \$34.1 million in employee compensation costs, including an increase in equity-based compensation expense of \$7.3 million, as we added headcount to support our growth. Of the increase in equity-based compensation expense, approximately \$1.6 million was related to a cumulative catch-up adjustment recorded upon completion of the IPO as the vesting condition for certain RSUs satisfied by the expiration of the lock-up period following the IPO became probable. In addition, there was an increase of \$3.4 million related to allocated overhead costs driven by our headcount growth and an increase of \$2.1 million due to additional travel expenses related to additional headcount. These increases were partially offset by a decrease of \$1.2 million in marketing and event costs.

### Technology and Content

Technology and content expenses were \$47.0 million for the nine months ended September 30, 2018, compared to \$34.0 million for the nine months ended September 30, 2017, an increase of \$13.1 million, or 38%. The increase was primarily due to an increase of \$12.0 million in employee compensation costs, including an increase in equity-based compensation expense of \$4.4 million, as we added headcount to support our growth. Of the total increase in equity-based compensation expense, approximately \$0.9 million was related to a cumulative catch-up adjustment recorded upon completion of the IPO as the vesting condition for certain RSUs satisfied by the expiration of the lock-up period following the IPO became probable. In addition, there was an increase of \$1.1 million related to allocated overhead costs primarily driven by our headcount growth and an increase of \$0.4 million in depreciation expense of property and equipment. These increases were offset by an increase of \$0.7 million in capitalized software development costs.

### General and Administrative

General and administrative expenses were \$48.1 million for the nine months ended September 30, 2018, compared to \$34.8 million for the nine months ended September 30, 2017, an increase of \$13.4 million, or 38%. The increase was primarily due to an increase of \$9.6 million in employee compensation costs, including \$6.2 million in equity-based compensation expense, primarily due to additional headcount to support our growth. Of the total increase in equity-based compensation expense, approximately \$5.3 million was related to a cumulative catch-up adjustment recorded upon completion of the IPO as the vesting condition for certain RSUs satisfied by the expiration of the lock-up period following the IPO became probable. In addition, there was an increase of \$2.6 million related to allocated overhead costs primarily driven by our headcount growth and an increase of \$0.5 million due to additional travel expenses related to increased headcount.

### Other (Expense) Income

	Nine Months Ended September 30,		Change	
	2018	2017	Amount	%
	(dollars in thousands)			
Interest expense	\$ (6,476)	\$ (8,376)	\$ 1,900	(23)%
Loss on debt extinguishment	(4,085)	(1,882)	(2,203)	117 %
Other income, net	689	124	565	456 %

Interest expense decreased primarily as a result of our repayment of long-term debt in May 2018. In connection with the repayment, we incurred a loss on debt extinguishment of \$4.1 million.

Other income, net was \$0.7 million for the nine months ended September 30, 2018, compared to \$0.1 million for nine months ended September 30, 2017, an increase of \$0.6 million. The increase was primarily due to additional interest income earned from our increased cash equivalents as a result of net proceeds from our IPO.

#### Non-GAAP Financial Measures

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(dollars in thousands)			
Non-GAAP gross profit	\$ 47,142	\$ 32,351	\$ 125,551	\$ 88,679
<i>Non-GAAP gross margin</i>	77%	75%	76%	74%
Non-GAAP operating loss	\$ (12,695)	\$ (15,345)	\$ (41,620)	\$ (30,262)
Free cash flow	\$ (909)	\$ (8,840)	\$ (23,204)	\$ (17,044)

#### *Non-GAAP Gross Profit and Non-GAAP Gross Margin*

Non-GAAP gross profit is a non-GAAP financial measure that we define as gross profit plus equity-based compensation and amortization related to acquired intangible assets. We define non-GAAP gross margin as our non-GAAP gross profit divided by our revenue. We believe non-GAAP gross profit and non-GAAP gross margin are useful to investors as they eliminate the impact of certain non-cash expenses and allow a direct comparison of these measures between periods without the impact of non-cash expenses. We believe these non-GAAP measures are useful in evaluating our operating performance compared to that of other companies in our industry, as these metrics generally eliminate the effects of certain non-cash items that may vary from company to company for reasons unrelated to overall profitability.

See the section below titled “—Reconciliation of Non-GAAP Financial Measures” for information regarding the limitations of using our non-GAAP gross profit and non-GAAP gross margin as financial measures and for a reconciliation of our non-GAAP gross profit to gross profit, the most directly comparable financial measure calculated in accordance with GAAP.

#### *Non-GAAP Operating Loss*

Non-GAAP operating loss is a non-GAAP financial measure that we define as loss from operations plus equity-based compensation and amortization related to acquired intangible assets. We believe non-GAAP operating loss provides investors with useful information on period-to-period performance as evaluated by management and comparison with our past financial performance. We believe non-GAAP operating loss is useful in evaluating our operating performance compared to that of other companies in our industry, as this metric generally eliminates the effects of certain items that may vary from company to company for reasons unrelated to overall operating performance.

See the section below titled “—Reconciliation of Non-GAAP Financial Measures” for information regarding the limitations of using our non-GAAP operating loss as a financial measure and for a reconciliation of our non-GAAP operating loss to loss from operations, the most directly comparable financial measure calculated in accordance with GAAP.

#### *Free Cash Flow*

We define free cash flow as net cash used in operating activities less purchases of property and equipment and purchases of our content library and other intangible assets. We consider free cash flow to be an important measure because it measures the amount of cash we spend or generate and reflects changes in our working capital. For the three months ended September 30, 2017, and the nine months ended September 30, 2018 and 2017, our free cash flow included cash paid for interest on our long-term debt of \$2.1 million, \$4.3 million, and \$4.7 million, respectively. We repaid all amounts outstanding under our credit facilities in May 2018, and therefore have eliminated cash paid for interest on our long-term debt. For each of the periods presented, our free cash flow was negative as a result of our continued investments to support the growth of our business. We expect our free cash flow to improve as we experience greater scale in our business and improve operational efficiency. We expect to generate positive free cash flow over the long term.

See the section below titled “—Reconciliation of Non-GAAP Financial Measures” for information regarding the limitations of using free cash flow as a financial measure and for a reconciliation of free cash flow to net cash used in operations, the most directly comparable financial measure calculated in accordance with GAAP.

#### Reconciliation of Non-GAAP Financial Measures

We use non-GAAP gross profit, non-GAAP gross margin, non-GAAP operating loss, and free cash flow in conjunction with traditional GAAP measures as part of our overall assessment of our performance, including the preparation of our annual operating budget and quarterly forecasts, to evaluate the effectiveness of our business strategies, and to communicate with our board of

directors concerning our financial performance. Our definitions may differ from the definitions used by other companies and therefore comparability may be limited. In addition, other companies may not publish these or similar metrics. Thus, our non-GAAP gross profit, non-GAAP gross margin, non-GAAP operating loss, and free cash flow should be considered in addition to, not as substitutes for, or in isolation from, measures prepared in accordance with GAAP.

We compensate for these limitations by providing a reconciliation of non-GAAP gross profit, non-GAAP operating loss, and free cash flow to the related GAAP financial measures, gross profit, loss from operations, and net cash used in operating activities, respectively. We encourage investors and others to review our financial information in its entirety, not to rely on any single financial measure and to view non-GAAP gross profit, non-GAAP gross margin, non-GAAP operating loss, and free cash flow in conjunction with their respective related GAAP financial measures.

The following table provides a reconciliation of gross profit to non-GAAP gross profit:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(dollars in thousands)			
Gross profit	\$ 46,222	\$ 30,704	\$ 118,662	\$ 83,738
Equity-based compensation	40	5	86	15
Amortization of acquired intangible assets	880	1,642	6,803	4,926
Non-GAAP gross profit	<u>\$ 47,142</u>	<u>\$ 32,351</u>	<u>\$ 125,551</u>	<u>\$ 88,679</u>
Gross margin	75%	71%	72%	70%
Non-GAAP gross margin	77%	75%	76%	74%

The following table provides a reconciliation of loss from operations to non-GAAP operating loss:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Loss from operations	\$ (29,795)	\$ (30,248)	\$ (86,313)	\$ (55,268)
Equity-based compensation	16,044	12,897	36,972	18,988
Amortization of acquired intangible assets	1,056	2,006	7,721	6,018
Non-GAAP operating loss	<u>\$ (12,695)</u>	<u>\$ (15,345)</u>	<u>\$ (41,620)</u>	<u>\$ (30,262)</u>

The following table provides a reconciliation of net cash used in operating activities to free cash flow:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Net cash provided by (used in) operating activities	\$ 1,934	\$ (6,866)	\$ (14,283)	\$ (10,816)
Less: Purchases of property and equipment	(2,002)	(1,434)	(6,576)	(4,459)
Less: Purchases of content library	(841)	(540)	(2,345)	(1,769)
Free cash flow	<u>\$ (909)</u>	<u>\$ (8,840)</u>	<u>\$ (23,204)</u>	<u>\$ (17,044)</u>

## Liquidity and Capital Resources

As of September 30, 2018, our principal sources of liquidity were cash, cash equivalents, and restricted cash totaling \$209.4 million, which were held for working capital purposes. Our cash equivalents are comprised primarily of money market funds. Since our inception, we have financed our operations primarily through private sales of equity securities, long-term debt facilities, and our net cash provided by operating activities. In May 2018, Pluralsight, Inc. completed an IPO, in which it issued and sold 23,805,000 shares of Class A common stock at a price of \$15.00 per share. We received net proceeds of \$332.1 million, after underwriting discounts and commissions.

Following the IPO, we repaid our outstanding long-term debt of \$137.7 million and incurred a loss on debt extinguishment of \$4.1 million in connection with the repayment.

For the three and nine months ended September 30, 2018 and 2017, our free cash flow was negative as a result of our continued investments to support the growth of our business. We expect our free cash flow to improve as we experience greater scale in our business and improve operational efficiency, as well as eliminate cash paid for interest as a result of the debt repayment in May 2018. We expect to generate positive free cash flow over the long term.

We believe our existing cash, cash equivalents, and restricted cash will be sufficient to meet our projected operating requirements for at least the next 12 months. Our future capital requirements will depend on many factors, including our pace of growth, subscription renewal activity, the timing and extent of spend to support the expansion of sales and marketing activities, technology and content efforts, and the continuing market acceptance of our platform. We may be required to seek additional equity or debt financing. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us, or at all. If we are unable to raise additional capital when desired, our business, results of operations, and financial condition would be adversely affected.

In connection with the IPO and our UP-C structure, we entered into the TRA with members of Pluralsight Holdings who did not exchange their LLC Units of Pluralsight Holdings in the Reorganization Transactions, or the TRA Members. As a result of the TRA, we will be obligated to pass along certain tax benefits and cash flows by making future payments to the TRA Members. Although the actual timing and amount of any payments we make to the TRA Members under the TRA will vary, such payments may be significant. Any payments we make to TRA Members under the TRA will generally reduce the amount of overall cash flow that might have otherwise been available to us and, to the extent that we are unable to make payments under the TRA for any reason, the unpaid amounts generally will be deferred and will accrue interest until paid by us.

The following table shows cash flows for the nine months ended September 30, 2018 and 2017:

	Nine Months Ended September 30,	
	2018	2017
	(in thousands)	
Net cash used in operating activities	\$ (14,283)	\$ (10,816)
Net cash used in investing activities	(8,921)	(6,228)
Net cash provided by financing activities	204,242	29,311
Effect of exchange rate change on cash, cash equivalents, and restricted cash	(136)	38
Net increase in cash, cash equivalents, and restricted cash	<u>\$ 180,902</u>	<u>\$ 12,305</u>

#### ***Operating Activities***

Cash used in operating activities for the nine months ended September 30, 2018 of \$14.3 million was primarily due to a net loss of \$96.7 million, partially offset by equity-based compensation of \$37.0 million, a favorable change in operating assets and liabilities of \$24.1 million, amortization of acquired intangible assets of \$7.7 million, amortization of course creation costs of \$1.4 million, and depreciation of property and equipment of \$6.3 million. The net change in operating assets and liabilities was primarily due to an increase in the deferred revenue balance of \$28.2 million and an increase in accrued expenses and other liabilities of \$6.9 million, partially offset by an increase in accounts receivable of \$10.4 million and an increase in prepaid expenses of \$3.0 million.

Cash used in operating activities for the nine months ended September 30, 2017 of \$10.8 million was primarily due to a net loss of \$65.6 million, partially offset by a favorable change in operating assets and liabilities of \$22.0 million, equity-based compensation of \$19.0 million, amortization of acquired intangible assets of \$6.0 million, depreciation of property and equipment of \$4.4 million, and amortization of course creation costs of \$1.1 million. The net change in operating assets and liabilities was primarily due to an increase in the deferred revenue balance of \$15.5 million, an increase in accrued expenses and other liabilities of \$8.7 million, and an increase in accounts payable of \$2.4 million, partially offset by an increase in prepaid expenses of \$3.2 million and an increase in accounts receivable of \$2.7 million.

#### ***Investing Activities***

Cash used in investing activities for the nine months ended September 30, 2018 of \$8.9 million related to purchases of property and equipment of \$6.6 million and purchases of our content library of \$2.3 million.

Cash used in investing activities for the nine months ended September 30, 2017 of \$6.2 million was related to purchases of property and equipment of \$4.5 million and purchases of our content library of \$1.8 million.

#### ***Financing Activities***

Cash provided by financing activities for the nine months ended September 30, 2018 of \$204.2 million was due to net proceeds from the IPO of \$332.1 million and borrowings of long-term debt of \$20.0 million, partially offset by repayments of

long-term debt of \$137.7 million, payments of offering costs related to the IPO of \$7.1 million, and payments of debt extinguishment costs of \$2.2 million.

Cash provided by financing activities for the nine months ended September 30, 2017 of \$29.3 million was due to borrowings of long-term debt of \$115.0 million and proceeds from the issuance of common units of \$3.1 million, partially offset by repayments of long-term debt of \$85.0 million, redemption of incentive units of \$2.8 million, and payments of debt issuance costs of \$0.8 million.

#### **Commitments and Contractual Obligations**

A portion of the net proceeds from the IPO were used to repay the outstanding principal balance of \$137.7 million under our credit agreement with Guggenheim Corporate Funding LLC, or the Guggenheim Credit Agreement, and extinguish the debt in May 2018. The Company incurred a loss on debt extinguishment of \$4.1 million in connection with the repayment.

In August 2018, we entered into a new non-cancellable operating lease agreement to rent office space for our future headquarters to be constructed in Draper, Utah for a period of 15 years beginning on the earlier to occur of the date that we open for business in the leased premises or the commencement date of June 24, 2020 (which date may be extended by construction delays). We will pay basic annual rent in monthly installments beginning on the rent commencement date. The annual rent amount will be determined based on the cost of construction of the premises. Based on the current estimate of the cost of construction, the basic rent amount for the first year is expected to be \$7.9 million, and the annual rent amount will increase by two percent each year following the rent commencement date. In the event the costs incurred by the landlord exceed the agreed upon cost of construction, the landlord may elect to pay such amounts and add such amounts to the cost of construction and increase the basic rent amount or require us to pay such amounts. The landlord has agreed to an abatement of basic rent payments at the commencement of the initial lease term of up to approximately \$3.2 million.

Outside of the repayment of the debt outstanding under the Guggenheim Credit Agreement, the non-cancellable lease discussed above, and routine transactions made in the ordinary course of business, there have been no material changes to the contractual obligations as disclosed in the Prospectus.

#### **Off-Balance Sheet Arrangements**

Through September 30, 2018, we did not have any relationships with unconsolidated organizations or financial partnerships, such as structured finance or special purpose entities that would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

#### **Critical Accounting Policies and Estimates**

Our management's discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported revenue generated and expenses incurred during the reporting periods. Our estimates are based on our historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Critical accounting policies and estimates are those that we consider critical to understanding our historical and future performance, as these policies relate to the more significant areas involving management's judgments and estimates.

The Company's significant accounting policies are discussed in "Index to the Consolidated Financial Statements—Description of Business and Summary of Significant Accounting Policies" in the Prospectus. There have been no significant changes to these policies for the three months ended September 30, 2018, except as noted in "Note 2—Summary of Significant Accounting Policies" of our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

#### **JOBS Act Accounting Election**

We meet the definition of an emerging growth company under the Jumpstart Our Business Startups Act of 2012, which permits us to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies. We have elected to use this extended transition period until we are no longer an emerging growth company or until we affirmatively and irrevocably opt out of the extended transition period. As a result, our financial statements may not be comparable to companies that comply with new or revised accounting pronouncements applicable to public companies.

## **Recent Accounting Pronouncements**

See "Note 2—Summary of Significant Accounting Policies" of our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for more information regarding recently issued accounting pronouncements.

## **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

We have operations in the United States and internationally, and we are exposed to market risk in the ordinary course of business. Our market risk is primarily a result of fluctuations in foreign currency exchange rates and variable interest rates.

### **Foreign Currency Exchange Risk**

Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the British Pound Sterling, Euro, Swedish Krona, Australian Dollar, Singapore Dollar, and Indian Rupee. Due to the relative size of our international operations to date, our foreign currency exposure has been fairly limited and thus we have not instituted a hedging program. We expect our international operations to continue to grow in the near term and we are continually monitoring our foreign currency exposure to determine when we should begin a hedging program. Today, our international contracts are denominated in U.S. dollars, while our international operating expenses are often denominated in local currencies. In the future, we plan to begin denominating certain of our international contracts in local currencies, and over time, an increasing portion of our international contracts may be denominated in local currencies. Additionally, as we expand our international operations a larger portion of our operating expenses will be denominated in local currencies. Therefore, fluctuations in the value of the U.S. dollar and foreign currencies may affect our results of operations when translated into U.S. dollars. The effect of a hypothetical 10% change in foreign currency exchange rates applicable to our business would not have a material impact on our historical condensed consolidated financial statements for any of the periods presented.

### **Interest Rate Sensitivity**

We are exposed to market risks in the ordinary course of our business. These risks primarily include interest rate sensitivities. As of September 30, 2018, we had cash, cash equivalents, and restricted cash of \$209.4 million, which consisted primarily of bank deposits and money market funds. Such interest-earning instruments carry a degree of interest rate risk; however, historical fluctuations of interest income have not been significant.

## **Item 4. Controls and Procedures**

### **Evaluation of Disclosure Controls and Procedures**

We maintain "disclosure controls and procedures," as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2018. Based on the evaluation of our disclosure controls and procedures as of September 30, 2018, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

### **Changes in Internal Control Over Financial Reporting**

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

### **Inherent Limitations on Effectiveness of Controls**

Our management, including our Chief Executive Officer and Chief Financial Officer, believes that our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives and are effective at the reasonable assurance level. However, our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur

because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

We are, from time to time, subject to legal proceedings and claims arising from the normal course of business activities, and an unfavorable resolution of any of these matters could materially affect our future business, results of operations, financial condition, and cash flows.

Future litigation may be necessary, among other things, to defend ourselves or our users by determining the scope, enforceability, and validity of third-party proprietary rights or to establish our proprietary rights. The results of any current or future litigation cannot be predicted with certainty, and regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources, and other factors.

### Item 1A. Risk Factors

For a discussion of potential risks and uncertainties, see the information in the section titled "Risk Factors" in the Prospectus.

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

#### Use of Proceeds from Public Offering of Common Stock

On May 21, 2018, we closed the IPO, in which we sold 23,805,000 shares of Class A common stock at a price to the public of \$15.00 per share, including shares sold in connection with the full exercise of the underwriters' option to purchase additional shares. The offer and sale of all of the shares in the IPO were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-224301), which was declared effective by the SEC on May 16, 2018. The shares were sold for an aggregate offering price of approximately \$357.1 million. We raised \$332.1 million in net proceeds after deducting \$25.0 million in underwriters' discounts and commissions but before deducting offering costs. As of September 30, 2018, we have reclassified approximately \$7.4 million in offering costs into stockholders' equity as a reduction of the net proceeds received from the IPO. The managing underwriters of our IPO were Morgan Stanley & Co. LLC and J.P. Morgan Securities LLC. No payments were made by us to directors, officers, or persons owning ten percent or more of our common stock or to their associates, or to our affiliates, other than payments in the ordinary course of business to officers for salaries.

Pluralsight, Inc. used all of the net proceeds to make a capital contribution to Pluralsight Holdings in exchange for 23,805,000 LLC Units of Pluralsight Holdings. As its sole managing member, Pluralsight, Inc. caused Pluralsight Holdings to use the net proceeds it received from Pluralsight, Inc. to repay all of the \$137.7 million of outstanding long-term debt under the Guggenheim Credit Agreement and a prepayment premium of \$2.1 million. In addition, Pluralsight, Inc. caused Pluralsight Holdings to settle outstanding equity appreciation rights for \$0.3 million and pay costs of \$7.4 million associated with the offering.

**Item 6. Exhibits**

Exhibit Number	Description	Incorporated by Reference				Filed or Furnished Herewith
		Form	File No.	Exhibit Number	Filing Date with SEC	
10.1	<a href="#">Lease Agreement, between Highline Office 1, L.C. and Pluralsight, LLC, dated as of August 31, 2018.</a>					X
31.1	<a href="#">Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>					X
31.2	<a href="#">Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>					X
32.1*	<a href="#">Certifications of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>					X
32.2*	<a href="#">Certifications of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema Document					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					X

\*The certifications attached as Exhibit 32.1 and 32.2 accompanying this Quarterly Report on Form 10-Q, are deemed furnished and not filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Pluralsight, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

**SIGNATURES**

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

**PLURALSIGHT, INC.**

October 24, 2018

By: /s/ Aaron Skonnard  
Aaron Skonnard  
Chief Executive Officer

**PLURALSIGHT, INC.**

October 24, 2018

By: /s/ James Budge  
James Budge  
Chief Financial Officer

**LEASE AGREEMENT**

**LANDLORD:**           **HIGHLINE OFFICE 1, L.C.**

**TENANT:**               **PLURALSIGHT, LLC**

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## LEASE SUMMARY

1. "Landlord": **Highline Office 1, L.C.**, a Utah limited liability company.
2. "Tenant": **Pluralsight, LLC**, a Nevada limited liability company.
3. "Gross Square Feet": the area determined in accordance with the standards set forth in Gross Areas of a Building: Standard Methods of Measurement (ANSI/BOMA Z65.3-[2017]), excluding structured parking or ground-level canopies (the "Measurement Standard"). The terms "GSF" and "gross square foot" shall have corollary meanings.
4. "Leased Premises": The to-be constructed Building depicted on Exhibit "B" attached hereto. For reference only, it is anticipated that the Leased Premises will contain approximately 348,251 Gross Square Feet of space.
5. "Parking": a minimum of 1,650 parking stalls, but no more than 1,815 parking stalls, subject to modification as provided in Sections 20.2, 20.3 and Section 20.6 of this Lease, which shall be exclusive subject to Section 20.6 hereof.
6. "Term": One hundred eighty (180) full calendar months, plus the partial calendar month, if any, occurring after the Rent Commencement Date if the Rent Commencement Date occurs other than on the first day of a calendar month, and including the Extension Periods (defined below) exercised pursuant to the Extension Option (defined below).
7. "Commencement Date": See Section 2.1.
8. "Rent Commencement Date": See Section 2.2.
9. "Tenant Improvement Allowance": the amount determined in accordance with the terms of the Work Letter (as defined below).
10. "Basic Annual Rent": Initially, an amount equal to the Cost of Construction (as defined below) multiplied by 8.75%, subject to adjustment as provided in Section 3.1 below and subject to annual increases at the Escalation Rate.
11. "Escalation Rate": On each anniversary of the Rent Commencement Date two percent (2%) per year on a cumulative basis.
12. "Estimated Costs": See Section 4.1.
13. "Tenant's Proportionate Share": See Section 4.1.

14. "Landlord's address for notice":

Highline Office 1, L.C.  
c/o KC Gardner Company, L.C.  
Attention: Christian K. Gardner  
201 South Main Street, Suite 2000  
Salt Lake City, UT 84111

or at such other place as Landlord may hereafter designate in writing.

15. "Tenant's address for notice (if other than the Leased Premises)":

Pluralsight, LLC  
182 N. Union Avenue  
Farmington, UT 84025  
Attn: Legal Department

With a copy to (which shall not constitute notice)

Pluralsight, LLC  
182 N. Union Avenue  
Farmington, UT 84025  
Attn: Steve Woolley

16. "Broker(s)": Tenant's Broker: Chris Falk of Newmark Grubb ACRES

Landlord's Broker: Mike Richmond and Dana Baird of Cushman & Wakefield

16. "Guarantor" or "Guarantors": N/A.

## LEASE AGREEMENT

THIS LEASE AGREEMENT (this "Lease") is made and entered into as of this 31st day of August, 2018, by and among Highline Office 1, L.C., a Utah limited liability company (the "Landlord"), and Pluralsight, LLC, a Nevada limited liability company (the "Tenant").

For and in consideration of the rental to be paid and of the covenants and agreements set forth below to be kept and performed by Tenant, Landlord hereby leases to Tenant, and Tenant hereby leases from Landlord, the Leased Premises (as hereafter defined) and certain other areas, rights and privileges for the term, at the rental and subject to and upon all of the terms, covenants and agreements hereinafter set forth.

### I. LEASED PREMISES

1.1 Description of Leased Premises. Landlord does hereby demise, lease and let unto Tenant, and Tenant does hereby take and receive from Landlord the following:

(a) All of the floor area (the "Leased Premises") in the office building to be built in accordance with the Work Letter (the "Building") located at approximately 65 East Highland Drive, Draper City, Utah, on the real property more particularly depicted on Exhibit "A" attached hereto and by this reference incorporated herein, but which shall be subject to change based on the final subdivision plat recorded by Landlord (the "Property"). The Leased Premises is depicted on the site plan shown on Exhibit "B" which is attached hereto and by this reference incorporated herein;

(b) Subject to Section 20.2 below, an exclusive right to use the Common Areas (as defined in Section 20.1 below) located on the Property or exclusively serving the Leased Premises (excluding access areas, utility areas, and the Hillside Amenities (as defined in the Work Letter) for which tenant's rights to use such areas shall be on a non-exclusive basis), including the exclusive right to use the Tenant Amenities (as defined in the Work Letter) located on the Parking Property (defined below);

(c) A non-exclusive right to use areas designated for common use within the greater project of which the Property is a part (the "Highline Development");

(d) Subject to Section 20.2 below, a non-exclusive right to use such rights-of-way, easements and similar rights with respect to the Building and Property as may be reasonably necessary for access to and egress from the Leased Premises or as may be provided in easements or declarations benefitting the Property; and

(e) Subject to Sections 20.2, 20.3 and 20.6 below, an exclusive right to use those areas designated and suitable for vehicular parking within the Parking

Property as set forth in Sections 20.3 and 20.6 below and the CC&Rs (defined below).

1.2 Landlord and Tenant's Construction Obligations. The obligation of Landlord and Tenant to perform the work and supply the necessary materials and labor to prepare the Leased Premises for occupancy is described in detail in the work letter which is attached hereto as Exhibit "C" (the "Work Letter") and by reference incorporated herein. Landlord and Tenant shall expend all funds and do all acts required of them as described in the Work Letter and shall perform or have the work performed promptly and diligently in a first class and workmanlike manner.

1.3 Changes to Building. Landlord hereby reserves the right at any time and from time to time to make changes, alterations or additions to the Building or to the Property to the extent required by any modification to applicable law or as may be reasonably necessary to perform Landlord's obligations under this Lease. Landlord shall provide advanced written notice to Tenant of such changes. Landlord shall take good faith efforts to minimize any interference with Tenant's use and enjoyment of the Leased Premises and any such changes, alterations or additions shall not materially adversely affect Tenant's rights, interest or obligations under this Lease. Except as otherwise provided in this Section 1.3, Tenant shall not, in such event, claim or be allowed any damages for injury, interference, eviction (constructive or actual) or inconvenience occasioned thereby and shall not be entitled to terminate this Lease or receive an abatement of any amounts payable under this Lease.

1.4 [Intentionally Deleted]

1.5 Construction of Building and Tenant Improvements. The Building in which the Leased Premises are to be located is not currently in existence. Landlord shall, at its own cost and expense (except as otherwise provided in the Work Letter): (a) construct and Substantially Complete (as defined in the Work Letter) the Landlord Improvements (as defined in the Work Letter); (b) cause the Turnover Condition (as defined in the Work Letter) to occur; and (c) complete the Hillside Amenities and the Tenant Amenities (as defined in the Work Letter). Landlord will Substantially Complete such construction and preparation ("Substantial Completion of Construction") by the date set forth in Exhibit A of the Work Letter, as such date may be extended for Construction Delays (but not Landlord Delays) (the "Substantial Completion Deadline"). If Substantial Completion of Construction has not occurred on or before the Substantial Completion Deadline, as such date may be extended for Construction Delays (but not for Landlord Delays, as such term is defined in the Work Letter), Tenant, as Tenant's sole remedy, shall be entitled to receive from Landlord liquidated damages in the amount equal to (i) \$5,000 per each day after the Substantial Completion Deadline that Substantial Completion of Construction has not occurred for the first 30 days of delay, and (ii) \$7,500 per day, for each day of delay thereafter, until Substantial Completion of Construction occurs.

1.6 Right to Divide Lease. Landlord may elect, in its reasonable discretion, to cause the Building to be subject to a condominium regime which subdivides the Building into two separate condo units (each a “Unit”) in which event Landlord may require that each Unit be subject to a separate lease (each such lease, an “Amended Lease” and collectively, the “Amended Leases”). The Amended Leases shall be between Landlord, or an affiliate of Landlord, and Tenant, and shall collectively amend and restate this Lease. In such event, Landlord shall deliver written notice to Tenant of its election to divide this Lease, and Tenant shall, within ten (10) business days of receiving Landlord’s notice, enter into the Amended Leases. The Amended Leases shall each be in the same form as this Lease, except that (i) the Gross Square Feet of the Leased Premises shall be divided between the Amended Leases pursuant to floor plans prepared by Landlord in its reasonable discretion; (ii) all terms of this Lease which depend upon the Gross Square Feet shall be adjusted in accordance with the new Gross Square Feet of each Amended Lease; (iii) the Amended Leases shall not be cross-defaulted; and (iv) the Deposit Account shall be separated into two accounts, one for each Amended Lease, and the Deposit Funds shall be proportionately allocated to each separate account based on the Gross Square Footage subject to each Amended Lease. Landlord shall reimburse Tenant for documented out-of-pocket costs incurred in connection with the Amended Lease, including reasonable attorneys’ fees and costs associated with splitting the Deposit Account, in an amount not to exceed \$3,000.

1.7 Subdivision of Property. As of the date hereof, the Property is currently part of a larger parcel of real property. On or before the date that is two hundred forty (240) days after the date hereof, Landlord shall cause such parcel to be subdivided substantially as shown on Exhibit “A-1”. Such subdivision shall not require Tenant’s consent so long as the subdivision is substantially similar to the proposed plat set forth on Exhibit “A-1” attached hereto. At such time as the Property is subdivided, Landlord and Tenant shall enter into an amendment to this Lease to modify the legal description set forth on Exhibit “A” to this Lease to include only the Property.

## II. TERM

2.1 Length of Term. The initial Term of this Lease shall commence on the date hereof (the “Commencement Date”) and shall continue for a period of one hundred eighty (180) full calendar months plus the partial calendar month, if any, occurring after the Rent Commencement Date if the Rent Commencement Date occurs other than on the first day of a calendar month.

2.2 Rent Commencement Date. Tenant’s obligation to pay rent hereunder shall commence on the earlier to occur of (i) the date Tenant opens for business in the Leased Premises, and (ii) June 24, 2020 (which date shall be extended one day for each day of delay occurring as a result of a Landlord Delay, Landlord’s failure to reach Substantial Completion of the Landlord Improvements by June 24, 2020 (as such date is extended by Construction Delays), or the failure of Landlord to meet the Actual Turnover

Condition Date (as defined in the Work Letter) by August 20, 2019 (as such date is extended by Construction Delays)) (the “Rent Commencement Date”).

2.3 Tenant Improvement Allowance. Landlord shall provide a tenant improvement allowance (the “Tenant Improvement Allowance”) to partially reimburse Tenant for Tenant’s performance of the Tenant Improvements in accordance with the terms of the Work Letter.

2.4 Amendment to Lease Recognizing the Rent Commencement Date. At any time after the occurrence of the Rent Commencement Date, Landlord or Tenant may request that the other party enter into an amendment to this Lease in the form attached hereto as Exhibit “E”, in which case each party shall execute and deliver an amendment to this Lease in the form Exhibit “E” within ten (10) business days after the request by the other party.

2.5 Extension of Lease. So long as Tenant is not then in default (beyond any applicable notice and cure period) under any term or covenant of this Lease at the time Tenant delivers an Exercise Notice (as defined below) and is not in default of any of its monetary obligations or in Material Non-Monetary Default (as defined below) (beyond any applicable notice and cure period) as of the first day of the Extension Period, Tenant is hereby granted the right (each such right, an “Extension Option”) to renew the initial Term for up to three (3) additional periods of five (5) years each (each such period, an “Extension Period”). Tenant may elect to exercise an Extension Option by delivering written notice to Landlord (the “Exercise Notice”) indicating that Tenant elects to exercise the Extension Option, which notice must be delivered to Landlord at least five hundred (500) days prior to the expiration of the then applicable Term. In the event Tenant timely and properly exercises an Extension Option in accordance with the immediately preceding sentence, all terms and conditions set forth in this Lease shall continue to apply during the Extension Period, except that Basic Annual Rent for the first year of such Extension Period shall be equal to ninety five percent (95%) of the Fair Market Rent (as defined in Exhibit “H”), and thereafter, on each anniversary of the Rent Commencement Date during the Extension Period, shall be increased by an amount equal to the Escalation Rate. In addition, the term of this Lease may be extended as provided in that certain Expansion Option Agreement between Tenant and Landlord (or its successors in interest under such agreement), dated on or around the date hereof (the “Expansion Option Agreement”). For purposes of this Lease, a “Material Non-Monetary Default” means (i) Tenant’s default or failure to perform its obligations under the provisions of Article IX, X or XI, excluding any defaults or failures to perform related to Tenant’s obligation to deliver any documentation, (ii) Tenant’s default or failure to perform its obligations under the provisions of Sections 6.1, 6.2, 6.3, or 14.2, and/or (iii) Tenant’s default or failure to perform its maintenance and repair obligations where such failure could reasonably be expected to result in a violation of applicable law, or damage or injury to person or property. A default under this Lease shall not be a “Material Non-Monetary Default” unless and until Landlord provides written notice to Tenant that such default constitutes a “Material Non-Monetary Default”.

2.6 Early Entry. Subject to the provisions of Section 11 of the Work Letter, Tenant and Tenant's employees, officers, authorized agents and contractors (collectively, the "Tenant's Agents") shall have the right to enter the Leased Premises no less than sixty (60) days prior to the Rent Commencement Date in order for Tenant to install Tenant's furniture, fixtures, and equipment. Tenant agrees that Tenant and Tenant's Agents will work in harmony with Landlord and not interfere with Landlord and its agents, contractors, and employees during Landlord's installation and performance of Landlord's obligations under the Work Letter. Any early access and entry into the Leased Premises by Tenant or Tenant's Agents shall be subject to the applicable terms, covenants, conditions, and provisions of this Lease and the Work Letter; provided, however, Tenant shall have no obligation to pay Basic Annual Rent, Additional Rent or utilities prior to the Rent Commencement Date. Tenant acknowledges and agrees that Landlord shall not be liable for any injury, loss, or damage which may occur to Tenant or Tenant's Agents or any of Tenant's furniture, fixtures and equipment, except to the extent caused by the negligence or willful misconduct of Landlord.

### III. BASIC RENTAL PAYMENTS

3.1 Basic Annual Rent. Tenant agrees to pay to Landlord as basic annual rent for the Leased Premises at such place as Landlord may designate, without prior demand therefore and without any deduction or set off whatsoever an annual amount equal to the Cost of Construction multiplied by 8.75% ("Basic Annual Rent."). The Basic Annual Rent shall be due and payable in twelve (12) equal monthly installments to be paid in advance on or before the first day of each calendar month during the Term. Commencing on the first anniversary of the Rent Commencement Date and on each anniversary of the Rent Commencement Date thereafter, Basic Annual Rent shall escalate at the Escalation Rate. In the event the Rent Commencement Date occurs on a day other than the first day of a calendar month, then rent shall be paid on the Rent Commencement Date for the initial fractional calendar month prorated on a per diem basis. Prior to the Rent Commencement Date, Landlord shall deliver notice to Tenant, certified as true and accurate, of Landlord's calculation of Basic Annual Rent (the "Basic Annual Rent Notice"). Tenant acknowledges that all costs and expenses comprising the Cost of Construction which are used in the calculation of Basic Annual Rent may not be available at the time Landlord delivers the Basic Annual Rent Notice, therefore, Landlord shall have the right, for a period of six (6) months after Landlord delivers the Basic Annual Rent Notice, to deliver written notice to Tenant (the "Adjusted Basic Annual Rent Notice") adjusting Basic Annual Rent to reflect the actual Cost of Construction. If Landlord delivers an Adjusted Basic Annual Rent Notice, Tenant shall pay Basic Annual Rent as set forth in the Adjusted Basic Annual Rent Notice on the first day of the month immediately following Tenant's receipt of the Adjusted Basic Annual Rent Notice and, in addition, on the first day of the month following Tenant's receipt of an Adjusted Basic Annual Rent Notice, Tenant shall pay to Landlord the aggregate incremental difference in Basic Annual Rent for any prior months in the event Basic Annual Rent as set forth in the Adjusted Basic Annual Rent Notice is greater than the Basic Annual Rent set forth in the Basic Annual Rent Notice. If the Adjusted Basic Annual Rent Notice indicates that the

Basic Annual Rent paid by Tenant for any prior months exceeded the Basic Annual Rent set forth in the Adjusted Basic Rent Notice, Landlord, at its election, shall within thirty (30) days of Tenant's receipt of such Adjusted Basic Annual Rent Notice, either (a) pay the amount of such excess to Tenant, or (b) apply the incremental difference in Basic Annual Rent paid pursuant to the Basic Annual Rent Notice against future installments of Basic Annual Rent until such excess is applied in full.

For purposes of this Section 3.1, the term "Cost of Construction" means any and all "hard" and "soft" costs and expenditures incurred at any time (and whether before or after the date of this Lease) in connection with the acquisition, design or construction of the Property, the Parking Property, the Building and the Improvements (as defined below) (collectively, the "Project"): (a) all amounts paid to the Architect (as defined in the Work Letter), the General Contractor (as defined in the Work Letter) and subcontractors, less and excepting any amounts paid as the result of a default by Landlord under its contracts with the General Contractor and the Architect; (b) all architectural, engineering, consulting and other professional fees; (c) all permit and license fees and other charges required by applicable law paid in connection with or arising out of the acquisition, design or construction of the Project; (d) all costs accrued or incurred in connection with or arising from the acquisition and zoning of the Project, including, without limitation, the land value of the Parking Property and the Property in the amount of \$11,200,000.00; (e) all property taxes and assessments payable with respect to the Project (except as paid or reimbursed by Tenant pursuant to this Lease and except those paid prior to the Effective Date of this Lease); (f) all reasonable legal and accounting fees attributable to the development and construction of the Project; (g) utility charges and similar costs and expenses in respect to construction of the Project; (h) all costs incurred in connection with both the construction and permanent financing of the Project, including all broker's fees, interest costs (to the extent arising prior to the Rent Commencement Date) and loan closing costs associated with the construction and permanent loans for the Project not to exceed \$9,000,000.00 in total (inclusive of the \$675,000.00 cap described below for the permanent loan), but not including the principal amount of the loan; (i) the Tenant Improvement Allowance; and (j) all allocations within the Final Budget for the Project applied by Landlord or its affiliates to any of the foregoing. With regard to sub-paragraph (h) above, the costs incurred in connection with any permanent financing of the Project, for purposes of calculating the Cost of Construction, will be capped at \$675,000.00.

Notwithstanding anything to the contrary in this Lease, the Cost of Construction shall, except as set forth in the Work Letter, exclude the Landlord Hillside Amenity Cost and the Amenity Allowance (both as described in the Work Letter) and any costs over the Maximum Landlord Cost (as defined in the Work Letter) paid or reimbursed by Tenant pursuant to the terms of Section 12 of the Work Letter. Except as otherwise set forth in the Work Letter, in the event the Cost of Construction includes improvements which do not exclusively serve the Property or the Parking Property, the Cost of Construction for such improvements shall be allocated between the Property and the other portions of the Highline Development which are served by such improvements based on the Gross Square Feet of the buildings located upon the Property and the Gross Square Feet of the

buildings located on the Highline Development being served by such improvements, it being agreed that the allocation for the Hillside Amenities and the Arterial Road (as defined in the Work Letter) is described in the Work Letter.

In the event that the Cost of Construction includes amounts paid by Landlord for interest reserves in connection with financing for the Project, and such interest reserves, if any, are available to Landlord at the Rent Commencement Date, Landlord shall do one of the following, at Tenant's sole option, but only to the extent of the interest reserves actually released to Landlord (the "Interest Reserve Reimbursement Amount"): (i) pay the Interest Reserve Reimbursement Amount directly to Tenant; or (ii) prospectively reduce the Cost of Construction by the Interest Reserve Reimbursement Amount.

3.2 Rent Abatement. Tenant shall be entitled to an abatement of Basic Annual Rent with respect to the Leased Premises in an amount equal to \$3,170,021.19, which abatement shall be applied to the period commencing on the Rent Commencement Date and continuing until such abatement has been entirely applied (the "Abatement Period"). The Basic Annual Rent collectively abated during the Abatement Period is referred to herein as the "Abated Rent." Notwithstanding the provisions of this Section 3.2, Tenant shall be obligated to pay Additional Rent to Landlord during the Abatement Period. If the Rent Commencement Date does not start on the first day of a calendar month, such Abatement Period shall be adjusted in the first and last month of such term so that Tenant receives only the periods of abated Basic Annual Rent specified above in this Section 3.2(a). In the event Tenant defaults under this Lease and such default continues beyond all applicable notice and cure periods, in addition to any other rights or remedies Landlord has under this Lease, at law or in equity, regardless of whether or not Landlord elects to terminate this Lease, Tenant shall pay to Landlord an amount equal to the unamortized Abated Rent, which amortization shall occur on a straight-line basis over the Term of the Lease.

3.3 Additional Monetary Obligations. Tenant shall also pay as rent (in addition to the Basic Annual Rent) all other sums of money as shall become due and payable by Tenant to Landlord under this Lease. Landlord shall have the same remedies in the case of a default in the payment of said other sums of money as are available in the case of a default in the payment of one or more installments of Basic Annual Rent.

#### IV. ADDITIONAL RENT

4.1 Definitions. It is the intent of both parties that the Basic Annual Rent herein specified shall be net to Landlord throughout the Term of this Lease and that, except as otherwise provided below, all costs, expenses and obligations relating to the Building, the Common Areas, the Property and/or the Leased Premises which may arise or become due during the Term shall be paid by Tenant in the manner hereafter provided. For purposes of this Lease, the terms set forth below shall mean the following:

(a) “Additional Rent” shall mean the sum of Tenant’s Proportionate Share of Common Area Expenses plus all other amounts due and payable by Tenant under this Lease other than Basic Annual Rent.

(b) “Common Area Expenses” shall mean all actual costs and expenses incurred by Landlord in connection with the ownership, operation, management and maintenance of the Common Areas, the Building, Property, and related improvements located thereon (the “Improvements”). Common Area Expenses include, but are not limited to, all such expenses incurred by Landlord as a result of Landlord’s compliance with any and all of its obligations under this Lease other than the performance of its work under Section 2.3 of this Lease or similar provisions of leases with other tenants. In explanation of the foregoing, and not in limitation thereof, Common Area Expenses shall include:

(i) all real and personal property taxes, impact fees to the extent triggered by Tenant’s improvements or alterations to the Leased Premises after the Rent Commencement Date, local improvement rates, and other ad valorem assessments (whether general or special, known or unknown, foreseen or unforeseen) and any tax or assessment levied or charged in lieu thereof, whether assessed against Landlord and/or Tenant and whether collected from Landlord and/or Tenant, including, without limitation, any privilege or excise tax;

(ii) the cost of all insurance determined by Landlord to be necessary in its reasonable discretion on or with respect to the Building, the Improvements, the Common Areas or the Property, including, without limitation, casualty insurance, liability insurance, rental interruption, workers compensation, any insurance required to be maintained by Landlord’s lender, and any deductible applicable to any claims made by Landlord under such insurance;

(iii) snow removal, trash removal, cost of services of independent contractors, cost of compensation (including employment taxes and fringe benefits) of all persons who perform regular and recurring duties connected with day-to-day operation, maintenance, repair, and replacement of the Building, the Improvements, the Common Areas or the Property, its equipment and the adjacent walk and landscaped area

(including, but not limited to janitorial, day porter, gardening, security, parking, elevator, painting, plumbing, electrical, mechanical, carpentry, window washing, structural and roof repairs and reserves, signing and advertising), but excluding persons performing services not uniformly available to or performed for substantially all Building tenants;

(iv) costs of all gas, water, sewer, electricity and other utilities used in the maintenance, operation or use of the Building (except to the extent separately metered or sub-metered to Tenant and billed to Tenant directly as permitted hereunder), the Improvements, the Property and the Common Areas, cost of equipment or devices used to conserve or monitor energy consumption, supplies, licenses, permits and inspection fees;

(v) auditing, accounting and legal fees;

(vi) Property management fees not to exceed four percent (4%) of all Basic Annual Rent and Additional Rent;

(vii) the cost of capital improvements which decrease the Common Area Expenses, provided, however, the amount included as Common Area Expenses shall be limited to the actual verified amount of the decrease in Common Areas Expenses as a direct result of such capital improvements; and

(viii) payments required to be made in connection with the maintenance or operation of any easement or right of way or other instrument through which Landlord claims title in the Property or to which Landlord's title in the Property is subject (including the CC&Rs defined below).

Notwithstanding anything to the contrary, Common Area Expenses shall exclude the following: (i) rentals or increases in rentals from any ground lease rent; (ii) depreciation of the Building, Building equipment, or the Project; (iii) legal and other expense or consulting fees incurred by Landlord to resolve disputes or enforce any lease terms, Rules and Regulations, or any covenants, conditions, and restrictions governing the Building or the Property; (iv) interest, principal, points and fees, amortization or other costs with respect to any mortgage, loan or refinancing of the Building or Project; (v) expenses for the replacement of any item to the extent covered under warranty in favor of the Landlord; (vi) any penalty or fine incurred by Landlord due to Landlord's violation (other than as a result of Tenant's violation) of any federal, state, or local law or regulation; (vii) expenses for any item or service which Tenant pays directly to a third-party or for which Tenant separately reimburses Landlord; (viii) franchise, estate, succession, inheritance, profit, use, occupancy, gross receipts, rental, capital gains, capital stock, transfer and

income taxes upon Landlord; (ix) any costs to clean-up, abate, remove, or otherwise remedy hazardous wastes or asbestos-containing materials from the Property, unless the wastes or asbestos containing materials are in or on the Premises due to Tenant's acts or omissions; (x) interest, fees, or penalties for late payment by Landlord except to the extent Tenant has failed to timely pay Basic Annual Rent or Additional Rent under this Lease; (xi) costs and expenses of governmental licenses and permits, or renewals thereof, unless the same are for governmental licenses or permits normal to the operation or maintenance of the Building; (xii) the costs (including, without limitation, attorneys' fees and disbursements) of any judgment, settlement, or arbitration award resulting from any tort liability, except to the extent caused by the acts or omissions of Tenant; (xiii) arbitration expenses unrelated to the maintenance, operation, and security of the Building, the Property or the Common Areas; (xiv) legal and auditing fees; (xv) any rent, additional rent or other charge under any lease or sublease to or assumed, directly or indirectly, by Landlord; (xvi) expenditures on account of Landlord's acquisition of air rights; (xvii) the cost of repairs or replacements incurred by reason of fire or other casualty or caused by the exercise of the right of eminent domain to the extent such cost is recovered by Landlord from insurance proceeds or a condemnation award; (xviii) without duplication of clause (xvix) above, there shall be deducted from Common Area Expenses an amount equal to all amounts actually received by Landlord (less costs and expenses incurred by Landlord in collecting the same) through proceeds of insurance to the extent the proceeds are compensation for expenses which (a) previously were included in Common Area Expenses hereunder (b) are included in Common Area Expenses for the year in which the insurance proceeds are received, or (c) will be included as Common Area Expenses in a subsequent year; (xx) the costs of any work or service performed for any facility or property other than the Building or the Property except to the extent allocated to the Building or the Property pursuant to a matter of record; (xxi) any extraordinary Common Area Expenses arising or incurred at any time not during the Term; (xxii) special assessments; (xxiii) costs directly resulting from the negligence, illegal acts, or willful misconduct or omission of the Landlord or its agents, contractors, or employees; (xxiv) [intentionally omitted]; (xxv) [intentionally omitted]; (xxvi) [intentionally omitted]; (xxvii) costs incurred by Landlord in connection with the initial construction or renovation of the Building, the Improvements, and all related facilities; (xxviii) any costs or expenses relating to the Landlord's obligations under the Work Letter; (xxvix) costs for renovating or improving vacant or unleased space in the Building; (xxx); interest on debt or amortization payments on any mortgages or deeds of trust for the Building and/or the Project; (xxxi) the costs or expenses arising from any bad debt of Landlord; (xxxii) the cost of any repairs or replacements to the Building and the Improvements that would

constitute a capital repair or capital expense under generally acceptable accounting practices except as set forth in Section 4.1(b)(viii) above; and (xxxiii) any costs of Landlord's personnel or management employees over and above the 4% property management fee referenced in Section 4.1(b)(vi).

(g) "Common Areas" is defined in Section 20.1.

(h) "Estimated Costs" shall mean Landlord's estimate of Tenant's Proportionate Share of Common Area Expenses for a particular calendar year.

(i) "Tenant's Proportionate Share" shall mean the percentage derived from the fraction, the numerator of which is the Gross Square Footage of the Leased Premises, the denominator of which is the Gross Square Footage of the Building. In this Lease, Tenant's Proportionate Share is one hundred percent (100%). In the event the Common Area Expenses include expenses for improvements that do not exclusively serve the Property, the Common Area Expenses for such improvements shall be proportionately allocated between the Property and the other portions of the Highline Development which are served by such improvements based on the Gross Square Feet of the buildings located upon the Property and the Gross Square Feet of the buildings; provided to the extent buildings have not been built on other portions of the Highline Development, Tenant's Proportionate Share shall be seventy percent (70%).

4.2 Payment of Additional Rent. Additional Rent shall be paid as follows:

(a) Prior to the beginning of the calendar year following the Rent Commencement Date, Landlord shall deliver to Tenant a statement showing the Estimated Costs for such calendar year. If Landlord fails to deliver such statement prior to January 1 of the applicable year, until the delivery of such statement, Tenant's Estimated Costs shall be deemed to be the same amount of the Estimated Costs for the prior year; provided, however, if Landlord subsequently furnishes to Tenant a statement of such Estimated Costs, to the extent such Estimated Costs are greater than or less than the Estimated Costs paid on a year to date basis, Tenant shall either receive a credit or make a payment, in the amount of such difference on the next date on which Tenant makes a Basic Annual Rent payment hereunder.

(b) Concurrent with each monthly payment of Basic Annual Rent due pursuant to Section 3.1 above, Tenant shall pay to Landlord, without offset or deduction, one-twelfth (1/12th) of the Estimated Costs, plus all other amounts due and owing by Tenant under this Lease which are not included as part of Estimated Costs (e.g., late payment charges).

(c) Cap on Common Area Expense Increases. The actual aggregate increase in Controllable Expenses combined for any particular calendar year shall not be increased by more than four percent (4%) per annum on a compounding basis. "Controllable Expenses" means Common Area Expenses that are reasonably subject

to Landlord's control, but in no event shall Controllable Expenses include real property taxes, utilities, snow removal, insurance expenses, increases as a result of additional Building services which Tenant requests and Landlord agrees to provide, or property management fees (provided such property management fees shall be limited to the percentage set forth in Section 4.1(b)(vi) above). To the extent a Common Area Expense is incurred as a result of Landlord performing an obligation which Landlord is required to perform under this Lease, such Common Area Expense shall not be deemed to be a Controllable Common Area Expense, provided, at Tenant's request, Landlord shall use commercially reasonable efforts to obtain three (3) separate bids related to such Common Area Expense and, to the extent the costs incurred by Landlord exceed the lowest bid obtained by Landlord, such difference shall be a Controllable Expense.

4.3 Report of Common Area Expenses and Statement of Estimated Costs. Within one hundred twenty (120) days after each calendar year occurring during the Term, Landlord shall furnish Tenant with a written reconciliation statement certified to be true and correct by Landlord (the "Landlord's Statement") comparing the Common Area Expenses payable during the previous calendar year against the amounts actually paid by Tenant during the previous calendar year pursuant to Section 4.2 above. If the annual reconciliation statement of costs indicates that the Estimated Costs paid by Tenant for any year exceeded the Common Area Expense for the same year, Landlord, at its election, shall within thirty (30) days of Tenant's receipt of such reconciliation statement, either (a) pay the amount of such excess to Tenant, or (b) apply such excess as a deduction against the next installment of Basic Annual Rental or Additional Rent due hereunder. If the annual reconciliation statement of costs indicates that Estimated Costs paid by Tenant for any year are less than the Common Area Expense for such calendar year, Tenant shall pay to Landlord any such deficiency within thirty (30) days of Tenant's receipt of such reconciliation statement.

4.4 Resolution of Disagreement . Every statement given by Landlord pursuant to Section 4.3 shall be conclusive and binding upon Tenant unless within one hundred twenty (120) days after the receipt of such statement Tenant shall notify Landlord that it disputes the correctness thereof. During the period of 120 days after receipt of Landlord's Statement, at Tenant's sole cost and expense, Tenant's certified public accountant which is not compensated on a contingency basis may, for the purpose of verifying the Common Area Expenses, inspect the records of the material reflected in Landlord's Statement, including such materials and statements for previous years, as applicable, at a reasonable time mutually-agreeable to Landlord and Tenant. The audit shall be concluded within thirty (30) days of the commencement of such audit and Tenant shall provide Landlord with the results of such audit within sixty (60) days of the conclusion of such audit. The parties recognize the confidential nature of Landlord's books and records and hence agree that before Landlord shall afford Tenant's certified public accountant reasonable access to Landlord's books and records, including the copying of said material in order to complete a thorough analysis of the expenses, Tenant and its certified public accountant shall enter into a confidentiality agreement in form and

substance reasonably satisfactory to Landlord, whereby Tenant and its certified public accountant shall agree, as a condition precedent to their review of such books and records, not to disclose any of the information disclosed in connection with such review to any third party (subject to standard nondisclosure exceptions, including without limitation, disclosures ordered by a court or otherwise required to comply with applicable law). Failure of Tenant to challenge any item in Landlord's Statement within one hundred twenty (120) days after Tenant's receipt of Landlord's Statement shall be construed as a waiver of Tenant's right to challenge such item for such year and such determination shall be conclusive for both Landlord and Tenant. In the event Tenant's audit of Landlord's Statement discloses discrepancies, Tenant shall disclose the results of such audit to Landlord. Landlord shall have a period of thirty (30) days to review Tenant's audit reports and determine if Landlord disputes such reports. If Landlord disputes the results of Tenant's audit reports, Landlord shall give written notice of such disputes within such thirty (30) day period. Landlord and Tenant shall work in good faith to resolve any disagreements resulting from Tenant's audit. If Landlord and Tenant cannot resolve such disputes within thirty (30) days of the date Landlord gives notice to Tenant of Landlord's dispute, either party may refer the decision of the issues raised, if any, to a reputable, nationally-recognized independent firm of certified public accountants selected by Landlord and approved by Tenant, which approval shall not be unreasonably withheld, conditioned or delayed. The selected firm shall be deemed to be acting as an expert and not as an arbitrator, and a determination signed by the selected expert shall be final and binding on both Landlord and Tenant. Landlord shall afford such accountants reasonable access to Landlord's books and records to the extent such accountants deem necessary in order to reach their decision. In connection therewith, Tenant and such accountants shall execute and deliver to Landlord a confidentiality agreement, in form and substance reasonably satisfactory to Landlord, whereby such parties shall agree not to disclose any of the information disclosed in connection with such review to any third party (subject to standard nondisclosure exceptions, including without limitation, disclosures ordered by a court or otherwise required to comply with applicable law). Notwithstanding the foregoing, in the event such certified public accountant shall determine that Landlord's Statement for the subject year or any previous years, if applicable, has overcharged Tenant for Common Area Expenses (and such determination is not successfully challenged by Landlord), then Landlord shall refund or credit to Tenant the amount of the overcharge.

4.5 Limitations. Nothing contained in this Article IV shall be construed at any time so as to reduce the monthly installments of Basic Annual Rent payable hereunder below the amount set forth in Section 3.1 of this Lease.

4.6 Tenant's Right to Contest Taxes. So long as (i) no default exists beyond applicable notice and cure periods, (ii) all real property taxes are paid prior to delinquency, and (iii) Landlord is unlikely to incur liability, as determined by Landlord in its reasonable judgment, Tenant may attempt to have the assessed valuation of the Leased Premises reduced or may initiate proceedings to contest the real property taxes. If required by law, Landlord shall reasonably cooperate, at no out of pocket cost or expense to Landlord, in the proceedings brought by Tenant. However, Tenant shall pay all costs of the proceedings, including any costs or fees incurred by Landlord. Upon the final determination of any proceeding or contest, Tenant shall immediately pay the real property taxes due, together with all costs, charges, interest and penalties incidental to the proceedings. Tenant shall pay all real property taxes during the pendency of any proceeding to contest or appeal real property taxes. Tenant shall protect, defend, indemnify and hold harmless Landlord and its affiliates against and from any and all claims, demands, actions, losses, damages, orders, judgments, and any and all costs and expenses (including, without limitation, reasonable attorneys' fees), resulting from or incurred by Landlord as a result of Tenant's exercise of its contest rights pursuant to this Section 4.6.

## V. CREDIT ENHANCEMENT.

5.1 Deposit. Within thirty (30) days of the date hereof, Tenant will establish with U.S. Bank National Association, a national banking association (the "Deposit Bank") an account in the name of Tenant (the "Deposit Account") into which Tenant will deposit an amount equal to \$16,000,000.00 (the "Deposit Funds"). The Deposit Account will be free and clear of any and all liens in favor of any other party (other than Landlord as provided under this Section 5.1). Tenant, Landlord and Deposit Bank will enter into an account control agreement (the "Account Control Agreement") pursuant to which Deposit Bank will agree that the Deposit Account and Deposit Funds are held for the benefit of, and under the control of, Landlord (the "Account Control Party") and that, except to the extent directed by Account Control Party or permitted by this Article V, Deposit Bank will not permit any disbursement, distribution or other transfer of the Deposit Funds. Tenant shall be responsible for all costs of opening and maintaining the Deposit Account. Deposit Bank shall not be permitted to offset any amounts owed to Deposit Bank against the Deposit Funds except as may be permitted by Landlord under the terms of the Account Control Agreement. As used herein, Account Control Party may also mean Landlord's lender in the event of a completed foreclosure, delivery of deed in lieu of foreclosure or other similar enforcement action of or against the Property by such lender. Notwithstanding anything to the contrary herein, Landlord shall have the right to collaterally assign the Account Control Agreement and the rights of the Account Control Party to its lenders from time to time.

5.2 Interest on Deposit Funds. The Deposit Account may be an interest bearing deposit account that may be invested

in certain permitted investments (as defined in the Account Control Agreement). Any interest earned on the Deposit Funds shall be added to and become part of the Deposit Funds; provided, however, so long as no event of default by Tenant under this Lease has occurred beyond all applicable notice and cure periods, the Account Control Party will direct the Deposit Bank to pay amounts in excess of \$16,000,000 to Tenant no less than monthly.

5.3 Application of Deposit Funds. In the event of a monetary default by Tenant, including any non-monetary default which results in an indemnity, payment or reimbursement obligation by Tenant hereunder, beyond five (5) days' written notice from Landlord, the Account Control Party will have the right to withdraw a portion of the Deposit Funds in an amount necessary to cure the unpaid amounts then due and apply the Deposit Funds to the obligations of the Tenant under this Lease which are then due and payable. Within thirty (30) days of a withdrawal by the Account Control Party, Tenant shall deposit additional Deposit Funds into the Deposit Account such that the Deposit Account equals \$16,000,000.00. In the event Tenant fails to deposit additional Deposit Funds into the Deposit Account within such thirty (30) days, the Account Control Party shall be entitled to withdraw all remaining Deposit Funds and hold and retain such remaining amounts as security (the "Security Deposit") for the performance by Tenant of all of the terms, covenants, and conditions required to be performed hereunder. If Tenant has performed all such terms, covenants, and conditions of this Lease, such Security Deposit, if any, shall be returned to Tenant after the expiration of the term of this Lease and delivery of possession of the Leased Premises to Landlord. In the event of default by Tenant in respect to any of its obligations under this Lease, including, but not limited to, the payment of Basic Annual Rent or Additional Rent, Landlord may use, apply, or retain all or any part of the Security Deposit for the satisfaction of any unpaid Basic Annual Rent or Additional Rent. Landlord may apply the Security Deposit to any expenses incurred by reason of the default of Tenant, including any damages or deficiency in the reletting of the Leased Premises, regardless of whether the accrual of such damages or deficiency occurs before or after an eviction or a portion of the Security Deposit is so used or applied.

5.4 Partial Release of Deposit Funds. Commencing with the expiration of the first calendar quarter which is one (1) year after the expiration of the Abatement Period, the Deposit Funds may be reduced to an amount equal to eight million dollars (\$8,000,000) so long as (i) Tenant's Liquidity during the prior twelve (12) month period measured on a monthly ending cash balance basis has not been below fifty million dollars (\$50,000,000) dollars, and (ii) Tenant's Adjusted EBITDA over the prior twelve (12) month period is equal to or greater than thirty million dollars (\$30,000,000). Tenant shall, at the time Tenant delivers a request to Landlord for the partial release of the Deposit Funds pursuant to this Section 5.4, deliver Tenant's financial statements and bank statements showing Liquidity to Landlord along with Tenant's calculation of Tenant's compliance with the foregoing requirements, which shall be certified as being true, correct and complete by Tenant's chief financial officer. Landlord will, within ten (10) business days of Landlord's receipt of such financial information and calculation, confirm whether or not Landlord agrees with Tenant's calculation. If Landlord disagrees with Tenant's calculation, Landlord shall deliver written notice to Tenant within such ten (10) business day period giving a reasonably detailed explanation of the reasons Landlord disagrees with Tenant's calculation. Landlord and Tenant shall then work in good faith to resolve any disputes. If Landlord agrees with Tenant's calculation, and so long as Tenant is not then in default under this Lease beyond any applicable notice or cure period, Landlord will promptly instruct the Deposit Bank to release funds from the Deposit Account such that only eight million dollars (\$8,000,000) remains in the Deposit Account and in no circumstance shall Tenant be obligated to increase the Deposited Funds above that level. If Tenant does not comply with the foregoing covenants at the expiration of the first calendar quarter which is one (1) year after the expiration of the Abatement Period, Tenant's compliance with the foregoing requirements shall be recalculated at the end of each calendar quarter thereafter until Tenant complies with the Liquidity and the Adjusted EBITDA requirements.

5.5 Release of Remaining Deposit Funds. Commencing with the expiration of the first calendar quarter which is one (1) year after the date the Deposit Funds have been reduced to \$8,000,000 pursuant to Section 5.4 above (the "First Release Date"), the Deposited Funds may be reduced to zero dollars so long as (i) Tenant's Liquidity during the prior twelve (12) month period measured on a monthly ending cash balance basis has not been below fifty million dollars (\$50,000,000) dollars, and (ii) Tenant's Adjusted EBITDA over that prior twelve (12) month period is equal to or greater than thirty million dollars (\$30,000,000). Tenant shall, at the time Tenant delivers a request to Landlord for the release of the Deposit Funds pursuant to this Section 5.5, deliver Tenant's financial statements to Landlord along with Tenant's calculation of Tenant's compliance with the foregoing requirements, which shall be certified as being true, correct and complete by Tenant's chief financial officer. Landlord will, within ten (10) business days of Landlord's receipt of such financial information and calculation, confirm whether or not Landlord agrees with Tenant's calculation. If Landlord disagrees with Tenant's calculation, Landlord shall deliver written notice to Tenant within such ten (10) business day period giving a reasonably detailed explanation of the reasons Landlord disagrees with Tenant's calculation. Landlord and Tenant shall then work in good faith to resolve any disputes. If Landlord agrees with Tenant's calculation, and so long as Tenant is not then in default under this Lease beyond any applicable notice or cure period, Landlord will promptly instruct the Deposit Bank to release all remaining funds from the Deposit Account, and Landlord's security interest in the Deposit Account and the Account Control Agreement shall be terminated. If Tenant does not comply with the foregoing covenants at the expiration of the first calendar quarter which is one (1) year after the First Release Date, Tenant's compliance with the foregoing requirements shall be recalculated at the end of

each calendar quarter thereafter until Tenant complies with the Liquidity and the Adjusted EBITDA requirements.

5.6 Definitions. For purposes hereof (a) the term “Liquidity” means (i) the sum of unencumbered and unrestricted cash and cash equivalents and readily marketable securities (valued, in the case of securities at the then prevailing market price listed on NYSE or NASDAQ, as of any applicable date of determination), per generally accepted accounting principles, consistently applied, less (ii) all indebtedness outstanding under any unsecured or partially secured line of credit or other short term credit facility, and (b) the term Adjusted EBITDA means (i) for the applicable period, net income, plus (A) income taxes, (B) depreciation and amortization expense, and (C) interest expense, all calculated in accordance with generally applicable accounting principles, consistently applied, plus (ii) the change in deferred revenue shown on the statement of cash flows.

## VI. USE

6.1 Use of Leased Premises. The Leased Premises shall be used and occupied by Tenant for general office purposes only, including, without limitation, business headquarter purposes; educational training for Tenant’s employees, patrons and customers; cafeteria, kitchen, and recreational facilities for use by Tenant’s employees and Tenant’s patrons and customers of educational training; professional conferences and summits; research and other purposes reasonably necessary or appropriate for the business of Tenant (collectively, the “Permitted Use”). Tenant shall not use the Leased Premises, the Property or the Common Areas for purposes other than the Permitted Use without the prior written consent of Landlord, which consent shall not be unreasonably withheld, conditioned or delayed.

6.2 Prohibition of Certain Activities or Uses. Tenant shall not do or permit anything to be done in or about, or bring or keep anything in the Leased Premises, the Property or the Common Areas which is prohibited by this Lease or will, in any way or to any extent:

(a) adversely affect any fire, liability, or other insurance policy carried with respect to the Building, the Improvements, the Common Areas, the Property, or any of the contents of the foregoing (except with Landlord’s express written permission, which will not be unreasonably withheld, but which may be contingent upon Tenant’s agreement to bear any additional costs, expenses or liability for risk that may be involved);

(b) obstruct, interfere with any right of, or injure or annoy any other tenant or occupant of the Building, the Common Areas, the Improvements, or the Property;

(c) conflict with or violate any law, statute, ordinance, rule, regulation or requirement of any governmental unit, agency, or authority (whether existing or enacted as promulgated in the future, known or unknown, foreseen or unforeseen);

(d) adversely overload the floors or otherwise damage the structural soundness of the Leased Premises or the Building, or any part thereof (except with Landlord’s express written permission, which will not be unreasonably withheld, but which may be contingent upon Tenant’s agreement to bear any additional costs, expenses, or liability for risk that may be involved); or

(e) take any action which causes a violation of any restrictive covenants or any other instrument of record applying to the Property.

### 6.3 Affirmative Obligations with Respect to Use

(a) Tenant will (i) comply with all governmental laws, ordinances, regulations, and requirements, now in force or which hereafter may be in force, of any lawful governmental body or authorities having jurisdiction over the Leased Premises; (ii) keep the Leased Premises and every part thereof in a clean, neat, and orderly condition, free of objectionable noise, odors, or nuisances; (iii) in all respects and at all times fully comply with all health and policy regulations; and (iv) not suffer, permit, or commit any waste.

(b) As of the Rent Commencement Date, Landlord represents and warrants that the Building, Improvements and Common Areas (excluding any Tenant Improvements constructed by Tenant) comply with all applicable law, whether now or hereafter in effect, including the Americans with Disabilities Act of 1990 (“ADA”) and all other applicable laws relating to persons with disabilities, and all rules and regulations which may be promulgated thereunder from time to time and whether relating to barrier removal, providing auxiliary aids and services, except for the Tenant Improvements (as defined in the Work Letter) or other alterations to the Leased Premises made by Tenant. At all times during the term hereof, Tenant shall, at Tenant’s sole cost and expense, comply with all statutes, ordinances, laws, orders, rules, regulations, and requirements of all applicable federal, state, county, municipal and other agencies or authorities, now in effect or which may hereafter become effective, which shall impose any duty upon Landlord or Tenant with respect to the use, occupation or alterations of the Leased Premises (including, without limitation, all applicable requirements of the ADA and all other applicable laws relating to persons

with disabilities, and all rules and regulations which may be promulgated thereunder from time to time and whether relating to barrier removal, providing auxiliary aids and services or otherwise) and upon request of Landlord shall deliver evidence thereof to Landlord. Except for the costs associated with the Tenant Improvements and any alterations to the Leased Premises made by Tenant, the cost of Landlord's obligation to comply with applicable law and the ADA will be the responsibility of Landlord and, except with respect to changes in applicable law and the ADA after the Rent Commencement Date with which Landlord is required by law to comply, not included in Common Area Expenses or charged to Tenant.

6.4 Suitability. Tenant acknowledges that except as expressly set forth in this Lease, neither Landlord nor any other person has made any representation or warranty with respect to the Leased Premises or any other portion of the Building, the Common Areas, or the Improvements and that no representation has been made or relied on with respect to the suitability of the Leased Premises or any other portion of the Building, the Common Areas, or Improvements for the conduct of Tenant's business. The Leased Premises, Building, and Improvements (and each and every part thereof) shall be deemed to be in satisfactory condition except for punch-list items or warranty repairs delivered in connection with the Work Letter.

6.5 Taxes. Tenant shall pay all taxes, assessments, charges, and fees which during the term hereof may be imposed, assessed, or levied by any governmental or public authority against or upon Tenant's use of the Leased Premises or any personal property or fixture kept or installed therein by Tenant and on the value of leasehold improvements to the extent that the same exceeds Building allowances.

## VII. UTILITIES AND SERVICE

7.1 Obligations of Landlord. During the Term, Landlord agrees to cause to be furnished to the Leased Premises the following utilities and services, the cost and expense of which shall be included in Common Area Expenses except to the extent any such utilities are separately metered or sub-metered and billed directly to Tenant as permitted hereunder:

(a) Telephone and internet connection, but not including telephone stations and equipment and service (it being expressly understood and agreed that Tenant shall be responsible for the ordering and installation of telephone lines and equipment which pertain to the Leased Premises).

(c) Subject to Tenant's obligations under Section 7.2, heat and air-conditioning necessary to maintain the Leased Premises between 68 degrees Fahrenheit to 78 degrees Fahrenheit subject however to any limitations imposed by any government agency. Fresh air levels shall be maintained in accordance with ASHRAE-62 -1989 standards (or current as of the date of this Lease) (ventilation for acceptable indoor air quality). The Landlord shall also provide adequate thermal environmental comfort and air velocity limits in accordance with ASHRAE-55 (or current as of the date of this Lease).

(d) Janitorial service in accordance with Exhibit "I".

(e) A card-access security system with card readers at all exterior Building entries and exits, all elevators, and all fire stairway entries and exits. Landlord shall furnish Tenant, at Landlord's expense, with one (1) access card per employee at the time of the Commencement Date, and at Tenant's expense with such additional keys and access cards as Tenant may request, to unlock or allow access to the Building and each corridor door entering the Leased Premises. Upon the expiration or termination of the Term, Tenant shall surrender all such keys and access cards to Landlord.

(f) Snow removal service.

(g) Landscaping and grounds keeping service.

(h) Elevator service.

7.2 Tenant's Obligations. Tenant shall arrange for and shall pay the entire cost and expense of all telephone stations, equipment and use charges, electric light bulbs and all other materials and services not expressly required to be provided and paid for pursuant to the provisions of Section 7.1 above. Without limiting the generality of the foregoing, Tenant shall be responsible for directly paying to the applicable provider for all utilities serving the Leased Premises, including, without limitation, all electricity, water, gas, and sewer, and such costs shall not be included as Common Area Expenses.

7.3 INTENTIONALLY DELETED.

7.4 Limitation on Landlord's Liability. Landlord shall not be liable for any failure to provide or furnish any of the foregoing utilities or services if such failure was reasonably beyond the control of Landlord and Tenant shall not be entitled to terminate this Lease or to effectuate any abatement or reduction of rent by reason of any such failure; provided if the failure is within Landlord's reasonable control and not caused by acts or omissions of Tenant or any Tenant Related Party, and such

failure continues for a period of more than three (3) consecutive business days, Tenant shall receive a proportionate abatement of Rent to the extent of such interruption for each day such failure continues and until such utilities or services are restored. In no event shall Landlord be liable for loss or injury to persons or property, however arising or occurring, in connection with or attributable to any failure to furnish such utilities or services even if within the control of Landlord.

## VIII. MAINTENANCE AND REPAIRS; ALTERATIONS; ACCESS

8.1 Maintenance and Repairs by Landlord. Landlord shall maintain or cause to be maintained in good order, condition, and repair the Building, the Common Areas, and the Improvements, including all structural components of the Building, utility lines and all Building systems, as well as the Tenant Amenities and the Hillside Amenities (as defined in the Work Letter) and all non-public roads and access points to the Leased Premises owned by Landlord. If Landlord is required to repair or replace any damage to the Building, the Common Areas, the Improvements, or the Leased Premises occasioned by the willful or negligent acts of Tenant or the Tenant Related Parties (as defined in Section 10.1 below), Landlord shall perform such repairs at Tenant's sole cost and expense, and which amounts Landlord shall be reimbursed by Tenant within ten (10) days of Landlord's delivery of written demand for the same. Landlord agrees to perform its maintenance obligation hereunder in accordance with commercially reasonable management standards utilized for other comparable office buildings in the Salt Lake County, Utah area. In the event Landlord fails to perform its maintenance obligations under this Section 8.1 with respect to the Building or Property (excluding any obligations related to the repair of the roof or any structural portions of the Building), and such failure continues beyond thirty (30) days (or two (2) business days in the case of an emergency threatening injury to persons or material damage to property) following written notice of such failure from Tenant to Landlord, Tenant shall have the option to perform Landlord's maintenance obligations on behalf of Landlord. All out-of-pocket documented and reasonable costs and expense incurred by Tenant in performing Landlord's maintenance obligations as permitted herein shall be applied as a credit against future installments of Basic Annual Rent, in an amount not to exceed twenty-five percent (25%) of any one installment of Basic Annual Rent, until the amount of such out-of-pocket costs and expense of Tenant shall be applied in full. Notwithstanding anything to the contrary in this Lease, Tenant shall have the right, upon prior written notice to Landlord, to self-manage or hire a third-party manager to manage or maintain any item which Landlord is obligated to manage or maintain under this Lease except the following items: (i) the Building's elevators and related systems; (ii) mechanical, electrical, plumbing or life safety systems of the Building; (iii) the structural components of the Building, and (iv) any other component of the Property which would be a capital repair, including, without limitation, the roof. In the event Tenant exercises its right to self-manage or hire a third-party manager for any of the items permitted herein, the cost and expense of such item shall be paid directly by Tenant and shall not be included in Common Area Expenses; provided, however, in the event Tenant fails to manage or maintain an item as required by this Lease following its election to manage or maintain such item, and such failure continues for thirty (30) days, Landlord may resume maintenance or repair of such item as a Common Area Expense, and Tenant's right to self-manage or hire a third-party manager as set forth in this Section 8.1 shall forever terminate.

8.2 Maintenance and Repairs by Tenant. Except as otherwise the obligation of Landlord under this Lease, Tenant, at Tenant's sole cost and expense and without prior demand being made, shall maintain the interior of Leased Premises in good order, condition and repair, and will be responsible for the painting, carpeting, or other interior design work of the Leased Premises beyond the initial construction phase as specified in Section 2.3 and Exhibit "C" of this Lease and shall maintain all equipment and fixtures installed by Tenant. Tenant shall in a good and workmanlike manner repair or replace any damage to the Building, the Common Areas, the Improvements, or the Leased Premises occasioned by the willful or negligent acts of Tenant or the Tenant Related Parties.

8.3 Alterations. Except as set forth on Exhibit "C" attached hereto, Tenant shall not without first obtaining Landlord's written approval: (a) make or cause to be made any alterations, additions, or improvements to the Leased Premises (collectively, "Alterations") (b) install or cause to be installed any fixtures, signs, floor coverings, interior or exterior lighting, plumbing fixtures, shades or awnings; or (c) make any other Alterations to the Leased Premises without first obtaining Landlord's written approval, except for interior non-structural Alterations to the Leased Premises, which shall not require Landlord's consent, so long as (y) such non-structural Alterations do not directly or materially, adversely affect the Building's mechanical, electrical, plumbing or life safety systems, and (z) the costs for such non-structural Alterations do not exceed One Hundred Fifty Thousand Dollars (\$150,000.00) in the aggregate in any twelve (12) month period. The foregoing notwithstanding, if the proposed Alterations are, in Landlord's reasonable judgment, likely to affect the structure of the Building or the electrical, plumbing, life safety or HVAC systems or otherwise adversely impact the value of the Building, such consent may be withheld at the sole and absolute discretion of Landlord; except for the foregoing, Landlord's approval shall not be unreasonably withheld. Tenant shall present to Landlord plans and specifications for all Alterations at the time approval is sought. In the event Landlord consents to the making of any Alterations to the Leased Premises by Tenant, the same shall be made by Tenant at Tenant's sole cost and expense. All such work shall be done only by contractors or mechanics approved by Landlord, which approval shall not be unreasonably withheld. All such work with respect to any Alterations shall be done lien free and in a good and workmanlike manner and diligently prosecuted to completion such that, except as absolutely necessary during the

course of such work, the Leased Premises shall at all times be a complete operating unit. In performing such work, Tenant shall at all times comply with all provisions of this Lease, including, without limitation, Section 14.2 of this Lease. Any such Alterations shall be performed and done strictly in accordance with all laws and ordinances relating thereto and in compliance with all matters of record. In performing the work or any such Alterations Tenant shall have the same performed in such a manner as not to obstruct access to any portion of the Building. Any Alterations to or of the Leased Premises, including, but not limited to, wallcovering, paneling, and built-in cabinet work, but excepting movable furniture and equipment, shall become a part of the realty and shall be surrendered with the Leased Premises; provided, however, that Tenant shall be obligated in all cases to remove any Alterations which constitute Specialty Alterations (defined below) that Landlord does not otherwise agree in writing may be surrendered with the Leased Premises. Any Specialty Alterations that Tenant is required to remove upon the expiration or earlier termination of this Lease shall be removed at Tenant's sole expense, and Tenant shall, at Tenant's expense, promptly repair any damage to the Leased Premises or the Building caused by such removal. As used herein, "Specialty Alterations" shall mean any Alteration that is not a general office improvement, including, but not limited to improvements which (i) perforate, penetrate or require reinforcement of a floor slab (including, without limitation, interior stairwells or high-density filing or racking systems), (ii) consist of the installation of a raised flooring system, (iii) consist of the installation of a vault or other similar device or system intended to secure the Leased Premises or a portion thereof in a manner that exceeds the level of security necessary for ordinary office space, (iv) involve material plumbing connections (such as, for example but not by way of limitation, kitchens, saunas, showers, and executive bathrooms outside of the Building core and/or special fire safety systems), (v) consist of the dedication of any material portion of the Leased Premises to non-office usage (such as a cafeteria, bicycle storage rooms or kitchens), (vi) can be seen from outside the Leased Premises, (vi) require changes to a floor or ceiling, including an internal stairway or atrium area; provided that an open ceiling will not be a Specialty Alteration.

8.4 Landlord's Access to Leased Premises. Landlord shall have the right to place, maintain, and repair all utility equipment of any kind in, upon, and under the Leased Premises as may be necessary for the servicing of the Leased Premises and other portions of the Building. Upon providing at least twenty-four (24) hours' notice to Tenant, except in the event of an emergency, in which event no notice shall be required, Landlord shall also have the right to enter the Leased Premises at all times to inspect or to exhibit the same to prospective purchasers, mortgagees, tenants, and lessees (but in the case of prospective tenants or lessees, only during the last twelve (12) months of the Term), and to make such repairs, additions, alterations, or improvements as Landlord may deem desirable. Landlord shall be allowed to take all material upon said Leased Premises that may be required for such repairs, alterations additions or improvements, without the same constituting an actual or constructive eviction of Tenant in whole or in part, the rents reserved herein shall in no wise abate while said work is in progress by reason of loss or interruption of Tenant's business or otherwise, and Tenant shall have no claim for damages; provided, however, Landlord shall use commercially reasonable efforts to not interfere with Tenant's operations in the Leased Premises and to perform such work in a timely and reasonable manner. During the six (6) month period prior to expiration of this Lease or of any renewal term, Landlord may place upon the Leased Premises "For Lease" or "For Sale" signs which Tenant shall permit to remain thereon. Landlord shall at all times use good faith efforts to minimize any interfere with or interruption of Tenant's business or its use and enjoyment of the Leased Premises in connection with the exercise of any of the foregoing rights.

## IX. ASSIGNMENT

9.1 Definitions. As used in this Lease:

(a) "Pledge" means to pledge, encumber, mortgage, assign (whether as collateral or absolutely) or otherwise grant a lien or security interest in this Lease or any portion of the Leased Premises as security for, or to otherwise assure, performance of any obligation of Tenant or any other person.

(b) "Sublease" means to lease or enter into any other form of agreement with any other person, whether written or oral, which allows that person or any other person to occupy or possess any part of the Leased Premises for any period of time or for any purpose.

(c) "Transfer" means to sell, assign, transfer, exchange or otherwise dispose of or alienate any interest of Tenant in this Lease, whether voluntary or involuntary or by operation of law including, without limitation: (i) any such Transfer by death, incompetency, foreclosure sale, deed in lieu of foreclosure, levy or attachment; (ii) if Tenant is not a human being, any direct or indirect Transfer of fifty percent (50%) or more of any one of the voting, capital or profits interests in Tenant; and (iii) if Tenant is not a human being, any Transfer of this Lease from Tenant by merger, consolidation, transfer of assets, or liquidation or any similar transaction under any law pertaining to corporations, partnerships, limited liability companies or other forms of organizations.

9.2 Transfers, Subleases and Pledges Prohibited. Subject to Sections 9.3, 9.5 and 9.6, except with the prior written consent of Landlord in each instance, Tenant shall not Transfer or Pledge this Lease, or Sublease or Pledge all or any part of the Leased Premises. Consent of Landlord to any of the actions described in the previous sentence shall be deemed granted and

delivered only if obtained strictly in accordance with and pursuant to the procedure set forth in Section 9.3 of this Lease and is memorialized in a writing signed by Landlord that refers on its face to Section 9.3 of this Lease. Any other purported Transfer, Sublease or Pledge shall be null and void, and shall constitute a default under this Lease which, at the option and election of Landlord exercisable in writing at its sole discretion, shall result in the immediate termination of this Lease; provided, if Landlord does not terminate this Lease, it may exercise any other remedies available to it under this Lease or at law or equity. Consent by Landlord to any Transfer, Sublease or Pledge shall not operate as a waiver of the necessity for consent to any subsequent Transfer, Sublease or Pledge, and the terms of Landlord's written consent shall be binding upon any person holding by, under, or through Tenant. Landlord's consent to a Transfer, Sublease or Pledge shall not relieve Tenant from any of its obligations under this Lease, all of which shall continue in full force and effect notwithstanding any assumption or agreement of the person to whom the Transfer, Sublease or Pledge pertains.

### 9.3 Consent of Landlord Required:

(a) If Tenant proposes to make any Transfer, Sublease or Pledge it shall immediately notify Landlord in writing of the details of the proposed Transfer, Sublease or Pledge, and shall also immediately furnish to Landlord sufficient written information and documentation required by Landlord to allow Landlord to assess the business to be conducted in the Leased Premises by the person to whom the Transfer, Sublease or Pledge is proposed to be made, the financial condition of such person and the nature of the transaction in which the Transfer, Sublease or Pledge is to occur. If Landlord determines that the information furnished does not provide sufficient information, Landlord may demand that Tenant provide such additional information as Landlord may reasonably require in order to evaluate the proposed Transfer, Assignment or Pledge.

(b) Except in the event of a Permitted Transfer to a Permitted Transferee, Landlord shall have the absolute right to reject any proposed Transfer, Sublease or Pledge under any of the following circumstances:

(i) If, as a result of the Transfer, Sublease or Pledge, Landlord or the Leased Premises would be subject to compliance with any law, ordinance, regulation or similar governmental requirement to which Landlord or the Leased Premises were not previously subject.

(ii) A Transfer, Sublease or Pledge to any other person which is the landlord or sublandlord under any leases or subleases for office space within a ten (10) mile radius of the Leased Premises.

(iii) A Transfer, Sublease or Pledge to any other person which at that time has an enforceable lease for any other space in the Building or any prospective tenant with whom Landlord has, in the prior twelve (12) months negotiated with to lease space in the Building.

(iv) A sublease of less than all of the Leased Premises where the configuration or location of the subleased premises might reasonably be determined by Landlord to have any adverse effect on the ability of Landlord to lease remainder of the Leased Premises if Landlord were to terminate this Lease but agree to be bound by the Sublease.

(v) The person to whom the Transfer, Sublease or Pledge is to be made will not agree in writing to be bound by the terms and conditions of this Lease; provided that this Lease shall not be enforceable against a person to whom this Lease or Leased Premises is to be Pledged until after the foreclosure or other realization upon its lien or security interest.

(vi) The financial condition of the person to whom the Transfer, Sublease or Pledge is to be made is not satisfactory to Landlord.

(c) Except as set forth in Section 9.3(b), Landlord's consent shall not be unreasonably withheld, provided that: (i) Tenant promptly provides to Landlord all information requested by Landlord pursuant to Section 9.3(a) in the event of a requested Transfer, Landlord determines that such information is sufficient to allow Landlord to accurately evaluate the financial condition of the person to whom the Transfer, Sublease or Pledge is to be made; and (ii) Tenant and the person to whom the Transfer, Sublease or Pledge is to be made agree in writing to all of the rights of Landlord set forth in Section 9.4.

### 9.4 Landlord's Right in Event of Assignment or Sublease.

(a) If Landlord consents in writing to any Transfer or any Sublease, Landlord may collect rent and other charges and amounts due under this Lease from the person to whom the Transfer was made or under the sublease from any person who entered into the Sublease, and Landlord shall apply all such amounts collected to the rent and other charges to be paid by Tenant under this Lease. If Landlord consents in writing to any Pledge of this Lease or any portion of the Leased Premises, and the person to whom the Pledge was made forecloses or otherwise realizes upon any interest in this Lease or in any portion of the Leased Premises, Landlord may collect rent and other charges and amounts due under this Lease from such person, and Landlord shall apply the amount collected to the rent and other charges and amounts to be paid by Tenant under this Lease.

Such collection, however, shall not constitute consent or waiver of the necessity of written consent to such Transfer, Sublease or Pledge, nor shall such collection constitute the recognition of such person or any other person as the "Tenant" under this Lease.

(b) In the event that any rent or additional consideration payable after a Transfer exceed the rents and additional consideration payable under this Lease, Landlord and Tenant shall share equally in the amount of any excess payments or consideration. In the event that the rent and additional consideration payable under a Sublease exceed the rents and other consideration payable under this Lease (prorated to the space being subleased pursuant to the Sublease), Landlord and Tenant shall share equally in the amount of any excess payments or consideration.

(c) In the event that Tenant shall request that Landlord consent to a Transfer, Sublease or Pledge, Tenant and/or the person to whom the Transfer, Sublease or Pledge was made shall pay to Landlord reasonable legal fees and costs, not to exceed \$5,000.00, incurred in connection with processing of documents necessary to effect the Transfer, Sublease or Pledge.

9.5 Permitted Transfer or Sublease. Notwithstanding anything in this Lease to the contrary, Tenant shall have the right, without the prior consent of Landlord, to assign this Lease or sublet the whole or any part of the Leased Premises (a "Permitted Transfer") to a corporation or entity (a "Related Entity") which: (i) is Tenant's parent organization or is an affiliate of Tenant or Tenant's parent organization, or (ii) is a wholly-owned subsidiary of Tenant or Tenant's parent organization, or (iii) is an organization of which Tenant or Tenant's parent owns in excess of fifty percent (50%) of the outstanding capital stock or has in excess of fifty percent (50%) ownership or control interest, (iv) is the result of a consolidation, merger or reorganization with Tenant and/or Tenant's parent organization, (v) is the transferee of substantially all of Tenant's assets; (vi) the sale of ownership interest in Tenant or its owner, parent or affiliates on a nationally recognized public exchange market; or (vii) is an entity under common control or common management control with Tenant (each, a "Permitted Transferee"); provided that (y) if the Permitted Transfer described under section (v) above occurs before the Rent Commencement Date, the ratio between the combined Basic Annual Rent and Additional Rent (under this Lease and the Adjacent Lease) and the Permitted Transferee's GAAP revenue (defined below) for the previous calendar year is equal to or less than six and one-half percent (6.5%); or (z) if the Permitted Transfer described in subsection (v) above occurs on or after the Rent Commencement Date, the combined Basic Annual Rent and Additional Rent (under this Lease and the Adjacent Lease) is no more than 5% of the Permitted Transferee's GAAP revenue for the trailing 12 months. As used herein, "GAAP revenue" means actual revenue calculated according to generally accepted accounting principles, consistently applied, for the prior calendar year.

In connection with a Permitted Transfer, Tenant shall (i) give Landlord fifteen (15) days prior written notice of such Permitted Transfer, (ii) deliver to Landlord copies of (x) an assignment and assumption of this Lease (in the case of a Transfer of the Lease), which shall be in form and substances satisfactory to Landlord in its reasonable discretion, and (y) the Sublease, which shall be subject and subordinate to this Lease, and (iii) deliver such additional evidence as Landlord may reasonably request to evidence that such Transfer is a Permitted Transfer.

9.6 Permitted Pledge. Notwithstanding the foregoing in this Article 9, Tenant may at any time encumber or pledge its interest in any and all of Tenant's furnishings, property, equipment or trade fixtures situated on the Leased Premises (a "Personal Property Security Interest"). Within thirty (30) days following request in writing from a lender of Personal Property Security Interest, Landlord shall execute, acknowledge and deliver such documents as such Personal Property Lender may reasonably request, and as may be reasonably acceptable to Landlord. Notwithstanding the foregoing, any such lien held by a Personal Property Lender, shall not extend to either Tenant's leasehold interest in the Leased Premises or the ownership interest of Landlord in and to the Leased Premises and shall be subordinate and inferior to the liens on the Leased Premises created by any mortgages in favor of any Landlord's lender. Tenant's rights granted in this Section shall apply notwithstanding any terms of this Lease expressly or by implication to the contrary, and the exercise of such rights shall not constitute a default under this Lease.

## X. INDEMNITY AND HAZARDOUS MATERIALS

### 10.1 Indemnity.

(a) Subject to the provisions of Section 11.5 below and to the fullest extent permitted by law, Tenant shall protect, defend, indemnify and hold harmless Landlord and its affiliates against and from any and all claims, demands, actions, losses, damages, orders, judgments, and any and all costs and expenses (including, without limitation, reasonable attorneys' fees and costs of litigation), resulting from or incurred by Landlord or any affiliate of Landlord on account of any of the following: (i) the use of the Leased Premises by Tenant or by its agents, contractors, employees, servants, invitees, licensees or concessionaires (the "Tenant Related Parties"), (ii) the conduct of its business or profession, or any other activity permitted or suffered by Tenant or the Tenant Related Parties within the Leased Premises; or (iii) any breach by Tenant of this Lease. Tenant shall defend all suits brought upon such claims and pay all costs and expenses incidental thereto. Notwithstanding the

foregoing, Landlord shall have the right, at its option, to participate in the defense of any such suit without relieving Tenant of any obligation hereunder.

(b) To the fullest extent permitted by law, Landlord shall protect, defend, indemnify and hold harmless Tenant and Tenant Related Parties against and from any and all claims, demands, actions, losses, damages, orders, judgments, and any and all costs and expenses (including, without limitation, reasonable attorneys' fees and costs of litigation), resulting from or incurred by Tenant or any Tenant Related Parties on account of the following: (i) the gross negligence or intentional misconduct of Landlord or its affiliates, agents, contractors, employees, servants, licensees or concessionaires (the "Landlord Related Parties") on the Property; and (ii) any breach by Landlord of this Lease including the breach of any representation or warranty of Landlord contained in this Lease. Further, Landlord shall defend all suits brought upon such claims and pay all costs and expenses incidental to such defense. In no event shall either party be liable to the other for consequential, special or punitive damages.

10.2. Notice. Tenant shall give prompt notice to Landlord in case of fire or accidents in the Leased Premises or in the Building of which the Leased Premises are a part or of defects therein or in any fixtures or equipment.

### 10.3 Environmental Indemnification.

(a) Tenant's Indemnity. In addition to and without limiting the scope of any other indemnities provided under this Lease, Tenant shall indemnify, defend (with counsel reasonably acceptable to Landlord) and hold harmless Landlord from and against any and all demands, losses, costs, expenses, damages, bodily injury, wrongful death, property damage, claims, third party cross-claims, charges, actions, lawsuits, liabilities, obligations, penalties, investigation costs, removal costs, response costs, remediation costs, natural resources damages, governmental administrative actions, and reasonable attorneys' and consultants' fees and out-of-pocket expenses arising out of, directly or indirectly, in whole or in part, or relating to (i) the release of Hazardous Materials (as defined in Section 10.4 below) by Tenant or the Tenant Related Parties, (ii) the violation of any Hazardous Materials laws by Tenant or the Tenant Related Parties, or (iii) the use, storage, generation or disposal of Hazardous Materials in, on, about, or from the Leased Premises, the Property or the Common Areas by Tenant or the Tenant Related Parties (the items listed in clauses (i) through and including (iii) being referred to herein individually as a "Tenant Release" and collectively as the "Tenant Releases").

(b) Landlord's Indemnity. Landlord shall indemnify, defend (with counsel reasonably acceptable to Landlord) and hold harmless Tenant from and against any and all demands, losses, costs, expenses, damages, bodily injury, wrongful death, property damage, claims, third-party cross-claims, charges, action, lawsuits, liabilities, obligations, penalties, investigation costs, removal costs, response costs, remediation costs, natural resources damages, governmental administrative actions, and reasonable attorneys' and consultants' fees and out-of-pocket expenses arising out of, directly or indirectly, in whole or in part, or relating to (i) the release of Hazardous Materials (as defined in Section 10.4 below) by Landlord or the Landlord Related Parties, (ii) the violation of any Hazardous Materials laws by Landlord or the Landlord Related Parties, (iii) the use, storage, generation or disposal of Hazardous Materials in, on, about, or from the Leased Premises, the Property or the Common Areas by Landlord or the Landlord Related Parties; or (iv) Hazardous Materials existing on the Property as of the Commencement Date (the items listed in clauses (i) through and including (iv) being referred to herein individually as a "Landlord Release" and collectively as the "Landlord Releases").

10.4 Definition of Hazardous Materials. The term "Hazardous Materials" shall mean any substance:

(a) which is flammable, explosive, radioactive, toxic, corrosive, infectious, carcinogenic, mutagenic, or otherwise hazardous and which is or becomes regulated by any governmental authority, agency, department, commission, board or instrumentality of the United States, or the state in which the Property is located or any political subdivision thereof;

(b) which contains asbestos, organic compounds known as polychlorinated biphenyls; chemicals known to cause cancer or reproductive toxicity or petroleum, including crude oil or any fraction thereof; or which is or becomes defined as a pollutant, contaminant, hazardous waste, hazardous substance, hazardous material or toxic substance under the Resource Conservation and Recovery Act of 1976, 42 U.S.C. §§ 6901-6992k; the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, 42 U.S.C. §§ 9601-9657; the Hazardous Materials Transportation Authorization Act of 1994, 49 U.S.C. §§ 5101-5127; the Clean Water Act, 33 U.S.C. §§ 1251-1387; the Clean Air Act, 42 U.S.C. §§ 7401-7671q; the Toxic Substances Control Act, 15 U.S.C. §§ 2601-2692; the Safe Drinking Water Act, 42 U.S.C. §§ 300f to 300j-26; the Emergency Planning and Community Right-To-Know Act of 1986, 42 U.S.C. §§ 11001-11050; and title 19, chapter 6 of the Utah Code, as any of the same have been or from time to time may be amended; and any similar federal, state and local laws, statutes, ordinances, codes, rules, regulations, orders or decrees relating to environmental conditions, industrial hygiene or Hazardous Materials on the Leased Premises, the Property or the Common Areas, including all interpretations, policies, guidelines and/or directives of the various governmental authorities responsible for administering any of the foregoing, now in

effect or hereafter adopted, published and/or promulgated (“Environmental Laws”);

(c) the presence of which on the Leased Premises, the Property or the Common Areas requires investigation or remediation under any federal, state, or local statute, regulation, ordinance, order, action, policy, or common law; or

(d) the presence of which on the Leased Premises, the Property or the Common Areas causes or threatens to cause a nuisance on the Property or to adjacent properties or poses or threatens to pose a hazard to the health and safety of persons on or about the Property.

10.5 Use of Hazardous Materials. Tenant shall not, and shall not permit any Tenant Related Parties to use, store, generate, release, or dispose of Hazardous Materials in, on, about, or from the Leased Premises, the Property or the Common Areas except those typically used in an office building and otherwise in full compliance with Environmental Laws. Landlord shall not, and shall not permit any Landlord Related Party to, use, store, generate, release, or dispose of Hazardous Materials in, on, about, or from the Leased Premises, the Property or the Common Areas except those typically used in an office building and otherwise in full compliance with Environmental Laws.

10.6 Release of Hazardous Materials. If Tenant discovers that any spill, leak, or release of any quantity of any Hazardous Materials has occurred on, in or under the Leased Premises, the Property or the Common Areas in violation of Laws, Tenant shall promptly notify Landlord. In the event such release is a Tenant Release, Tenant shall (or shall cause others to) promptly and fully investigate, cleanup, remediate and remove all such Hazardous Materials as may remain and so much of any portion of the environment as shall have become contaminated, all in accordance with applicable government requirements, and shall replace any removed portion of the environment (such as soil) with uncontaminated material of the same character as existed prior to contamination. In the event such release is caused by Landlord or a Landlord Related Party, Landlord shall (or shall cause others to) promptly and fully investigate, cleanup, remediate and remove all such Hazardous Materials as may remain and so much of any portion of the environment as shall have become contaminated, all in accordance with applicable government requirements, and shall replace any removed portion of the environment (such as soil) with uncontaminated material of the same character as existed prior to contamination. Within twenty (20) days after any such spill, leak, or release, the party responsible for the remediation of such release shall give the other party a detailed written description of the event and of such responsible party’s investigation and remediation efforts to date. Within twenty (20) days after receipt, such responsible party shall provide the other party with a copy of any report or analytical results relating to any such spill, leak, or release. In the event of a release of Hazardous Material in, on, or under the Leased Premises, the Property or the Common Areas by the Tenant Related Parties, Tenant shall not be entitled to an abatement of Rent during any period of abatement.

10.7 Release of Landlord; Representation and Warranty of Landlord. Landlord shall not be responsible or liable at any time for any loss or damage to Tenant’s personal property or to Tenant’s business, including any loss or damage to either the person or property of Tenant or Tenant Related Parties that may be occasioned by or through the acts or omissions of persons occupying adjacent, connecting, or adjoining space. Tenant shall store its property in and shall use and enjoy the Leased Premises and all other portions of the Building and Improvements at its own risk, and, subject to the provisions of Section 10.1(b) and 10.3(b), hereby releases Landlord, to the fullest extent permitted by law, from all claims of every kind resulting in loss of life, personal or bodily injury, or property damage. Except as set forth in any documents and reports delivered to Tenant, or as otherwise disclosed to Tenant in writing, Landlord represents and warrants to Tenant that, to Landlord’s knowledge as of the date hereof, there are no Hazardous Materials on the Property, the Common Areas, Building, or Improvements, in violation of Environmental Laws.

## XI. INSURANCE

11.1 Insurance on Tenant’s Personal Property and Fixtures. At all times during Term, Tenant shall keep in force at its sole cost and expense with insurance companies acceptable to Landlord, hazard insurance on an “**all-risk type**” or equivalent policy form, and shall include fire, theft, vandalism, and malicious mischief. Coverage shall be equal to 100% of the Replacement Cost value of Tenant’s contents, fixtures, furnishings, equipment, and all improvements or additions made by Tenant to the Leased Premises. The deductible under such insurance coverage shall not exceed \$25,000.00. Such policy shall name Landlord as a Loss Payee to the extent Landlord has an insurable interest in Tenant’s fixtures, furnishings, equipment and improvements. The policy shall provide that such policy not be cancelled without first giving Tenant thirty (30) days written notice. Tenant will promptly provide notice to Landlord of any cancellation.

11.2 Property Coverage. At all times during the Term, Landlord shall obtain and maintain in force an “all-risk type” or equivalent policy form, and shall include fire, theft, extended coverages, vandalism, and malicious mischief on the Building during the Term and any extension thereof. Landlord may obtain, at Landlord’s discretion, coverage for flood and earthquake if commercially available at reasonable rates. Such insurance shall also include coverage against loss of rental income.

11.3 Automobile. At all times during the Term, Tenant shall maintain Commercial Automobile Liability insurance

with limits of not less than One Million Dollars (\$1,000,000) for any one accident and shall include owned, hired and non-owned automobiles.

11.4 Liability Insurance. During the Term and at its sole cost and expense, Tenant shall keep in full force and effect with insurance companies with an A.M. Best rating not less than A-VII a policy of Commercial General Liability Insurance with limits of not less than \$2,000,000 each Occurrence and \$5,000,000 General Aggregate, which may be achieved through a combination of primary and excess insurance policies. The policy shall apply to the Leased Premises and all operations of Tenant's business. Such policy shall include Landlord as Additional Insured and shall provide that coverage for the Additional Insured is primary and not contributory with other insurance. The policy shall provide that such policy not be cancelled without first giving Tenant thirty (30) days written notice. Tenant shall promptly notify Landlord of such notice of termination. Tenant shall at all times during the Term provide Landlord with evidence of current insurance coverage. All public liability, property damage, and other liability policies shall be written as primary policies, not contributing with coverage which Landlord may carry. All such policies shall contain a provision that Landlord, although named as an insured, shall nevertheless be entitled to recover under said policies for any loss occasioned to it, its servants, agents, and employees by reason of the negligence of Tenant.

11.5 Waiver of Subrogation. Landlord and Tenant hereby waive all rights to recover against each other, against any other tenant or occupant of the Building, and against each other's officers, directors, shareholders, partners, joint venturers, employees, agents, customers, invitees or business visitors or of any other tenant or occupant of the Building, for any loss or damage arising from any cause covered by any insurance carried by the waiving party, to the extent that such loss or damage is actually covered. Landlord and Tenant each covenant that at the Commencement Date of the Lease Term hereof, their respective insurance policies will contain waiver of subrogation endorsements.

11.6 Worker's Compensation. Upon the commencement of physical activity on the Leased Premises by Tenant, Worker's Compensation insurance having limits not less than those required by applicable law, and covering all persons employed by Tenant, including volunteers, in the conduct of its operations on the Leased Premises, together with employer's liability insurance coverage in the amount of at least One Million Dollars (\$1,000,000) each accident for bodily injury by accident; One Million Dollars (\$1,000,000) each employee for bodily injury by disease; and One Million Dollars (\$1,000,000) policy limit for bodily injury by disease.

## XII. DESTRUCTION

If the Leased Premises are partially damaged by any casualty which is insured against under any insurance policy maintained by Landlord, Landlord shall, to the extent of and upon receipt of, the insurance proceeds, repair the portion of the improvements constructed by Landlord pursuant to the Work Letter, if any, damaged by such casualty. Until such repair is complete, the Basic Annual Rent and Additional Rent shall be abated proportionately as to that portion of the Leased Premises rendered untenable. Notwithstanding the foregoing, if any of the following occur: (a) the Leased Premises by reason of such occurrence are rendered wholly untenable, (b) the Leased Premises should be damaged as a result of a risk which is not covered by insurance, (c) the Leased Premises should be damaged in whole or in substantial part during the last six (6) months of the Term or of any renewal hereof, (d) the Leased Premises or the Building (whether the Leased Premises are damaged or not) should be damaged to the extent of fifty percent (50%) or more of the then-monetary value thereof, or (e) the proceeds of such insurance are not sufficient to repair the Leased Premises to the extent required above (including any deficiency as a result of a mortgage lender's election to apply such proceeds to the payment of the mortgage loan), Landlord may either elect to repair the damage or may cancel this Lease by notice of cancellation within ninety (90) days after such event and thereupon this Lease shall expire, and Tenant shall vacate and surrender the Leased Premises to Landlord. Tenant's liability for rent upon the termination of this Lease shall cease as of the day following Landlord's giving notice of cancellation. In the event Landlord elects to repair any damage, any abatement of rent shall end five (5) days after notice by Landlord to Tenant that the Leased Premises have been repaired as required herein. If the damage is caused by the gross negligence of Tenant or its employees, agents, invitees, or concessionaires, there shall be no abatement of rent. Unless this Lease is terminated by Landlord, Tenant shall repair and refixture the interior of the Leased Premises in a manner and in at least a condition equal to that existing prior to the destruction or casualty and the proceeds of all insurance carried by Tenant on its property and fixtures shall be held in trust by Tenant for the purpose of said repair and replacement.

## XIII. CONDEMNATION

13.1 Total Condemnation. If the whole of the Leased Premises shall be acquired or taken by Condemnation Proceeding, then this Lease shall cease and terminate as of the date of title vesting in such Condemnation Proceeding and Tenant's liability for rent shall cease as of such date.

13.2 Partial Condemnation. If any part of the Leased Premises shall be taken as aforesaid, and such partial taking shall render the remaining portion unsuitable for Tenant's business, then this Lease shall cease and terminate as aforesaid. If a

portion of the Leased Premises remains suitable for Tenant's business following such partial taking, in Tenant's reasonable discretion, then this Lease shall continue in effect except that the Basic Annual Rent and Additional Rent shall be reduced in the same proportion that the portion of the Leased Premises (including basement, if any) taken bears to the total area initially demised. Landlord shall, upon receipt of the award, make all necessary repairs or alterations to the Building in which the Leased Premises are located and otherwise constituting improvements constructed by Landlord pursuant to the Work Letter, if any, provided that Landlord shall not be required to expend for such work an amount in excess of the amount received by Landlord as damages for the part of the Leased Premises so taken. "Amount received by Landlord" shall mean that part of the award from the Condemnation Proceeding, less any costs or expenses incurred by Landlord in the collection of the award, which is free and clear to Landlord of any collection by mortgage lenders for the value of the diminished fee.

13.3 Option to Terminate. If more than twenty percent (20%) of the Building shall be taken as aforesaid, Landlord or Tenant may, by written notice, terminate this Lease. If this Lease is terminated as provided in this Section, rent shall be paid up to the day that possession is so taken by public authority and Landlord shall make an equitable refund of any rent paid by Tenant in advance.

13.4 Award. Tenant shall not be entitled to and expressly waives all claims to any condemnation award for any taking, whether whole or partial and whether for diminution in value of the leasehold or to the fee. Tenant shall have the right to claim from the condemning party, but not from Landlord, such compensation as may be recoverable by Tenant in its own right for damages to Tenant's business and fixtures to the extent that the same shall not reduce Landlord's award.

13.5 Definition of Condemnation Proceeding. As used in this Lease the term "Condemnation Proceeding" means any action or proceeding in which any interest in the Leased Premises is taken for any public or quasi-public purpose by any lawful authority through exercise of eminent domain or right of condemnation or by purchase or otherwise in lieu thereof.

#### XIV. LANDLORD'S RIGHTS TO CURE

14.1 General Right. In the event of Landlord's breach, default, or noncompliance hereunder (except as expressly provided to the contrary in Section 8.1), Tenant shall, before exercising any right or remedy available to it, give Landlord written notice of the claimed breach, default, or noncompliance. If prior to its giving such notice Tenant has been notified in writing (by way of notice of assignment of rents and leases, or otherwise) of the address of a lender which has furnished any of the financing referred to in Article XV hereof, concurrently with giving the aforesaid notice to Landlord, Tenant shall, by certified mail, return receipt requested, transmit a copy thereof to such lender. For the thirty (30) days following the giving of the notice(s) required by the foregoing portion of this Section (or such longer period of time as may be reasonably required to cure a matter which, due to its nature, cannot reasonably be rectified within thirty (30) days), Landlord shall have the right to cure the breach, default, or noncompliance involved. If Landlord has failed to cure a default within said period, any such lender shall have an additional thirty (30) days within which to cure the same or, if such default cannot be cured within that period, such additional time as may be necessary if within such thirty (30) day period said lender has commenced and is diligently pursuing the actions or remedies necessary to cure the breach default, or noncompliance involved (including, but not limited to, commencement and prosecution of proceedings to foreclose or otherwise exercise its rights under its mortgage or other security instrument, if necessary to effect such cure), in which event this Lease shall not be terminated by Tenant so long as such actions or remedies are being diligently pursued by said lender.

14.2 Mechanic's Liens. Should any mechanic's or other lien be filed against the Leased Premises or any part thereof by reason of Tenant's acts or omissions or because of a claim against Tenant, Tenant shall cause the same to be canceled and discharged of record by bond or otherwise within ten (10) days after notice by Landlord. If Tenant fails to comply with its obligations in the immediately preceding sentence within such ten (10) day period, Landlord may perform such obligations at Tenant's expense, in which case all of Landlord's costs and expenses in discharging shall be immediately due and payable by Tenant and shall bear interest at the rate set forth in Section 16.3 hereof. Tenant shall cause any person or entity directly or indirectly supplying work or materials to Tenant to acknowledge and agree, and Landlord hereby notifies any such contractor, that: (a) no agency relationship, whether express or implied, exists between Landlord and any contractor retained by Tenant; (b) all construction contracted for by Tenant is being done for the exclusive benefit of Tenant; and (c) Landlord neither has required nor obligated Tenant to make the improvements done by the contractor.

#### XV. FINANCING; SUBORDINATION

15.1 Subordination. This Lease is and shall continue to be subordinate to any mortgage, deed of trust, or other security interest now existing or hereafter placed on the Landlord's interest in the Property by a mortgage lender (as amended, restated, supplemented, or otherwise modified from time to time, including any refinancing thereof, a "Mortgage"); provided, however, such subordination is subject to and conditioned upon Landlord delivering an SNDA to Tenant. Within ten (10) days of a request from Landlord Tenant shall execute, a Subordination, Non Disturbance, and Attornment Agreement in the form

attached hereto as Exhibit "F" (an "SNDA"), from time to time, in favor of such holder of the Mortgage. If elected by the holder of a Mortgage, this Lease shall be superior to such Mortgage, in which case Tenant shall execute and deliver an instrument confirming the same. Tenant's obligation to subordinate this Lease to the lien of any future loan or ground lease will be conditioned on receipt of an SNDA. Tenant shall not subordinate its interests hereunder or in the Leased Premises to any lien or encumbrance other than the Mortgages described in and specified pursuant to this Section 15.1 without the prior written consent of Landlord and of the lender interested under each Mortgage then affecting the Leased Premises. Any such unauthorized subordination by Tenant shall be void and of no force or effect whatsoever.

15.2 Amendment. Tenant recognizes that Landlord's ability from time to time to obtain construction, acquisition, standing, and/or permanent mortgage loan financing for the Building and/or the Leased Premises may in part be dependent upon the acceptability of the terms of this Lease to the lender concerned. Accordingly, Tenant agrees that from time to time it shall, if so requested by Landlord and if doing so will not substantially and adversely affect Tenant's economic or leasehold interests or materially modify Landlord's obligations hereunder, join with Landlord in amending this Lease so as to meet the needs or requirements of any lender which is considering making or which has made a loan secured by a Mortgage affecting the Leased Premises.

15.3 Attornment. Any sale, assignment, or transfer of Landlord's interest under this Lease or in the Leased Premises including any such disposition resulting from Landlord's default under a Mortgage, shall be subject to this Lease. Tenant shall attorn to Landlord's successor and assigns, including a lender or its nominee, and shall recognize such successor or assigns as Landlord under this Lease, regardless of any rule of law to the contrary or absence of privity of contract; provided, however, if a lender providing mortgage loan financing forecloses on the Property or accepts title to the Property in lieu of foreclosure, such lender or its nominee shall not: (a) be liable for any act or omission of Landlord with respect to events occurring prior to foreclosure or acceptance of title in lieu of foreclosure; (b) be subject to any offsets or defenses which Tenant might have against Landlord with respect to events occurring prior to foreclosure or acceptance of title in lieu of foreclosure, (c) be bound by prepayment of more than one month's rent, or (d) be liable for the return of any security deposit paid to Landlord unless such security deposit shall have been actually received by such lender or its nominee.

15.4 Financial Information. In connection with financing of the Property or a prospective sale of the Property, but in no event more than three times during the Term, Tenant shall provide upon request of Landlord from time to time Tenant's financial statements for Tenant's most recently completed fiscal year and a year to date balance sheet and income statement, to verify the financial condition of Tenant, its assignees or subtenants from time to time during the term of the Lease. If required by Landlord's lender or a potential purchaser, Tenant shall cause such financial statements to be certified by Tenant's chief financial officer, solely in his or her capacity as chief financial officer, that such financial statements do not contain any untrue statement of material fact, nor do any audited financial statements provided by Tenant omit any material fact necessary to make the statements contained therein not misleading. Provided, however, that so long as Tenant is a publicly traded company, Tenant may satisfy the foregoing requirements by filing with the SEC copies of its quarterly 10-Q filings and annual 10-K filing.

## XVI. EVENTS OF DEFAULT; REMEDIES

16.1 Default by Tenant. Upon the occurrence of any of the following events, Landlord shall have the remedies set forth in Section 16.2:

(a) Tenant fails to pay any installment of Basic Annual Rent or Additional Rent or any other sum due hereunder within five (5) days after such Rent is due; provided, however, that the first (1st) such failure in any twelve (12) month period shall not constitute a Default hereunder if Tenant makes such payment within five (5) days after written notice from Landlord of such failure, but Tenant shall not be entitled to more than one (1) such written notice during any twelve (12) month period.

(b) Tenant fails to perform any other term, condition, or covenant to be performed by it pursuant to this Lease within thirty (30) days after written notice that such performance is due shall have been given to Tenant by Landlord or; provided, if cure of any nonmonetary default would reasonably require more than thirty (30) days to complete, if Tenant fails to commence performance within the thirty (30) day period or, after timely commencing, fails to diligently pursue such cure to completion but in no event to exceed ninety (90) days.

(c) Tenant shall become bankrupt or insolvent or file any debtor proceedings or have taken against such party in any court pursuant to state or federal statute, a petition in bankruptcy or insolvency, reorganization, or appointment of a receiver or trustee; or Tenant petitions for or enters into a voluntary arrangement under applicable bankruptcy law; or suffers this Lease to be taken under a writ of execution.

16.2 Remedies. In the event of any default by Tenant hereunder, Landlord may at any time, without waiving or limiting any other right or remedy available to it, terminate Tenant's rights under this Lease by written notice, reenter and take

possession of the Leased Premises by any lawful means (with or without terminating this Lease), or pursue any other remedy allowed by law. Tenant agrees to pay to Landlord the reasonable costs of recovering possession of the Leased Premises, all reasonable costs of reletting, and all other reasonable costs and damages arising out of Tenant's default, including attorneys' fees. Notwithstanding any reentry, the liability of Tenant for the rent reserved herein shall not be extinguished for the balance of the Term, except to the extent the Leased Premises are relet, and Tenant agrees to compensate Landlord upon demand for any deficiency arising from reletting the Leased Premises at a lesser rent than applies under this Lease.

16.3 Past Due Sums. If Tenant fails to pay, when the same is due and payable, any Basic Annual Rent, Additional Rent, or other sum required to be paid by it hereunder, such unpaid amounts shall bear interest from the due date thereof to the date of payment at a rate equal to eight percent (8%) per annum (the "Default Interest Rate"). In addition thereto, Tenant shall pay a sum of five percent (5%) of such unpaid amounts of Basic Annual Rent, Additional Rent, or other sum to be paid by it hereunder as a service fee. Notwithstanding the foregoing, however, Landlord's right concerning such interest and service fee shall be limited by the maximum amount which may properly be charged by Landlord for such purposes under applicable law.

16.4 Default by Landlord. Landlord shall be in default of the performance of its obligations under this Lease if Landlord defaults in the performance or observation of any agreement, liability, or obligation imposed on it by this Lease and Landlord fails to cure such default within thirty (30) days after written notice by Tenant to Landlord specifying wherein Landlord has failed to perform such obligation; provided, however, that if the nature of Landlord's obligations is such that more than thirty (30) days are required for performance then Landlord shall not be in default if Landlord commences performance within such thirty (30) day period and thereafter diligently and continuously prosecutes the same to completion but in no event to exceed ninety (90) days (a "Landlord Default"). Subject to Section 14.1, upon the occurrence of a Landlord Default under this Lease, Tenant, at its option, without further notice or demand, and without limiting its right to receive any late delivery payments in connection with Landlord's delivery of the Leased Premises as specified above, may: (a) pursue the remedy of specific performance or injunction; (b) seek declaratory relief; and (c) pursue an action for actual and direct damages for loss.

## XVII. PROVISIONS APPLICABLE AT TERMINATION OF LEASE

17.1 Surrender of Leased Premises. At the expiration of this Lease, except for changes made by Tenant that were approved by Landlord, Tenant shall surrender the Leased Premises in the same condition, less reasonable wear and tear, as they were in upon delivery of possession thereto under this Lease and shall deliver all keys to Landlord. Before surrendering the Leased Premises, Tenant shall remove all of its personal property and trade fixtures and such property. The removal thereof shall in no way damage the Leased Premises, and Tenant shall be responsible for all costs, expenses and damages incurred in the removal thereof. If Tenant fails to remove its personal property and fixtures upon the expiration of this Lease, the same shall be deemed abandoned and shall become the property of Landlord.

17.2 Holding Over. So long as no default by Tenant is then in existence, Tenant, at Tenant's sole discretion, shall have the right to holdover in the Leased Premises for a period of up to six (6) months under the same terms and conditions of the Lease, provided that Tenant provides Landlord written notice of its intent to holdover, which notice shall specify the period for which Tenant will holdover (not to exceed six (6) month) at least five hundred (500) days prior to the expiration of the Term, which written notice must specify the number of months Tenant will hold over to be effective. Following such up to six-month holdover period (if applicable), or if such up to six-month period is not applicable, after the expiration or termination of this Lease for any reasons, if Tenant fails to surrender possession of the Leased Premises, such tenancy shall be construed to be a tenancy at sufferance except that Basic Annual Rent shall be increased to an amount equal to one hundred fifty percent (150%) of the then Basic Annual Rent plus, and in addition to the Basic Annual Rent, all other sums of money as shall become due and payable by Tenant to Landlord under this Lease and on the terms herein specified so far as possible. Such tenancy at sufferance shall be subject to every other term, covenant, and agreement contained in this Lease. Nothing contained in this Section 17.2 shall be construed as consent by Landlord to any holding over by Tenant, and Landlord expressly reserves the right to require Tenant to surrender possession of the Leased Premises to Landlord as provided in this Lease upon the expiration or other termination of this Lease. The provisions of this Section 17.2 shall not be deemed to limit or constitute a waiver of any other rights or remedies of Landlord provided herein or at law. If Tenant fails to surrender the Leased Premises upon the termination or expiration of this Lease, in addition to any other liabilities to Landlord accruing therefrom, Tenant shall protect, defend, indemnify and hold Landlord harmless from all loss, costs (including reasonable attorneys' fees) and liability resulting from such failure, including, without limiting the generality of the foregoing, any claims made by any succeeding tenant founded upon such failure to surrender, and any lost profits to Landlord resulting therefrom.

## XVIII. ATTORNEYS' FEES

In the event that at any time during the Term either Landlord or Tenant institutes any action or proceeding against the other relating to the provisions of this Lease or any default hereunder, then the unsuccessful party in such action or proceeding agrees to reimburse the successful party for the reasonable expenses of such action including reasonable attorneys' fees, incurred therein by the

successful party.

## XIX. ESTOPPEL CERTIFICATE

19.1 Estoppel Certificate. Tenant shall, within fifteen (15) days after Landlord's request, execute and deliver to Landlord a written declaration, in form and substance similar to Exhibit "D", plus such additional other information as Landlord may reasonably request. Landlord's mortgage lenders and/or purchasers shall be entitled to rely upon such declaration.

19.2 Effect of Failure to Provide Estoppel Certificate. Tenant's failure to furnish any estoppel certificate as required pursuant to Section 19.1 within fifteen (15) days after request therefor shall be deemed a default hereunder and moreover, it shall be conclusively presumed that: (a) this Lease is in full force and effect without modification in accordance with the terms set forth in the request; (b) that there are no unusual breaches or defaults on the part of Landlord; and (c) no more than one (1) month's rent has been paid in advance.

## XX. COMMON AREAS

20.1 Definition of Common Areas. "Common Areas" means all areas, space, equipment, and special services provided for the joint or common use and benefit of the tenants or occupants of the Building, the Improvements, and Property or portions thereof, and their employees, agents, servants, patients, customers, and other invitees (collectively referred to herein as "Occupants") including, without limitation, parking (including any Structured Parking (defined below) including any areas which may be usable by Tenant and its Occupants pursuant to matters of record, access roads, driveways, retaining walls, landscaped areas, serviceways, loading docks, pedestrian walks; courts, stairs, ramps, and sidewalks; common corridors, rooms and restrooms; air-conditioning, fan, janitorial, electrical, and telephone rooms or closets; and all other areas within the Building which are not specified for exclusive use or occupancy by Landlord or any tenant (whether or not they are leased or occupied).

20.2 License to Use Common Areas. The Common Areas shall be available for the common use of all Occupants and shall be used and occupied under a revocable license; provided, however, that, subject to the rights under 20.6 below, in no event shall any revocation materially adversely impair Tenant's parking rights, access to the Leased Premises, the Tenant Amenities or the Hillside Amenities (except temporarily and so long as Landlord provides reasonable alternative access), access to amenities within the Common Areas or use of the Leased Premises. If any such license shall be revoked, or if the amount of such areas shall be changed or diminished in a manner that does not materially adversely impair Tenant's access to the Leased Premises or amenities, Landlord shall not be subject to any liability nor shall Tenant be entitled to any compensation or diminution or abatement of rent nor shall revocation or diminution of such areas be deemed constructive or actual eviction. All Common Areas shall be subject to the exclusive control and management of Landlord. Provided none of the following materially adversely affect Tenant's use of the Leased Premises, subject to Section 20.6 below, parking rights or access to the Leased Premises (unless Landlord has provided reasonable alternative parking or access rights), except as required by law or temporarily in the case of an emergency, casualty or condemnation, Landlord shall have the right (a) to construct, maintain, and operate lighting and other facilities on all said areas and improvements; (b) to police the same; (c) to change the area, level, location, and arrangement of parking areas and other facilities; (d) to reasonably restrict parking by tenants, their officers, agents, and employees; (e) to close all or any portion of said areas or facilities to such extent as may be legally sufficient to prevent a dedication thereof or the accrual of any right to any person or the public therein; and (f) to close temporarily all or any portion of the parking areas or facilities to discourage non-Occupant parking. Landlord shall operate and maintain the Common Areas in such manner as Landlord in its discretion shall determine, shall have full right and authority to employ and discharge all personnel with respect thereto, and shall have the right, through reasonable rules, regulations, and/or restrictive covenants promulgated by it from time to time, to control the use and operation of the Common Areas in order that the same may occur in a proper and orderly fashion.

### 20.3 Parking.

(a) Landlord shall provide a minimum of 1,650 parking stalls (the "Minimum Parking Allocation") and a maximum of 1,815 parking stalls (the "Maximum Parking Allocation"), which parking stalls shall be exclusive subject to Section 20.6, on the Parking Property adjacent to the Building as shown on Exhibit "A-1" attached hereto and as further described in the CC&Rs (the "Parking Property"). So long as Tenant is the sole user of the Parking Property, Tenant shall have the right to designate and modify the designation of all such spaces (other than those required to be designated by applicable law) as reserved or unreserved, in its sole discretion, and, subject to the terms of this Section 20.3, to contract with transit authorities for parking of ride shares, trolleys, shuttles, and other similar rights. The actual number of parking stalls available to Tenant under this Lease (the "Actual Parking Allocation") shall be set forth in the approved Landlord Improvement Plans (as defined in the Work Letter), provided that the Actual Parking Allocation shall be no less than the Minimum Parking Allocation and shall not exceed the Maximum Parking Allocation. In the event that the Actual Parking Allocation as set forth on the approved Landlord

Improvement Plans is less than the Maximum Parking Allocation (such difference, if any, is referred to herein as the “Parking Allocation Differential”), so long as Tenant is not in default under this Lease beyond all applicable notice and cure periods, Tenant shall have the right during the Term to request that Landlord provide additional parking stalls from Landlord in the amount of the Parking Allocation Differential by delivering written notice to Landlord of such request. Upon Landlord’s receipt of such written notice, Landlord shall, or shall cause an affiliate of Landlord, to enter into a license agreement with Tenant for parking stalls in the amount of the Parking Allocation Differential, which parking stalls shall be licensed to Tenant on a non-exclusive basis and at rates mutually agreed to by Landlord or its affiliate, as applicable, and Tenant. In the event that Landlord or its affiliate, as applicable, and Tenant cannot agree on such rates within sixty (60) days, Tenant’s right to request the Parking Allocation Differential shall terminate.

(b) Landlord shall reimburse Tenant for an amount up to \$50,000 for the purchase of a shuttle van by Tenant (the “TRAX Shuttle”) for the purpose of shuttling employees from the Building to the nearest TRAX/UTA Frontrunner station. Tenant shall be solely responsible for operating (including hiring a driver to operate the TRAX Shuttle), maintaining, insuring, storing and repairing the TRAX Shuttle, at Tenant’s sole cost and expense. In the event of a Default, Tenant shall return and convey the TRAX Shuttle to Landlord in good working condition, reasonable wear and tear and depreciation excepted.

20.4 CC&Rs. On or before the date that is two hundred forty (240) days after the date hereof, Landlord and any other owners within the Highline Development will enter into covenants, conditions and restrictions with respect to the Highline Development (the “CC&Rs”) which shall contain such cross easements as are necessary for vehicular and pedestrian ingress and egress, provide for Tenant’s exclusive parking rights subject to the terms of this Lease, easements for designated trails and project common areas, signage rights, rights to install utilities in certain areas, rights to use the Expansion Property (as defined in the Expansion Option Agreement) during the term of this Agreement as open space, rights to build structures on the Parking Property as contemplated by Section 20.6 of this Lease, together with such additional rights as are necessary to operate the Project as an integrated office park. So long as Tenant is not in default under this Lease (beyond any applicable notice and cure period), Tenant shall have the right to reasonably approve the CC&Rs prior to execution and recordation, and the CC&Rs shall include a provision that so long as (a) this Lease is in full force and effect, (b) no default beyond all applicable notice and cure periods exists under this Lease, (c) Tenant has not reduced the size of the Leased Premises except as may be permitted hereunder in connection with a casualty or condemnation, (d) Tenant has not transferred its interest in this Lease other than to a Permitted Transferee, such CC&Rs (i) may not be amended or modified if such amendment or modification will materially adversely affect Tenant’s rights or obligations under this Lease without the written approval of Tenant, (ii) will include a restriction that, except at the election of Tenant, prevents the construction of a building within the “Prohibited Building Area” shown on Exhibit “A-2”, (iii) will provide that, in the event Tenant has entered into an Expansion Property Lease for one or more Expansion Buildings equaling a total of 250,000 square feet or more, such Expansion Building(s) may be located on the Expansion Property and Parking Property outside of the Permitted Building Area (as such terms are defined in the Expansion Option Agreement), and, so long as such Expansion Property Lease is in full force and effect, no additional buildings will be constructed on the Expansion Property or Parking Property without the written consent of Tenant, and (iv) will limit the uses of the buildings and structures on the Parking Property and Expansion Property for office and parking uses (along with related ancillary uses, including ancillary retail uses).

20.5 Satellite Antenna/Roof and Riser Access. Tenant agrees that neither it nor its contractors or employees will, during the construction of the Leased Premises or at any time during the Term, make or cause to be made in the roof of the Building any penetration in the roofing surface without first obtaining the prior written approval from Landlord, which approval shall not be unreasonably withheld, conditioned, or delayed. All such work relating to the roof shall be done in a manner that does not adversely affect the warranty for the roof. Tenant acknowledges that Landlord may require Tenant to use Landlord’s designated roofing contractor to perform or supervise any roof cuts or penetrations to which Landlord may agree or give its consent. In the event Tenant fails to observe this condition, Landlord may hire a roofing contractor of its choice to inspect any penetrations in the roofing material over the Leased Premises and, in the event of non-compliance, Landlord may perform any needed corrections to the roof surface or its components in order to preserve the integrity of the roof structure. After which, Landlord may bill Tenant for those reasonable expenses actually incurred by Landlord for such repairs. Tenant agrees to pay for such repairs within thirty (30) days after Landlord’s written demand. Subject to Landlord’s prior written approval, which shall not be unreasonably withheld, conditioned or delayed, and subject to Tenant complying with all applicable laws and all covenants, conditions or restrictions which affect the Building, at any point during the Term of the Lease, Tenant shall have the right to install and operate one or more satellite antenna dishes and cables solely for Tenant’s use on the rooftop of the Building. Such satellite antenna dish(es) and cables shall be installed at Tenant’s sole cost and expense, in a manner reasonably acceptable to Landlord and otherwise in compliance with all requirements for performing Alterations under Section 8.3 hereof. Notwithstanding anything to the contrary herein, at the end of the Term all such satellite antenna dish(es) and cables shall be removed by Tenant at Tenant’s sole cost and expense and in a manner reasonably acceptable to Landlord. Tenant shall repair all damage to the Building, the Common Areas, the Property or Improvements as a result of the installation or removal of such satellite antenna dish(es) and cables. Commencing as of the time of installation, Tenant shall conform to all applicable laws and ordinances with regard to use, installation, and maintenance of such satellite antenna dish(es)

and cables. Tenant shall be solely responsible for all maintenance, repairs and replacements of such satellite antenna dish(es) and cables, including any and all losses, costs, damages or expenses arising out of the installation, operation, maintenance or removal of such satellite antenna dish(es) and cables and for such purposes will have access to the Building rooftop. All permits, application fees, and all costs associated with the aforementioned shall be the responsibility of Tenant.

20.6 Parking Property Improvements. Tenant acknowledges and agrees that the owner of the Parking Property (“Parking Owner”) may build additional buildings and/or structured parking (“Structured Parking”) on the Parking Property in the area shown on Exhibit “A-1” (the “Permitted Building Area”), subject to Tenant’s rights under the Expansion Option Agreement (so long as such agreement is in full force and effect). If Parking Owner builds additional buildings or Structured Parking, Landlord shall provide Tenant with not less than ninety (90) days advanced written notice of such election (the “Parking Notice”). The Parking Notice shall identify: (a) the location of the proposed buildings and/or Structured Parking facility on the Parking Property, which location must be within the Permitted Building Area; (b) the proposed commencement date and construction period for the buildings and/or Structured Parking (the “Construction Period”); (c) the number of parking stalls located on the existing parking facilities that will be unavailable to the Tenant during the construction period (the “Displaced Parking Stalls”); and (d) alternative temporary parking stalls that Landlord will make available for Tenant’s use during the Construction Period (the “Temporary Parking Stalls”). The number of Temporary Parking Stalls provided by Landlord shall be equal to or greater than the Displaced Parking Stalls and, in the event the Temporary Parking Stalls are located more than 1,000 feet from the Building, Landlord shall provide a parking shuttle from the Building to the Temporary Parking Stalls during Tenant’s regular operating hours that runs in thirty (30) minute increments so as not to materially adversely disrupt Tenant’s business. Upon completion of the buildings and/or Structured Parking, (i) Landlord shall have no further obligation to provide the Temporary Parking Stalls, (ii) Tenant’s exclusive parking rights under this Lease with respect to the Parking Property shall automatically terminate, and (iii) Landlord shall provide Tenant an aggregate allocation of non-exclusive parking stalls on the Property and on the Parking Property (which may include parking within the Structured Parking) in an amount equal to the Actual Parking Allocation.

## XXI. SIGNS, AWNINGS, AND CANOPIES

Tenant shall have the exclusive right, at Tenant’s sole cost and expense, to install crown building signage on the Building to the maximum extent permitted by applicable laws and all existing matters of record or matters of record which Tenant has consented to, which consent shall not be unreasonably withheld, conditioned or delayed. Tenant shall also have the right to install monument signs at reasonable locations on the Property at Tenant’s sole cost and expense, subject to applicable laws and existing matters of record. Tenant may install any signage within the interior of the Leased Premises which is not visible from the exterior of the Leased Premises without Landlord’s consent so long as such signage installation otherwise complies with the provisions of Section 8.3. Tenant may install any exterior signage on the exterior of the Leased Premises, so long as such signage installation otherwise complies with the provisions of Section 8.3, at the prior written consent of Landlord, such consent not to be unreasonably withheld, conditioned or delayed. All signage shall comply with all applicable laws and matters of record and, except as otherwise permitted herein, shall be subject to Landlord’s prior written approval, which shall not be unreasonably withheld. Tenant further agrees to maintain all such signs, canopies, lettering, advertising matter, or other things, as may be permitted by this Section, in good condition and repair at all times. Landlord may, at Tenant’s cost, and without liability to Tenant, enter the Leased Premises and remove any item erected in violation of this Section. Any of the above signage rights shall not be personal to Tenant and may be transferred to an assignee or sublessee of Tenant; provided only one assignee or sublessee shall have crown or other exterior signage rights pursuant to this Section 21.

## XXII. MISCELLANEOUS PROVISIONS

22.1 No Partnership. Nothing contained herein shall be deemed or construed by the parties hereto, or by any third party, as creating the relationship of principal and agent, or of partnership, or of joint venture between the parties hereto, it being understood and agreed that neither the method of computation of rent nor any other provision contained herein, nor any acts of the parties hereto, shall be deemed to create any relationship between the parties hereto other than the relationship of landlord and tenant.

22.2 Force Majeure. Except for any monetary obligations under this Lease after the Rent Commencement Date, Tenant and Landlord shall be excused for the period of any delay in the performance of any obligations hereunder when prevented from so doing by cause or causes beyond the impacted party’s (“Impacted Party”) reasonable control, including, without limitation, strikes, labor stoppages or slowdowns, civil commotion, war, governmental regulations or controls, fire or other casualty, inability to obtain any material or service, or acts of God (each, a “Force Majeure Event”). The Impacted Party shall promptly give notice of the Force Majeure Event to the other party, stating the period of time the occurrence is expected to continue. The Impacted Party shall use diligent efforts to end the failure or delay and ensure the effects of such Force Majeure Event are minimized. The Impacted Party shall resume the performance of its obligations as soon as reasonably practicable after the removal of the cause.

22.3 No Waiver. Failure of Landlord to insist upon the strict performance of any provision or to exercise any option hereunder shall not be deemed a waiver of such breach. No provision of this Lease shall be deemed to have been waived unless such waiver be in writing signed by Landlord.

22.4 Notices. All notices, requests, and demands to be made under this Lease to Landlord or Tenant shall be in writing (at the addresses set forth in the Lease Summary) and shall be given by any of the following means: (a) personal service; (b) electronic communication, whether by e-mail or facsimile (provided that a hard-copy of such notice is given in any other manner permitted hereunder within three (3) days after the date of such electronic transmission); (c) certified first class mail, return receipt requested; or (d) a nationally recognized overnight service. Such addresses may be changed by notice to Landlord and/or Tenant, as applicable, given in the same manner as provided above. Any notice, demand, or request sent pursuant to either clause (a) or clause (b) hereof shall be deemed received one (1) business day after personal service or one (1) business day after delivery by electronic means, if sent pursuant to clause (c) shall be deemed received three (3) business days following deposit in the mail, and if sent pursuant to clause (d) shall be deemed received one (1) business day following deposit with the overnight service.

22.5 Captions; Attachments; Defined Terms:

(a) The captions to the Section of this Lease are for convenience of reference only and shall not be deemed relevant in resolving questions of construction or interpretation under this Lease.

(b) Exhibits referred to in this Lease, and any addendums and schedules attached to this Lease shall be deemed to be incorporated in this Lease as though part thereof.

22.6 Recording. Tenant may not record this Lease or a memorandum thereof without the written consent of Landlord, which consent shall not be unreasonably withheld. Landlord, at its option and at any time, may file a memorandum of this Lease for record with the Recorder of the County in which the Building is located.

22.7 Partial Invalidity. If any provision of this Lease or the application thereof to any person or circumstance shall to any extent be invalid, the remainder of this Lease or the application of such provision to persons or circumstances other than those as to which it is held invalid shall not be affected thereby and each provision of this Lease shall be valid and enforced to the fullest extent permitted by law.

22.8 Broker's Commissions. Tenant represents and warrants that, except for Tenant's Broker, there are no claims for brokerage commissions or finder's fees in connection with this Lease and agrees to indemnify Landlord against and hold it harmless from all liabilities arising from such claims, including any reasonable attorneys' fees connected therewith. Landlord agrees to pay Tenant's Broker a commission pursuant to a separate agreement between Landlord and Tenant's Broker.

22.9 Tenant Defined; Use of Pronouns. The word "Tenant" shall be deemed and taken to mean each and every person or party executing this document as a Tenant herein. If there is more than one person or organization set forth on the signature line as Tenant, their liability hereunder shall be joint and several. If there is more than one Tenant, any notice required or permitted by the terms of this Lease may be given by or to any one thereof, and shall have the same force and effect as if given by or to all thereof. The use of the neuter singular pronoun to refer to Landlord or Tenant shall be deemed a proper reference even though Landlord or Tenant may be an individual, a partnership, a corporation, or a group of two or more individuals or corporations. The necessary grammatical changes required to make the provisions of this Lease apply in the plural sense where there is more than one Landlord or Tenant and to corporations, associations, partnerships, or individuals, males or females, shall in all instances be assumed as though in each case fully expressed.

22.10 Provisions Binding, Etc. Except as otherwise expressly set forth herein including, specifically and without limitation, Section 9, all provisions herein shall be binding upon and shall inure to the benefit of the parties, their successors and assigns. Each provision to be performed by Tenant shall be construed to be both a covenant and a condition, and if there shall be more than one Tenant, they shall all be bound, jointly and severally, by such provisions. In the event of any sale or assignment (except for purposes of security or collateral) by Landlord of the Building, the Leased Premises or this Lease, Landlord shall, from and after the Commencement Date (irrespective of when such sale or assignment occurs), be entirely relieved of all of its obligations hereunder. Nothing set forth herein shall require Landlord to obtain Tenant's consent to any assignment, transfer or other encumbrance of any of Landlord's interest in the Property, the Leased Premises, the Improvements or the Common Areas; provided such successor or assignee assumes in writing all of the duties and obligations of Landlord under this Lease from and after the date of such sale or assignment.

22.11 Entire Agreement, Etc. This Lease and the exhibits, riders, and/or addenda, if any, attached hereto, constitute the entire agreement between the parties. Any prior conversations or writings are merged herein and extinguished. No subsequent amendment to this Lease shall be binding upon Landlord or Tenant unless reduced to writing and signed.

Submission of this Lease for examination does not constitute an option for the Leased Premises and becomes effective as a lease only upon execution and delivery thereof by Landlord to Tenant. If any provision contained in the rider or addenda is inconsistent with a provision in the body of this Lease, the provision contained in said rider or addenda shall control. It is hereby agreed that this Lease contains no restrictive covenants or exclusives in favor of Tenant. The captions and Section numbers appearing herein are inserted only as a matter of convenience and are not intended to define, limit, construe, or describe the scope or intent of any Section or paragraph.

22.12 Governing Law. The interpretation of this Lease shall be governed by the laws of the State of Utah. Each party hereby expressly and irrevocably agrees that the other party may bring any action or claim to enforce the provisions of this Lease in the State of Utah, County of Salt Lake, and each party irrevocably consents to personal jurisdiction in the State of Utah for the purposes of any such action or claim. Each party further irrevocably consents to service of process in accordance with the provisions of the laws of the State of Utah.

22.13 Recourse by Tenant. Anything in this Lease to the contrary notwithstanding, Tenant agrees that it shall look solely to the estate and property of Landlord in the land, Building and Improvements, and subject to prior rights of any mortgagee, for the collection of any judgment (or other judicial process) requiring the payment of money by Landlord in the event of any default or breach by Landlord with respect to any of the terms, covenants, and conditions of this Lease to be observed and/or performed by Landlord, and no other assets of Landlord or any of its partners, shareholders, successors, or assigns shall be subject to levy, execution, or other procedures for the satisfaction of Tenant's remedies.

22.14 Rules and Regulations. Tenant and the Tenant Related Parties shall faithfully observe and comply with all of the rules and regulations set forth on the attached Exhibit G (the "Rules and Regulations"). Landlord may from time to time reasonably amend, modify or make additions to or deletions from such Rules and Regulations so long as such amendments, modifications, additions or deletions do not unreasonably affect Tenant's use of for the Permitted Use, or access to and from, the Leased Premises or materially increase any of Tenant's obligations under this Lease. Such amendments, modifications, additions and deletions shall be effective on notice to Tenant pursuant to Section 22.4. Upon any uncured breach, after notice and opportunity to cure, of any of such Rules and Regulations, Landlord may exercise any or all of the remedies provided in this Lease on a default by Tenant under this Lease and may, in addition, exercise any remedies available at law or in equity including the right to enjoin any breach of such Rules and Regulations. Landlord shall not be responsible to Tenant for the failure of any other tenant or person to observe any such Rules and Regulations.

22.15 Quiet Enjoyment. Landlord covenants that, as long as Tenant is not in default under this Lease beyond any applicable notice and cure periods, Tenant shall at all times during the Term peaceably and quietly have, hold and enjoy the Leased Premises and the Common Areas without disturbance from Landlord, or any person or entity arising by, through or under Landlord, subject to the terms of the Lease.

22.16 Representations and Warranties. Tenant represents and warrants to Landlord as follows:

(a) Tenant's Representations and Warranties. Tenant represents and warrants to Landlord as follows:

(i) Tenant is duly organized and validly existing under the laws of the state of its formation and has full power and authority to enter into this Lease, without the consent, joinder or approval of any other person or entity, including, without limitation, any mortgagee(s). This Lease has been validly executed and delivered by Tenant and constitutes the legal, valid and binding obligations of Tenant, enforceable against Tenant in accordance with its terms.

(ii) Tenant is not a party to any agreement or litigation which could adversely affect the ability of Tenant to perform its obligations under this Lease or which would constitute a default on the part of Tenant under this Lease, or otherwise materially adversely affect Landlord's rights or entitlements under this Lease.

(b) Landlord's Representations and Warranties. Landlord represents and warrants to Tenant as follows:

(i) Landlord is duly organized and validly existing under the laws of the state of its formation and has full power and authority to enter into this Lease, without the consent, joinder or approval of any other person or entity, including, without limitation, any mortgagee(s). This Lease has been validly executed and delivered by Landlord and constitutes the legal, valid and binding obligations of Landlord, enforceable against Landlord in accordance with its terms.

(ii) Landlord is not a party to any agreement or litigation which could adversely affect the ability of Landlord to perform its obligations under this Lease or which would constitute a default on the part of Landlord under this Lease, or otherwise materially adversely affect Tenant's rights or entitlements under this Lease.

(iii) Landlord is the fee owner of the Property.

22.16 No Construction Against Preparer. This Lease has been prepared by Landlord and its professional advisors and reviewed by Tenant and its professional advisors. Landlord, Tenant and their separate advisors believe that this Lease is the product of their joint efforts, that it expresses their agreement, and that it should not be interpreted in favor of either Landlord or Tenant or against either Landlord or Tenant merely because of their efforts in its preparation.

22.17 Number and Gender. The terms “Landlord” and “Tenant,” wherever used herein, shall be applicable to one or more persons or entities, as the case may be, and the singular shall include the plural and the neuter shall include the masculine and feminine and, if there be more than one person or entity with respect to either party, the obligations hereof of such party shall be joint and several.

22.18 Counterparts. This Lease may be executed and delivered in counterparts for the convenience of the parties, each of which shall be deemed an original and all of which, when taken together, shall constitute one and the same agreement. Electronic signatures shall have the same force and effect of original signatures.

22.19 Waiver of Trial by Jury. Landlord and Tenant hereby waive trial by jury in any action, proceeding or counterclaim brought by either against the other, upon any matters whatsoever arising out of or in any way connected with this Lease, Tenant’s use or occupancy of the Leased Premises, and/or any claim of injury or damage.

22.20 Merger. If both Landlord’s and Tenant’s estates in the Leased Premises have both become vested in the same owner, this Lease shall nevertheless not be terminated by application of a doctrine of merger unless agreed in writing by Landlord, Tenant and any holder of a Mortgage.

22.21 Confidentiality. Each party agrees to keep the terms of this Lease confidential and shall cause its employees, contractors and agents (including brokers) to do so and each party and its agents shall not disclose same to any other person not a party hereto without the prior written consent of the other party (including without limitation, posting the terms of this lease or any part thereof on the internet or in any mailing or providing a copy to third parties via electronic mail), provided that either party may disclose the terms hereof (i) to each party’s respective accountants, attorneys, employees, and others in privity with the disclosing party to the extent reasonably necessary for the disclosing party’s business purposes without such prior consent but subject to the confidentiality requirement hereof, (ii) pursuant to government order or court order without the other party’s prior consent; and (iii) in the case of Landlord, to Landlord’s lenders and bona fide prospective buyers of the Property without Tenant’s prior consent.

22.22 Right of First Refusal to Purchase.

(a) Provided that (i) this Lease is in full force and effect and (ii) any Amended Lease, if applicable, and any other Lease entered into by Tenant or its affiliate for any space in the Project with an affiliate of Landlord (each, individually and collectively as the context may require, an “**Adjacent Lease**”) is in full force and effect, (iii) no default exists under this Lease of an Adjacent Lease, beyond any applicable cure periods, and (iv) this Lease and any Adjacent Lease have not been Transferred, if (A) Landlord shall receive a bona fide offer from any third party for the purchase of the Property which offer Landlord desires to accept (the “Third Party Offer”), or (B) if Landlord desires to sell or market the Property for sale to a third party (the “Marketing Offer”), then Landlord shall deliver to Tenant a written notice setting forth the economic terms and conditions of the Third Party Offer or Marketing Offer, as applicable, and if available, a copy of such offer (the “Written Notice of Proposed Sale”). Tenant may, within ten (10) business days of Landlord’s receipt of a Third Party Offer, or within thirty (30) calendar days of Landlord’s delivery of a Marketing Offer, as applicable, elect by delivering written notice to Landlord within such ten business day or thirty (30) day period, as applicable (“Tenant’s Acceptance Notice”), to purchase the Property on the same terms and conditions as those set forth in the Written Notice of Proposed Sale, except that the purchase price shall be increased by an amount equal to the brokerage commission, if any, which Landlord is required to pay to Tenant’s Broker, or any other broker engaged by Tenant.

(b) In the event Tenant timely delivers Tenant’s Acceptance Notice, Landlord and Tenant shall, within thirty (30) days of Tenant’s delivery of Tenant’s Acceptance Notice, enter into a purchase contract for the Property setting forth the terms of the Written Notice of Proposed Sale, and otherwise in a commercially reasonable form (the “Purchase Agreement”). If Tenant does not deliver Tenant’s Acceptance Notice within the periods required above, Tenant shall be deemed to have elected to not elect to purchase the Property. In the event Tenant does not desire to purchase the Property on the terms set forth in the Written Notice of Proposed Sale, Tenant agrees to deliver to Landlord a written notice indicating that Tenant is not exercising its rights as provided in this Section 22.22, provided, Tenant’s failure to deliver such notice shall not in any way extend Tenant’s rights hereunder.

(c) If Tenant fails to deliver Tenant’s Acceptance Notice and Landlord thereafter conveys the Property to a third party, or if Tenant delivers Tenant’s Acceptance Notice but thereafter fails to enter into the Purchase Agreement within such

thirty (30) day period or thereafter terminates the Purchase Agreement for any reason (other than a default by Landlord), Tenant's rights under this Section 22.22 shall be terminated with respect to the applicable Third Party Offer or Marketing Offer. In the event that any proposed sale as to which Tenant did not exercise its right of first refusal as above provided, is not consummated by Landlord within 210 days after notice thereof was given to Tenant, or if prior to the closing of such transaction the purchase price is reduced by more than five percent (5%) of the purchase price set forth in the Written Notice of Proposed Sale, then the Property must be reoffered to Tenant in the same manner provided above. Without limiting the generality of the foregoing, in the event Landlord has delivered to Tenant a Marketing Offer which Tenant did not elect to accept, and Landlord subsequently receives a Third Party Offer which Landlord desires to accept, Landlord shall not be required to deliver to Tenant a Written Notice of Proposed Sale, and Tenant shall not have a right to purchase the Property, with respect to such Third Party Offer if the purchase price in such Third Party Offer is greater than or equal to the purchase price set forth in the Marketing Offer.

(d) If the consideration to be paid pursuant to a Third Party Offer shall include consideration other than cash, Tenant may exercise its right of first refusal with respect to such transaction and shall pay as consideration therefor the same amount of cash and the same consideration as set forth in Third Party Offer, or an all cash purchase price in an amount equal to the sum of the cash portion of the consideration, plus the fair cash value of the other consideration which the offeror proposed to exchange for the Property. If any Third Party Offer shall include other property owned by Landlord or its affiliates, Tenant's rights under this Section 22.22 shall apply only to the Property for the purchase price allocated to the Property by Landlord and such third party.

(e) The rights granted to Tenant in this Section 22.22 (i) are subject and subordinate to each and every Mortgage now or hereafter encumbering the Property, and (ii) shall not apply to a granting of a Mortgage or to the foreclosure, delivery of a deed in lieu of foreclosure or similar action of a Mortgage, or the first sale of the Property following the foreclosure, delivery of a deed in lieu of foreclosure or similar action of a Mortgage.

[SIGNATURE PAGE IMMEDIATELY FOLLOWS]

IN WITNESS WHEREOF, Landlord and Tenant have executed this Lease on the date first set forth above.

**LANDLORD:** HIGHLINE OFFICE 1, L.C., a Utah limited liability company, by its Manager

KC GARDNER COMPANY, L.C.,  
a Utah limited liability company

By: /s/ Christian Gardner  
Name: Christian Gardner  
Its: Manager

**TENANT:** PLURALSIGHT, LLC, a Nevada limited liability company

By: /s/ James Budge  
Its: Chief Financial Officer

**CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF  
THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Aaron Skonnard, certify that:

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

Date: October 24, 2018

/s/ Aaron Skonnard

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Aaron Skonnard  
Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF  
THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, James Budge, certify that:

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

Date: October 24, 2018

/s/ James Budge

James Budge

Chief Financial Officer

*(Principal Financial and Accounting Officer)*

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

I, Aaron Skonnard, Chief Executive Officer of Pluralsight, Inc. (the "Company"), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended September 30, 2018 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 24, 2018

/s/ Aaron Skonnard

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Aaron Skonnard

Chief Executive Officer

*(Principal Executive Officer)*

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

I, James Budge, Chief Financial Officer of Pluralsight, Inc. (the "Company"), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended September 30, 2018 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 24, 2018

/s/ James Budge

James Budge

Chief Financial Officer

*(Principal Financial and Accounting Officer)*

