UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended October 31, 2020

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: 001-38977

PHREESIA, INC.
(Exact name of registrant as specified in its charter)

Delaware	**20-2275479**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
434 Fayetteville St, Suite 1400 Raleigh, NC	**27601**
(Address of principal executive offices)	**(Zip Code)**

(888) 654-7473
(Registrant's telephone number, including area code)

432 Park Ave. S., New York, NY 10016

{Former address, if changed since last report}

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value $0.01 per share	**PHR**	**The New York Stock Exchange**

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. (Check one):

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☐
		Emerging growth company	☒

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 December 4, 2020, 44,162,852 shares of the registrant's common stock, par value $0.01 per share, were outstanding.

PHREESIA, INC.

FORM 10-Q

For the Quarter Ended October 31, 2020

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Summary of Material Risks Associated with our Business

Our business is subject to numerous risks and uncertainties that you should be aware of in evaluating our business. These risks and uncertainties include, but are not limited to, the following:

- Business or economic disruptions or global health concerns, such as the COVID-19 pandemic, have and may continue to seriously harm our business and increase our costs and expenses. Given the unknown timeline and the near-term uncertainty of COVID-19 on our business, there continues to be uncertainty as to the extent to which the global COVID-19 pandemic may adversely impact our business operations, financial performance and results of operations at this time.
- We have grown rapidly in recent periods, and if we fail to manage our growth effectively, our expenses could increase more than expected, our revenue may not increase and we may be unable to implement our business strategy.
- We have identified a material weakness in our internal control over financial reporting and may identify additional material weaknesses in the future or otherwise fail to maintain an effective system of internal controls, which may result in material misstatements to our financial statements or cause us to fail to meet our period reporting obligations.
- We have experienced net losses in the past and we may not achieve profitability in the future.
- Privacy concerns or security breaches relating to our Platform could result in economic loss, damage to our reputation, deterring users from using our products, and our exposure to legal penalties and liability.
- We are subject to data privacy and security laws and regulations governing our collection, use, disclosure, or storage of personally identifiable information, including protected health information and payment card data, which may impose restrictions on us and our operations and subject us to penalties if we are unable to fully comply with such laws.
- As a result of our variable sales and implementation cycles, we may be unable to recognize revenue to offset expenditures, which could result in fluctuations in our quarterly results of operations or otherwise harm our future operating results.
- We typically incur significant upfront costs in our client relationships, and if we are unable to develop or grow these relationships over time, we are unlikely to recover these costs and our operating results may suffer.
- We depend on our senior management team, and the loss of one or more of our executive officers or key employees or an inability to attract and retain highly skilled employees could adversely affect our business.
- The healthcare industry is rapidly evolving and the market for technology-enabled services that empower healthcare consumers is relatively immature and unproven.
- We may face intense competition, which could limit our ability to maintain or expand market share within our industry, and if we do not maintain or expand our market share our business and operating results will be harmed.

The summary risk factors described above should be read together with the text of the full risk factors below and in the other information set forth in this Quarterly Report on Form 10-Q, including our financial statements and the related notes, as well as in other documents that we file with the U.S. Securities and Exchange Commission, or the SEC. If any such risks and uncertainties actually occur, our business, prospects, financial condition and results of operations could be materially and adversely affected. The risks summarized above or described in full below are not the only risks that we face. Additional risks and uncertainties not currently known to us, or that we currently deem to be immaterial may also materially adversely affect our business, prospects, financial condition and results of operations.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that involve substantial risks and uncertainties. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as “may,” “will,” “appears,” “shall,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “target,” “projects,” “contemplates,” “believes,” “estimates,” “predicts,” “potential,” or “continue,” or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans, or intentions. Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements about:

- our future financial performance, including our projected revenue, costs of revenue, operating expenses, cash flows;
- the rapidly evolving industry and the market for technology-enabled services in healthcare in the United States being relatively immature and unproven;
- our reliance on a limited number of clients for a substantial portion of our revenue;
- our anticipated growth and growth strategies and our ability to effectively manage that growth;
- our ability to achieve and grow profitability;
- the sufficiency of our cash, cash equivalents and investments to meet our liquidity needs;
- potentially competing with our customers or partners;
- our existing clients not renewing their existing contracts with us, renewing at lower fee levels or declining to purchase additional applications from us;
- failure to adequately expand our direct sales force impeding our growth;
- our ability to recover the significant upfront costs in our customer relationships;
- our ability to determine the size of our target market;
- liability arising from our collection, use, disclosure, or storage of sensitive data collected from or about patients;
- consolidation in the healthcare industry resulting in loss of clients;
- the uncertainty of the regulatory and political framework;
- the impact of the COVID-19 pandemic on our business and our ability to attract, retain and cross-sell to healthcare provider clients;
- our ability to obtain, maintain and enforce intellectual property for our technology and products;
- our inability to protect the confidentiality of our trade secrets impacting the value of our technology;
- our reliance on third-party vendors, manufacturers and partners to execute our business strategy;
- our inability to implement our solutions for clients resulting in loss of clients and reputation;
- our dependency on our key personnel, and our ability to attract, hire, integrate, and retain key personnel;
- the possibility that we may become subject to future litigation;
- our future indebtedness and contractual obligations;
- our expectations regarding trends in our key metrics and revenue from subscription fees from our provider clients, payment processing fees and fees charged to our life science clients by delivering targeted messages to patients; and
- increased expense associated with being a public company.
- other risks and uncertainties, including those listed under the caption “Risk Factors.”

All forward-looking statements are based on information and estimates available to the Company at the time of this Quarterly Report on Form 10-Q and are not guarantees of future financial performance. 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.

The outcome of the events described in these forward-looking statements is subject to known and unknown risks, uncertainties, and other factors described in the section titled “Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q. We caution you that the foregoing list may not contain all of the forward-looking statements made in this Quarterly Report on Form 10-Q. You should not rely upon forward-looking statements as predictions of future events.

WHERE YOU CAN FIND MORE INFORMATION

Investors and others should note that we announce material financial information to our investors using our investor relations website, press releases, SEC filings and public conference calls and webcasts. We also use the following social media channels as a means of disclosing information about the company, our platform, our planned financial and other announcements and attendance at upcoming investor and industry conferences, and other matters and for complying with our disclosure obligations under Regulation FD:

PHREESIA Twitter Account (https://twitter.com/phreesia)
PHREESIA Company Blog (https://www.phreesia.com/blog/)
PHREESIA Facebook Page (https://www.facebook.com/Phreesia/)
PHREESIA LinkedIn Page (https://www.linkedin.com/company/phreesia/)
PHREESIA Instagram Page (https://www.instagram.com/phreesiacareers)

The information we post through these social media channels may be deemed material. Accordingly, investors should monitor these accounts and the blog, in addition to following our press releases, SEC filings and public conference calls and webcasts. This list may be updated from time to time. The information we post through these channels is not a part of this quarterly report on Form 10-Q. These channels may be updated from time to time on Phreesia’s investor relations website.

PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

Phreesia, Inc.
Balance Sheets
(in thousands, except share and per share data)

	October 31, 2020	January 31, 2020
	(unaudited)	
Assets		
Current:		
Cash and cash equivalents	$ 254,118	$ 90,315
Settlement assets	12,267	12,368
Accounts receivable, net of allowances	27,594	21,978
Deferred contract acquisition costs	1,708	1,720
Prepaid expenses and other current assets	6,825	5,157
Total current assets	302,512	131,538
Property and equipment, net of accumulated depreciation and amortization of $42,665 and $35,551	19,160	14,487
Capitalized internal-use software, net of accumulated amortization of $23,907 and $19,554	9,986	8,735
Operating lease right-of-use assets (1)	3,192	—
Deferred contract acquisition costs	1,227	1,594
Intangible assets, net of accumulated amortization of $450 and $271	1,020	1,199
Deferred tax asset	496	775
Goodwill	250	250
Other assets	207	180
Total assets	$ 338,050	$ 158,758
Liabilities and Stockholders' Equity		
Current:		
Settlement obligations	$ 12,267	$ 12,368
Current portion of debt and finance lease liabilities	4,722	2,324
Current portion of operating lease liabilities (1)	1,288	—
Accounts payable	4,215	6,017
Accrued expenses	12,662	9,243
Deferred revenue	6,623	5,401
Total current liabilities	41,777	35,353
Long-term debt and finance lease liabilities	24,439	21,540
Operating lease liabilities, noncurrent (1)	2,158	—
Total liabilities	68,374	56,893
Commitments and contingencies (Note 12)		
Stockholders' Equity:		
Common stock, $0.01 par value - 500,000,000 shares authorized as of October 31, 2020 and January 31, 2020, respectively; 44,039,563 and 36,610,763 shares issued and outstanding as of October 31, 2020 and January 31, 2020, respectively	440	366
Additional paid-in capital	573,786	386,383
Accumulated deficit	(303,681)	(284,485)
Treasury stock	(869)	(399)
Total Stockholders' Equity	269,676	101,865
Total Liabilities and Stockholders' Equity	$ 338,050	$ 158,758

(1) Figures as of October 31, 2020 reflect the Company's February 1, 2020 adoption of Accounting Standards Codification No. 842, *Leases (ASC 842)*. For additional details, see Note 3(c), "Summary of significant accounting policies — Impact of recently adopted accounting pronouncements."

See notes to unaudited Financial Statements

Phreesia, Inc.
Unaudited Statements of Operations
(in thousands, except share and per share data)

	Three months ended October 31,		Nine months ended October 31,	
	2020	**2019**	**2020**	**2019**
Revenue:				
Subscription and related services	$ 17,468	$ 14,606	$ 50,196	$ 41,292
Payment processing fees	12,917	11,559	36,452	34,781
Life sciences	8,079	6,678	20,221	15,895
Total revenues	38,464	32,843	106,869	91,968
Expenses:				
Cost of revenue (excluding depreciation and amortization)	6,472	4,388	16,477	12,594
Payment processing expense	7,530	6,902	21,125	20,952
Sales and marketing	10,481	8,348	30,013	24,170
Research and development	5,732	4,774	16,267	13,762
General and administrative	10,370	7,184	28,721	20,849
Depreciation	2,447	2,153	7,125	6,444
Amortization	1,546	1,325	4,531	3,823
Total expenses	44,578	35,074	124,259	102,594
Operating loss	(6,114)	(2,231)	(17,390)	(10,626)
Other income (expense)	62	77	(229)	(740)
Change in fair value of warrant liability	—	—	—	(3,307)
Interest income (expense)	(467)	(219)	(1,206)	(1,769)
Total other income (expense)	(405)	(142)	(1,435)	(5,816)
Loss before provision for income taxes	(6,519)	(2,373)	(18,825)	(16,442)
Provision for income taxes	(194)	(64)	(371)	(183)
Net loss	$ (6,713)	$ (2,437)	$ (19,196)	$ (16,625)
Preferred stock dividend paid	—	—	—	(14,955)
Accretion of redeemable preferred stock	—	—	—	(56,175)
Net loss attributable to common stockholders, basic and diluted	$ (6,713)	$ (2,437)	$ (19,196)	$ (87,755)
Net loss per share attributable to common stockholders, basic and diluted	$ (0.17)	$ (0.07)	$ (0.51)	$ (5.85)
Weighted-average common shares outstanding, basic and diluted	38,511,370	35,790,951	37,855,503	15,007,247

See notes to unaudited Financial Statements

Phreesia, Inc.
Unaudited statements of redeemable preferred stock and stockholders' equity (deficit)
(in thousands, except share and per share data)

	Redeemable Preferred Stock									Stockholders' Equity (Deficit)					
	Series A		Series B		Junior Preferred		Redeemable Preferred			Common Stock					
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amounts	Total	Shares	Amount	APIC	Accumulated Deficit	Treasury stock	Total
Balance, February 1, 2019	13,674,365	$ 79,311	9,197,142	$ 51,872	32,746,041	$ 32,746	42,560,530	$ 42,561	$ 206,490	1,994,721	$ 20	—	(210,994)	$ —	$ (210,974)
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	(6,695)	—	(6,695)
Stock-based compensation expense	—	—	—	—	—	—	—	—	—	—	—	599	—	—	599
Exercise of stock options	—	—	—	—	—	—	—	—	—	29,798	—	37	—	—	37
Issuance of common stock warrants	—	—	—	—	—	—	—	—	—	—	—	833	—	—	833
Accretion of redeemable preferred stock	—	5,196	—	2,667	—	—	—	—	7,863	—	—	(1,469)	(6,394)	—	(7,863)
Balance, April 30, 2019	13,674,365	$ 84,507	9,197,142	$ 54,539	32,746,041	$ 32,746	42,560,530	$ 42,561	$ 214,353	2,024,519	$ 20	$ —	$ (224,083)	$ —	$ (224,063)
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	(7,493)	—	(7,493)
Stock-based compensation expense	—	—	—	—	—	—	—	—	—	—	—	1,467	—	—	1,467
Exercise of stock options	—	—	—	—	—	—	—	—	—	22,038	—	41	—	—	41
Accretion of redeemable preferred stock	—	27,510	—	20,802	—	—	—	—	48,312	—	—	(1,508)	(46,804)	—	(48,312)
Payment of preferred stock dividends	—	—	—	—	—	—	—	—	—	—	—	(14,955)	—	—	(14,955)
Issuance of common stock in initial public offering, net of issuance costs of $6,084	—	—	—	—	—	—	—	—	—	7,812,500	78	124,619	—	—	124,698
Conversion of preferred stock into common stock and cancellation of redeemable preferred stock	(13,674,365)	(112,017)	(9,197,142)	(75,341)	(32,746,041)	(32,746)	(42,560,530)	(42,561)	(262,665)	25,311,535	253	262,412	—	—	262,665
Conversion and exercise of preferred stock warrants into common stock	—	—	—	—	—	—	—	—	—	588,763	6	8,799	—	—	8,805
Balance, July 31, 2019	—	$ —	—	$ —	—	$ —	—	$ —	$ —	35,759,355	$ 357	$ 380,875	$ (278,380)	$ —	$ 102,853
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	(2,437)	—	(2,437)
Stock-based compensation expense	—	—	—	—	—	—	—	—	—	—	—	1,766	—	—	1,766
Exercise of stock options	—	—	—	—	—	—	—	—	—	59,679	1	365	—	—	366
Cashless exercise of common stock warrants	—	—	—	—	—	—	—	—	—	53,023	1	1	—	—	2
Deferred offering costs	—	—	—	—	—	—	—	—	—	—	—	(56)	—	—	(56)
Balance, October 31, 2019	—	$ —	—	$ —	—	$ —	—	$ —	$ —	35,872,057	$ 359	$ 382,951	$ (280,817)	$ —	$ 102,494

See notes to unaudited Financial Statements

	Stockholders' Equity (Deficit)					
	Common Stock			Accumulated		
	Shares	Amount	APIC	Deficit	Treasury stock	Total
Balance, February 1, 2020	36,610,763	$ 366	$ 386,383	$ (284,485)	$ (399)	$ 101,865
Net loss	—	—	—	(6,112)	—	(6,112)
Stock-based compensation expense	—	—	2,872	—	—	2,872
Exercise of stock options and vesting of restricted stock units	988,678	10	1,727	—	—	1,737
Treasury stock from vesting of restricted stock units	—	—	—	—	(447)	(447)
Balance, April 30, 2020	37,599,441	$ 376	$ 390,982	$ (290,597)	$ (846)	$ 99,915
Net loss	—	—	—	(6,371)	—	(6,371)
Stock-based compensation expense	—	—	3,428	—	—	3,428
Exercise of stock options and vesting of restricted stock units	283,396	3	735	—	—	738
Treasury stock from vesting of restricted stock units	—	—	—	—	(23)	(23)
Balance, July 31, 2020	37,882,837	$ 379	$ 395,145	$ (296,968)	$ (869)	$ 97,687
Net loss	—	—	—	(6,713)	—	(6,713)
Stock-based compensation expense	—	—	3,316	—	—	3,316
Exercise of stock options and vesting of restricted stock units	406,726	4	872	—	—	876
Issuance of common stock in secondary public offering, net of issuance costs of $290	5,750,000	57	174,453	—	—	174,510
Balance, October 31, 2020	44,039,563	$ 440	$ 573,786	$ (303,681)	$ (869)	$ 269,676

See notes to unaudited Financial Statements

Phreesia, Inc.
Unaudited statements of cash flows
(in thousands, except share and per share data)

	Nine months ended October 31,	
	2020	**2019**
Cash used in operating activities:		
Net loss	$ (19,196)	$ (16,625)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	11,656	10,267
Stock-based compensation expense	9,616	3,832
Change in fair value of warrants liability	—	3,307
Amortization of debt discount	318	412
Loss on extinguishment of debt	—	1,073
Cost of hardware purchased by customers	604	512
Deferred contract acquisition costs amortization	2,280	1,465
Non-cash operating lease expense	1,228	—
Deferred tax asset	279	—
Changes in operating assets and liabilities		
Accounts receivable	(5,616)	(3,899)
Prepaid expenses and other assets	(1,940)	(2,943)
Deferred contract acquisition costs	(1,901)	(1,414)
Accounts payable	(2,300)	1,629
Accrued expenses and other liabilities	3,982	3,098
Lease liability	(1,419)	—
Deferred revenue	1,222	(1,162)
Net cash used in operating activities	(1,187)	(448)
Cash used in investing activities:		
Capitalized internal-use software	(4,663)	(4,329)
Purchase of property and equipment	(6,440)	(4,826)
Net cash used in investing activities	(11,103)	(9,155)
Cash provided by financing activities:		
Proceeds from issuance of common stock in equity offerings, net of underwriters' discounts and commissions	174,800	130,781
Payment of preferred stock dividends	—	(14,955)
Proceeds from issuance of common stock upon exercise of stock options	3,351	445
Treasury stock to recover tax withholdings on stock compensation awards	(869)	—
Payment of offering costs	(226)	(5,944)
Proceeds from revolving line of credit	—	9,876
Payments of revolving line of credit	—	(17,676)
Proceeds from term loan	—	20,000
Repayment of term loan and loan payable	—	(21,042)
Insurance financing arrangement	2,009	—
Principal portion of finance lease payments	(1,797)	(1,624)
Principal payments on financing arrangements	(881)	—
Debt extinguishment costs	—	(300)

Debt issuance costs	(69)	(112)
Loan facility fee payment	(225)	—
Net cash provided by financing activities	176,093	99,449
Net increase in cash and cash equivalents	163,803	89,846
Cash and cash equivalents – beginning of period	90,315	1,543
Cash and cash equivalents – end of period	$ 254,118	$ 91,389
Supplemental information of non-cash investing and financing information:		
Right-of-use assets recorded in exchange for operating lease liabilities (1)	$ 4,420	$ —
Property and equipment acquisitions through finance leases	$ 6,050	$ 1,738
Capitalized software acquired through vendor financing	$ 174	$ —
Purchase of property and equipment and capitalized software included in accounts payable	$ 1,681	$ 546
Issuance of warrants related to debt	$ —	$ 833
Cashless transfer of term loan and related accrued fees into increase in debt balance	$ 20,257	$ —
Cashless transfer of lender fees through increase in debt balance	$ 406	$ —
Deferred offering costs included in accounts payable and accrued liabilities	$ 64	$ —
Cashless exercise of common stock warrants	$ —	$ 2,521
Cash payments for:		
Interest	$ 1,047	$ 1,834

(1) Includes $2,741 initial right of use asset recorded upon adoption of ASC 842.

See notes to unaudited Financial Statements

Phreesia, Inc.
Notes to Unaudited Financial Statements
(in thousands, except share and per share data)

1. Background and liquidity

(a) Background

Phreesia, Inc. (the Company) is a leading provider of comprehensive solutions that transform the healthcare experience by engaging patients in their care and enabling healthcare provider organizations to optimize operational efficiency, improve profitability and enhance clinical care. Through the SaaS-based Phreesia Platform (the Phreesia Platform), the Company offers healthcare provider organizations a robust suite of solutions to manage the patient intake process and a leading payments solution for secure processing of patient payments. The Company's Platform also provides life sciences companies with an engagement channel for targeted and direct communication with patients. In connection with the patient intake and registration process, Phreesia offers its provider customers the ability to lease tablets (PhreesiaPads) and on-site kiosks (Arrival Stations) along with their monthly subscription. The Company was formed in May 2005, and has offices in New York, New York, Raleigh, North Carolina and Ottawa, Canada.

On December 9, 2020, the Company changed its headquarters from New York, New York to Raleigh, North Carolina.

(b) Initial public offering

On July 22, 2019, the Company closed its initial public offering (IPO), in which the Company issued and sold 7,812,500 shares of common stock at a public offering price of $18.00 per share, resulting in net proceeds of $130,781, after deducting underwriting discounts and commissions of $9,844 but before deducting deferred offering costs of $6,412. In addition to the shares of common stock sold by the Company upon the IPO, certain selling stockholders sold an aggregate of 2,868,923 shares of common stock as part of the IPO. In addition, all then outstanding shares of Convertible Preferred stock converted into 25,311,525 shares of common stock and the Company issued 757,625 shares of common stock as a result of the cashless exercise of warrants as of January 31, 2020.

(c) Follow-on offerings

On December 17, 2019, the Company closed its follow-on offering of 7,762,500 shares of common stock sold by certain selling stockholders. The Company did not receive any proceeds from the follow-on offering but did incur $1,047 in transaction costs, recorded as general and administrative expense within the statement of operations.

On October 23, 2020, the Company closed an additional public offering in which the Company issued and sold 5,750,000 shares of its common stock at a public offering price of $32.00 per share, resulting in net proceeds of $174,510 after deducting underwriting discounts and offering expenses.

(d) Liquidity

Since the Company commenced operations, it has not generated sufficient revenue to meet its operating expenses and has continued to incur significant net losses. To date, the Company has primarily relied upon the proceeds from issuances of preferred stock and debt, and most recently with proceeds from the follow-on equity offerings, to fund its operations as well as sales of Company products and services in the normal course of business. Management believes that net losses and negative cash flows will continue for at least the next year.

Management believes that the Company's cash and cash equivalents at October 31, 2020, along with cash generated in the normal course of business, and available borrowing capacity under its May 2020 Credit Facility (See Note 6), are sufficient to fund its operations for at least the next 12 months. The Company will obtain additional financing, if needed, to successfully implement its long-term strategy. There can be no assurance that additional financing, if needed, can be obtained on terms acceptable to the Company. The ability of the Company to achieve successful operations will depend on, among other things, new business, the retention of customers, and the effectiveness of sales and marketing initiatives. The Company is subject to a number of risks similar to other companies in its stage of business life cycle, including dependence on key individuals, competition in the marketplace, and the need to fund future product and services development.

2. Basis of presentation

(a) Basis of presentation

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP) and include the accounts of Phreesia, Inc. and its branch operation in Canada.

(b) Fiscal year

The Company’s fiscal year ends on January 31. References to fiscal 2021 and 2020 refer to the fiscal years ended January 31, 2021 and January 31, 2020, respectively.

(c) Unaudited interim financial statements

The accompanying unaudited interim financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) and applicable rules and regulations of the Securities and Exchange Commission (“SEC”) regarding interim financial reporting. In the opinion of management, the accompanying unaudited financial statements reflect all adjustments, which include normal recurring adjustments, necessary for the fair statement of the Company’s interim financial position as of October 31, 2020 and the results of its operations, changes in its stockholders' equity and its cash flows for the periods ended October 31, 2020 and 2019. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The results for the interim periods are not necessarily indicative of results to be expected for the full year, any other interim periods, or any future year or period. The Company’s management believes that the disclosures herein are adequate to make the information presented not misleading when read in conjunction with the audited financial statements and accompanying notes for the fiscal year ended January 31, 2020.

(d) Reclassifications

Certain reclassifications have been made to the prior period presentation to conform to the current period presentation. In the Company's balance sheet as of January 31, 2020, the Company has reclassified $2.3 million from current portion of finance lease liabilities to current portion of debt and finance lease liabilities, and the Company has reclassified $2.1 million from long-term finance leases to long-term debt and finance leases.

3. Summary of significant accounting policies

The Company’s significant accounting policies are disclosed in the audited financial statements for the fiscal year ended January 31, 2020. Since the date of those audited financial statements, there have been no material changes to the Company’s significant accounting policies, including the status of recent accounting pronouncements, other than those detailed below.

(a) Use of estimates

The preparation of financial statements in conformity with 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 revenues and expenses during the reporting period. The Company bases its estimates and assumptions on historical experience, known trends and events and various other factors that management believes to be reasonable under the circumstances, the results of which form the basis for making judgments. Although management believes its estimates and assumptions are reasonable under the circumstances at the time they are made, they are based upon information available at the time they are made. Management evaluates the estimates and assumptions on an ongoing basis and, if necessary, makes adjustments. Actual results may differ from those estimates made under different assumptions or circumstances. The most significant assumptions and estimates relate to the accounts receivable allowance, capitalized internal-use software, the determination of the useful lives of property and equipment and capitalized software, the fair value of securities underlying stock-based compensation awards issued prior to our initial public offering, the fair value of business acquisitions, and the realization of deferred tax assets.

(b) Concentrations of credit risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, accounts receivable and settlement assets. The Company's cash and cash equivalents are held by established financial institutions. The Company does not require collateral from its customers and generally requires payment within 30 to 60 days of billing. Settlement assets are amounts due from well-established payment processing companies and normally take one or two business days to settle which mitigates the associated risk of concentration. The Company has one third-party payment processor.

The Company's customers are primarily physician's offices located in the United States and pharmaceutical companies. The Company did not have any individual customers that represented more than 10% of total revenues for the three and nine months ended October 31, 2020 and 2019. As of October 31, 2020, we had receivables from two entities which accounted for 16% and 11%, respectively, of total accounts receivable.

(c) Risks Related to the COVID-19 Pandemic

In December 2019 and early 2020, an outbreak of a novel strain of coronavirus (COVID-19) occurred. COVID-19 spread to a number of countries including the United States and Canada and was declared a pandemic by the World Health Organization. There continues to be uncertainty as to the extent to which the global COVID-19 pandemic may adversely impact our business operations, financial performance, and results of operations at this time.

(c) New accounting pronouncements

Impact of recently adopted accounting pronouncements

On May 1, 2020, the Company adopted ASU 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract,* which is intended to align the requirements for capitalization of implementation costs incurred in a cloud computing arrangement that is a service contract with the existing guidance for internal-use software. The guidance requires capitalized costs to be included within prepaid expenses and the guidance requires amortization of capitalized costs to be included in the same line as the associated cloud subscription costs in the statement of operations. The Company adopted ASU 2018-15 prospectively for implementation costs incurred subsequent to May 1, 2020. See Note 4 - Composition of Certain Financial Statement Captions for additional information.

On February 1, 2020, the Company adopted the Financial Accounting Standards Board's (FASB) Accounting Standard Update (ASU) No. 2016-02, *Leases* (Topic 842) (ASC 842) which requires lessees to record most leases on their balance sheets but to recognize the expenses in their statement of operations in a manner similar to the prior standard. Topic 842 states that a lessee would recognize a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term.

The Company adopted the new lease guidance using a modified retrospective transition method applied to those leases which were not completed as of February 1, 2020. As a result, the Company was not required to adjust its comparative period financial information for effects of the standard or make the new required lease disclosures for the periods before the date of adoption.

The Company elected the 'package of practical expedients,' which permits the Company not to reassess under the new standard our prior conclusions about lease identification, lease classification and initial direct costs. The Company did not elect the use-of-hindsight practical expedient.

The new standard also provides practical expedients for an entity's ongoing accounting. The Company elected the short-term lease recognition exemption for all of its leases. This means, for those leases that qualify, the Company will not recognize right-of-use assets or lease liabilities, including existing short-term leases as of the transition date. The Company also elected the practical expedient to not separate lease and non-lease components for its office and computer equipment leases.

Upon adoption of Topic 842 the Company recognized operating lease right-of-use assets and operating lease liabilities related to our office leases of $2,741 and $2,928, respectively. The Company's accounting for lessee finance and all lessor leases remains substantially unchanged from legacy guidance. The standard did not have a significant impact on our statements of operations or statements of cash flows. No adjustment to accumulated deficit was recorded because the adoption did not change the Company's net assets.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820)*: Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement* (ASU 2018-13). ASU 2018-13 updates the disclosure requirements for fair value measurements and is effective for financial statements issued for fiscal years beginning after December 15, 2019. The Company adopted the new guidance effective February 1, 2020, and it did not have a material effect on its financial statements.

On February 1, 2020, the Company adopted ASU 2016-13, *Financial Instruments - Credit Losses*. The update requires the recognition of all losses expected over the life of a financial instrument upon origination or purchase of the instrument. The Company adopted this update using a modified retrospective method. No adjustment to accumulated deficit was recorded as a result of the adoption of this standard, which did not have a material impact on the Company's financial statements.

Recent accounting pronouncements not yet adopted

There are no recently issued accounting pronouncements the Company has not yet adopted that will materially impact the Company's financial statements.

4. Composition of certain financial statement captions

(a) Accrued expenses

Accrued expenses as of October 31, 2020 and January 31, 2020 are as follows:

	October 31, 2020	January 31, 2020
Payroll-related expenses and taxes	$ 7,846	$ 5,032
Payment processing fees liability	2,634	2,738
Other	2,182	1,473
Total	$ 12,662	$ 9,243

(b) Property and equipment

Property and equipment as of October 31, 2020 and January 31, 2020 are as follows:

	Useful Life (years)	October 31, 2020	January 31, 2020
PhreesiaPads and Arrivals Stations	3	$ 29,857	$ 26,389
Computer equipment	3	25,990	18,394
Computer software	3	3,010	2,297
Hardware development	3	1,024	1,024
Furniture and fixtures	7	743	743
Leasehold improvements	2	1,201	1,191
Total property and equipment		$ 61,825	$ 50,038
Less accumulated depreciation and amortization		(42,665)	(35,551)
Property and equipment — net		$ 19,160	$ 14,487

Depreciation expense related to property and equipment amounted to $2,447 and $2,153 for the three months ended October 31, 2020 and 2019, respectively. Depreciation expense related to property and equipment amounted to $7,125 and $6,444 for the nine months ended October 31, 2020 and 2019, respectively. Finance lease depreciation, included in depreciation expense, was $2,278 for the nine months ended October 31, 2020.

Assets under finance leases included in computer equipment were $17,078 and $12,283 as of October 31, 2020 and January 31, 2020. Accumulated amortization of assets under finance leases was $9,555 and $7,724 as of October 31, 2020 and January 31, 2020, respectively.

(c) Capitalized internal use software

For the three months ended October 31, 2020 and 2019, the Company capitalized $1,972 and $1,452, respectively, of costs related to the Phreesia Platform. For the nine months ended October 31, 2020 and 2019, the Company capitalized $5,604 and $4,329, respectively, of costs related to the Phreesia Platform.

During the three months ended October 31, 2020 and 2019, amortization expense related to capitalized internal-use software was $1,487 and $1,266, respectively. During the nine months ended October 31, 2020 and 2019, amortization expense related to capitalized internal-use software was $4,353 and $3,645, respectively. As of October 31, 2020 and January 31, 2020, the net book value of the Phreesia Platform was $9,986 and $8,735, respectively.

(d) Intangible assets and goodwill

The following presents the details of intangible assets as of October 31, 2020 and January 31, 2020:

	Useful Life (years)	October 31, 2020	January 31, 2020
Acquired technology	5	$ 490	$ 490
Customer relationship	7	980	980
Total intangible assets, gross carrying value		$ 1,470	$ 1,470
Less accumulated amortization		(450)	(271)
Net carrying value		$ 1,020	$ 1,199

The remaining useful life for acquired technology in years is 3.1 and 3.9 as of October 31, 2020 and January 31, 2020, respectively. The remaining useful life for customer relationships in years is 5.1 and 5.9 as of October 31, 2020 and January 31, 2020, respectively.

Amortization expense associated with intangible assets amounted to $59 and $59 for the three months ended October 31, 2020 and 2019, respectively. Amortization expense associated with intangible assets amounted to $178 and $178 for the nine months ended October 31, 2020 and 2019, respectively.

The estimated amortization expense for intangible assets for the next five years and thereafter is as follows as of October 31, 2020:

	October 31, 2020
2021 (Remaining three months)	$ 60
Fiscal Years Ending January 31,	
2022	238
2023	238
2024	224
2025 - thereafter	260
Total	$ 1,020

There were no changes to the Company's goodwill balance during the nine months ended October 31, 2020. The Company did not record any impairments of goodwill during the three and nine months ended October 31, 2020 or 2019, respectively. Goodwill was $250 as of October 31, 2020 and January 31, 2020.

(e) Accounts receivable

Accounts receivable as of October 31, 2020 and January 31, 2020 are as follows:

	October 31, 2020	January 31, 2020
Billed	$ 26,000	$ 22,245
Unbilled	2,344	676
Total accounts receivable, gross	$ 28,344	$ 22,921
Less accounts receivable allowances	(750)	(943)
Total accounts receivable	$ 27,594	$ 21,978

Activity in our allowance for doubtful accounts was as follows for the nine months ended October 31, 2020:

	October 31, 2020
Balance, January 31, 2020	$ 943
Bad debt expense	396
Write-offs and adjustments	(589)
Balance, October 31, 2020	$ 750

The Company's allowance for doubtful accounts represents the current estimate of expected future losses based on prior bad debt experience as well as considerations for specific customers as applicable. The Company's accounts receivable are considered past due when they are outstanding past the due date listed on the invoice to the customer. As of October 31, 2020, 58% of the Company's accounts receivable was aged less than 30 days from the invoice date and 15% of the Company's accounts receivable was aged over 90 days from the invoice date. The Company writes off accounts receivable and removes the associated allowance for doubtful accounts when the Company deems the receivables to be uncollectible.

(f) Prepaid and other current assets

Prepaid and other current assets as of October 31, 2020 and January 31, 2020 are as follows:

	October 31, 2020	January 31, 2020
Prepaid software and business systems	1,994	$ 1,611
Prepaid PhreesiaPads	394	645
Prepaid data center expenses	350	751
Prepaid insurance	1,969	1,259
Other prepaid expenses and other current assets	2,118	891
Total prepaid and other current assets	$ 6,825	$ 5,157

The Company enters into cloud computing service contracts to support our sales and marketing, product development and administrative activities. Subsequent to the adoption of ASU 2018-15 in May 2020, we capitalize certain implementation costs for cloud computing arrangements that meet the definition of a service contract. We include these capitalized implementation costs within Prepaid software and business systems in the table above. Once placed in service, we amortize these costs over the remaining subscription term to the same expense line as the related cloud subscription. Capitalized implementation costs for cloud computing arrangements accounted for as service contracts were $283 and $434 for the three and nine months ended October 31, 2020. Accumulated amortization of capitalized implementation costs for these arrangements was $13 as of October 31, 2020.

(g) Other income (expense)

Other income for the three months ended October 31, 2020 and 2019 was $62 and $77, and was composed primarily of foreign exchange gains. Other expense for the nine months ended October 31, 2020 was $229 and was composed primarily of foreign exchange losses. Other expense for the nine months ended October 31, 2019 was $740 and was composed primarily of loss on extinguishment of debt of $1,073, partially offset by foreign exchange gains.

5. Revenue

The Company generates revenue primarily from providing an integrated SaaS-based software and payment platform for the healthcare industry. The Company derives revenue from subscription fees and related services generated from the Company's provider customers for access to the Phreesia Platform, payment processing fees based on patient payment volume processed through the Phreesia Platform, and from digital patient engagement

revenue from life sciences companies to reach, educate and communicate with patients when they are most receptive and actively seeking care.

The amount of subscription and related services revenue recorded pursuant to ASC 842 for the leasing of the Company's PhreesiaPads and Arrival Stations was $1,593 and $1,496 for the three months ended October 31, 2020 and 2019, respectively. The amount of subscription and related services revenue recorded pursuant to ASC 842 for the leasing of the Company's PhreesiaPads and Arrival Stations was $4,732 and $4,462 for the nine months ended October 31, 2020 and 2019, respectively.

Contract balances

The following table represents a roll-forward of contract assets:

	Contract assets (unbilled accounts receivable)
January 31, 2020	$ 676
Amount transferred to receivables from beginning balance of contract assets	(676)
Contract asset additions, net of reclassification to receivables	2,344
October 31, 2020	$ 2,344

The following table represents a roll-forward of contract liabilities:

	Contract liabilities (deferred revenue)
January 31, 2020	$ 5,401
Revenue recognized that was included in deferred revenue at the beginning of the period	(5,004)
Revenue recognized that was not included in deferred revenue at the beginning of the period	(1,168)
Increases due to invoicing prior to satisfaction of performance obligations	7,394
October 31, 2020	$ 6,623

Cost to obtain a contract

The Company capitalizes certain incremental costs to obtain customer contracts and amortizes these costs over a period of benefit that the Company has estimated to be three years. The Company determined the period of benefit by taking into consideration its customer contracts, its technology and other factors. Amortization expense is included in sales and marketing expenses in the accompanying statements of operations and totaled $505 and $491 for the three months ended October 31, 2020 and 2019, respectively. Amortization expense totaled $2,280 and $1,465 for the nine months ended October 31, 2020 and 2019, respectively. The Company periodically reviews these deferred contract acquisition costs to determine whether events or changes in circumstances have occurred that could impact the period of benefit. There were no impairment losses recorded during the periods presented.

The following table represents a roll forward of deferred contract acquisition costs:

Beginning balance, January 31, 2020	$ 3,314
Additions to deferred contract acquisition costs	1,901
Amortization of deferred contract acquisition costs	(2,280)
Ending balance, October 31, 2020	2,935
Deferred contract acquisition costs, current (to be amortized in next 12 months)	1,708
Deferred contract acquisition costs, non-current	1,227
Total deferred contract acquisition costs	$ 2,935

6. Debt and Finance Lease Liabilities

As of October 31, 2020 and January 31, 2020, the Company had the following outstanding debt and finance lease liabilities:

	October 31, 2020	January 31, 2020
Revolving credit facility	$ 20,663	$ —
Term loan	—	20,000
Finance leases	7,607	3,612
Other debt	2,146	808
Accrued interest and payments	65	381
Total debt and finance lease liabilities, before original issue discount	30,481	24,801
Less deferred financing costs and original issue discount	(1,320)	(937)
Debt and finance lease liabilities	29,161	23,864
Less - current portion of debt and finance lease liabilities	(4,722)	(2,324)
Long term debt and finance lease liabilities	$ 24,439	$ 21,540

Second Amended and Restated Loan and Security Agreement

On May 5, 2020 (the "Second SVB Effective Date"), the Company entered into a Second Amended and Restated Loan and Security Agreement (“the Second SVB Facility”) with Silicon Valley Bank. The Second SVB Facility modified the First Amended and Restated Loan and Security Agreement, dated February 28, 2019 (the "First SVB Facility"). The Second SVB Facility provides for a revolving credit facility with an initial borrowing capacity of $50,000. The borrowing capacity may be increased to $65,000 at the sole discretion of Silicon Valley Bank. Upon entering into the Second SVB Facility, the Company borrowed $20,663 against the revolving credit facility. The Company used the proceeds from its initial revolving credit borrowing to repay all amounts due under the First SVB Facility term loan, including the $20,000 outstanding principal amount plus a prepayment fee of $300 and an accrued final payment fee of $363.

Borrowings under the revolving credit facility are payable five years from the Effective Date, which is May 5, 2025 (the "Maturity Date"). Borrowings under the revolving credit facility bear interest, which is payable monthly, at a floating rate equal to the greater of the Wall Street Journal Prime Rate or 4.5%, until such time that adjusted EBITDA as defined in the Second SVB Facility (SVB Facility Adjusted EBITDA) reaches a defined level, after which time the interest rate is reduced to the greater of prime less 0.5%, or 4.0%. For the three months ended October 31, 2020, the interest rate on the Second SVB Facility was 4.5%. In addition to principal and interest due under the revolving credit facility, the Company is required to pay an annual commitment fee of $125 per year. The first facility fee payment of $125 was paid during the three months ended July 31, 2020. The Company has $29,337 of availability as of October 31, 2020.

In the event that the Company terminates the Second SVB Facility prior to the Maturity Date, the Company will be required to pay a termination fee equal to (i) $187, reduced by $6 for each calendar month that has elapsed after April 30, 2020, plus (ii) a percent of the total borrowing capacity equal to 1.5% if terminated before the second anniversary of the Second SVB Effective Date, 0.75% if terminated on or after the second and before the third anniversary of the Second SVB Effective Date funding, or 0.5% if terminated on or after the third and before the fourth anniversary of the Second SVB Effective Date. The Company will not be required to pay a termination fee if terminated after the fourth anniversary of the Second SVB Effective Date.

The Company’s obligations under the Second SVB Facility are secured by a first priority security interest in substantially all of its assets, other than intellectual property. The Second SVB Facility includes a financial covenant that requires the Company to achieve specified levels of SVB Facility Adjusted EBITDA. The financial covenant will not be effective if the Company maintains certain levels of liquidity as defined. The Company was in compliance with all covenants related to the Second SVB Facility as of October 31, 2020.

The Second SVB Facility contains events of default, including, without limitation, events of default upon: (i) failure to make payment pursuant to the terms of the agreement; (ii) violation of covenants; (iii) material adverse changes to the Company’s business; (iv) attachment or levy on the Company’s assets or judicial restraint on its business; (v) insolvency; (vi) significant judgments, orders or decrees for payments by the Company not covered by insurance; (vii) incorrectness of representations and warranties; (viii) incurrence of subordinated debt;

(ix) revocation of governmental approvals necessary for the Company to conduct its business; and (x) failure by the Company to maintain a valid and perfected lien on the collateral securing the borrowing.

During the three months ended July 31, 2020, the Company accounted for the settlement of the First SVB Facility term loan and the borrowings under the Second SVB Facility as a modification of the First SVB Facility term loan, because the cash flows under the Second SVB Facility were not substantially different than the cash flows under the First SVB Facility term loan. The Company incurred $531 of fees in connection with the Second SVB Facility, including $406 of fees to terminate the First SVB Facility and $125 of fees to enter into the Second SVB Facility. As the Second SVB Facility was accounted for as a modification, the Company recorded these fees as an additional discount on debt. The Company recorded third party costs as additional discount on debt because the unused borrowing capacity on the revolving credit facility contained in the Second SVB Facility was greater than the borrowing capacity on the revolving credit facility in the First SVB Facility. The Company is continuing to amortize the existing and newly recorded discount on debt using the effective interest method.

First Amended and Restated Loan and Security Agreement

On February 28, 2019 (the Effective Date), the Company entered into a First Amended and Restated Loan and Security Agreement (the "First SVB Facility") that provided for a $20,000 term loan (the "2019 Term Loan"). Interest on the term loan was payable monthly, at a floating rate equal to the bank’s prime rate plus 1.50%, subject to reduction based on achievement of defined EBITDA levels. The Company recorded $257 of interest expense for a final payment during the three months ended October 31, 2019. In connection with the First SVB Facility, the Company issued warrants to the lenders to purchase an aggregate of 150,274 shares of common stock at an exercise price of $8.02 per share. The 75,137 common stock warrants that remain outstanding as of October 31, 2020 expire in February 2029. Borrowings under the prior term loan and loans payable were repaid in full with the proceeds from the First SVB Facility.

The First SVB Facility also contained a revolving credit facility with $25,000 of available borrowings. As of January 31, 2020 and as of the date of the Second SVB Facility, the Company had no borrowings outstanding under the revolving credit facility. The Company paid $100 of facility fees during the three months ended October 31, 2020 and 2019, respectively.

Upon entering into the First SVB Facility, during the nine months ended October 31, 2019, the Company recorded a $1,073 loss on extinguishment of debt within other income (expense) for the settlement of the previously outstanding loans payable.

Finance Leases

See Note 11 - Leases for more information regarding finance leases.

Other Debt (Financing Agreements)

On July 21, 2020, the Company entered into an insurance premium financing agreement with IPFS of New York LLC in order to finance its premium payments for Directors' and Officers' insurance. As of October 31, 2020, the outstanding principal amount under the agreement is $1,341. The agreement bears interest of 2.6% per annum. Principal and interest are due in two equal installments of $677, payable in December 2020 and March 2021. The total interest remaining to be paid under the arrangement is $13.

On April 10, 2020, the Company entered into a vendor financing agreement with a principal amount of $174 to finance the acquisition of certain internal use software licenses. As of October 31, 2020, the outstanding principal balance of the financing agreement is $132. Interest accrues at an annual rate of 2.94%. The Company is required to make equal annual payments of $46 on May 31, 2021, May 31, 2022 and May 31, 2023.

On November 2, 2018, the Company entered into a vendor financing agreement with a principal amount of $1,256 to finance the acquisition of certain internal use software licenses. As of October 31, 2020, the outstanding principal balance of the financing agreement is $673. Interest accrues at an annual rate of 9.83%. The Company is required to pay four equal payments of $183 in November 2020, May 2021, November 2021 and June 2022.

Maturities of debt, including finance leases, in each of the next five years and thereafter are as follows:

	Total	Debt	Finance Leases
Fiscal 2021 (remaining three months)	$ 1,509	$ 845	$ 664
Fiscal year ending January 31:			
2022	4,050	1,077	2,973
2023	2,442	184	2,258
2024	1,290	40	1,250
2025	21,190	20,728	462
Total long-term debt and finance lease maturities	$ 30,481	$ 22,874	$ 7,607

During the three and nine months ended October 31, 2020, the Company recorded net interest expense of $467 and $1,206, respectively, including amortization of original issue discount and deferred financing costs of $74 and $318, respectively. For the three months ended October 31, 2020, net interest expense included interest expense of $471, net of interest income of $5. For the nine months ended October 31, 2020, net interest expense included interest expense of $1,305, net of interest income of $99. During the three and nine months ended October 31, 2019, the Company recorded net interest expense of $219 and $1,769, respectively, including amortization of original issue discount and deferred financing costs of $147 and $412, respectively For the three months ended October 31, 2019, net interest expense included interest expense of $557, net of interest income of $338. For the nine months ended October 31, 2019, net interest expense included interest expense of $2,142, net of interest income of $373.

7. Stockholders' Equity

(a) Common stock

The Company closed an IPO on July 22, 2019 and filed an Amended and Restated Certificate of Incorporation authorizing the issuance of up to 500,000,000 shares of common stock, par value $0.01 per share.

On October 23, 2020, the Company completed a follow-on offering of its Common Stock. In connection with the follow-on offering, the Company issued and sold 5,750,000 shares of common stock at an issuance price of $32.00 per share resulting in net proceeds of $174,800, after deducting underwriting discounts and commissions. The Company also incurred $290 of net third party offering costs.

(b) Preferred stock

In connection with the IPO, the Company's Amended and Restated Certificate of Incorporation also authorized 20,000,000 shares of undesignated preferred stock with a value of $0.01 per share. As of October 31, 2020 and January 31, 2020, no shares of this preferred stock were issued and outstanding.

(c) Treasury stock

The Company's equity based compensation plan allows for the grant of non-vested stock options, restricted stock units (RSUs), and performance-based RSUs to its employees pursuant to the terms of its stock option and incentive plans (See Note 8). Under the provision of the plans, for RSU awards, unless otherwise elected, participants fulfill their related income tax withholding obligation by having shares withheld at the time of vesting. On the date of vesting of the RSU, the Company divides the participant's income tax obligation in dollars by the closing price of its common stock and withholds the resulting number of vested shares. The shares withheld are then transferred to the Company's treasury stock at cost.

8. Equity-based compensation

(a) Equity Award Plans

In 2006, the Board of Directors adopted the Company's 2006 Stock Option Plan, which, as amended, provided for the issuance of options to purchase up to 4,424,986 shares of the Company's common stock to officers, directors, employees, and consultants. The 2006 Stock Option Plan expired in August 2017.

In January 2018, the Board of Directors adopted the Company's 2018 Stock Option Plan (as amended), which currently provides for the issuance of options to purchase up to 3,048,490 shares of the Company's common stock to officers, directors, employees, and consultants. The option exercise price per share is determined by the Board of Directors based on the estimated fair value of the Company's common stock.

In June 2019, the Board of Directors adopted the Company's 2019 Stock Option and Incentive Plan, which replaced the 2018 Stock Option Plan upon the completion of the IPO. The 2019 Plan allows the Compensation Committee to make equity-based incentive awards including stock options and restricted stock units (RSUs) to the Company's officers, employees, directors, and consultants. The initial reserve for the issuance of awards under this Plan was 2,139,683 shares of common stock. The initial number of shares reserved and available for issuance automatically increased on February 1, 2020 and will automatically increase each February 1 thereafter by 5% of the number of shares of common stock outstanding on the immediately preceding January 31 (or such lesser number of shares determined by the Compensation Committee).

(b) Stock Options

Options granted under the plans have a maximum term of ten years and vest over a period determined by the Board of Directors (generally four years from the date of grant or the commencement of the grantee's employment with the Company). Options generally vest 25% at the one-year anniversary of the grant date, after which point they generally vest pro rata on a monthly basis.

Effective July 2019, all available shares from expired, terminated, or forfeited awards that remained under the 2006 or 2018 prior stock compensation plans were made available for grant under the 2019 Plan.

In June 2019, the Board of Directors also adopted the Company's 2019 Employee Stock Purchase Plan (The ESPP), which became effective immediately prior to the effectiveness of the registration statement for the Company's initial public offering. The total shares of common stock initially reserved under the ESPP is limited to 855,873 shares.

Stock option activity for the nine months ended October 31, 2020 is as follows:

	Number of options	Weighted-average exercise price	Weighted-average remaining contractual life (in years)	Aggregate Intrinsic value
Outstanding — January 31, 2020	5,516,452	$ 3.80		
Granted in nine months ended October 31, 2020	—	$ —		
Exercised	(1,610,207)	$ 2.08		
Forfeited and expired	(54,083)	$ 7.31		
Outstanding and expected to vest — October 31, 2020	3,852,162	$ 4.46	6.03	$ 125,217
Exercisable — October 31, 2020	2,625,365	$ 3.12	5.09	$ 88,856
Amount vested in nine months ended October 31, 2020	476,680	$ 5.52		

As of October 31, 2020, there are 4,181,522 shares available for future grant pursuant to the 2019 Plan after factoring in the automatic increase from February 1, 2020, as well as an additional 855,873 shares available for future grant pursuant to the ESPP.

The aggregate intrinsic value represents the total pre-tax intrinsic value (the difference between the Company's estimated stock price at the time of exercise and the exercise price, multiplied by the number of related in-the-money options) that would have been received by the option holders had they exercised their options at the end of the period. This amount changes based on the market value of the Company's common stock. The total intrinsic value of options exercised for the nine months ended October 31, 2020 and 2019 (based on the difference between the Company's estimated stock price on the exercise date and the respective exercise price, multiplied by the number of options exercised), was $52,537 and $1,728, respectively.

For the three months ended October 31, 2020 and 2019, the Company recorded stock-based compensation expense for stock options of $632 and $809, respectively. For the nine months ended October 31, 2020 and 2019,

the Company recorded stock-based compensation expense for stock options of $2,111 and $2,051, respectively. As of October 31, 2020, there is $4,078 of total unrecognized compensation cost related to stock options issued to employees that is expected to be recognized over a weighted-average term of 2.06 years.

For the three and nine months ended October 31, 2020, stock-based compensation expense for stock options includes $88 and $312, respectively, related to the modification of stock options.

The Company has not recognized and does not expect to recognize in the foreseeable future, any tax benefit related to employee stock-based compensation expense.

(c) Restricted stock units

During fiscal 2020, prior to the IPO, the Company issued stock units to employees and directors that vest based on both a time-based condition and a performance-based condition. Pursuant to the time-based condition, 10% of the restricted stock units vest after one year, 20% vest after two years, 30% vest after three years and 40% vest after four years. The performance-based condition was based on a sale of the Company or an IPO, as defined. The restricted stock units expire seven years from the grant date. Upon completion of the Company's IPO in July 2019, the Company immediately recognized the fair value of the vested units with the unvested portion recognized over the remaining service period.

In addition, in August 2019, the Company approved allowing executive officers the ability to elect to receive all or a portion of the bonus (based on its target bonus opportunity for the last half of the fiscal year) in the form of restricted stock units instead of cash. For such executive officers that elected to receive restricted stock units, such award was granted immediately after such election with a value equal to the portion of the target bonus opportunity that the executive officer elected not to receive in cash, and such award vests based on the achievement of the Company's pre-defined performance targets. These performance-based awards were released in April 2020, after final approval by the Compensation Committee.

The Company issued 126,198 time-based restricted stock units during the three months ended October 31, 2020. The Company issued 701,392 time-based restricted stock units during the nine months ended October 31, 2020. These time-based restricted stock units are subject to the same four-year vesting period as the previously granted units.

Restricted stock unit activity for the nine months ended October 31, 2020 are as follows:

	Restricted stock units
Outstanding, February 1, 2020	1,447,418
Granted in nine months ended October 31, 2020	701,392
Vested	(76,915)
Forfeited and expired	(93,915)
Outstanding, October 31, 2020	1,977,980

For the three months ended October 31, 2020 and 2019, the Company recognized $2,684 and $957 in restricted stock unit compensation expense, respectively. For the nine months ended October 31, 2020 and 2019, the Company recognized $7,505 and $1,781 in restricted stock unit compensation expense, respectively, with $33,424 remaining of total unrecognized compensation costs related to these awards as of October 31, 2020. The total unrecognized costs are expected to be recognized over a weighted-average term of 3.2 years.

For the three and nine months ended October 31, 2020, stock-based compensation expense for restricted stock units includes $8 and $25 related to restricted stock units issued in connection with the Vital Score acquisition in December 2018. For the three and nine months ended October 31, 2019, stock-based compensation expense includes $10 and $30 related to restricted stock units issued in connection with the Vital Score acquisition. As of October 31, 2020, there is $66 of total unrecognized compensation cost related to these awards.

9. Stock warrants

As of October 31, 2020 and January 31, 2020, there were 75,137 common stock warrants outstanding. These remaining common stock warrants were issued with an exercise price of $8.02 per share. If unexercised, each of these warrants will expire on February 28, 2029.

On November 6, 2020, the remaining 75,137 common stock warrants were exercised through a net share settlement. The Company issued 60,388 shares in the net share exercise transaction.

10. Fair value measurements

Certain assets and liabilities are carried at fair value under generally accepted accounting principles. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. Financial assets and liabilities carried at fair value are to be classified and disclosed in one of the following three levels of the fair value hierarchy, of which the first two are considered observable and the last is considered unobservable:

Level 1—Quoted prices in active markets for identical assets or liabilities.
Level 2—Observable inputs (other than Level 1 quoted prices), such as quoted prices in active markets for similar assets or liabilities, quoted prices in markets that are not active for identical or similar assets or liabilities or other inputs that are observable or can be corroborated by observable market.
Level 3—Unobservable inputs which are supported by little or no market activity and that are significant to determining the fair value of the assets or liabilities, including pricing models, discounted cash flow methodologies and similar techniques.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The following table presents information about the Company's assets and liabilities that are measured at fair value as of October 31, 2020 and indicates the classification of each item within the fair value hierarchy (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of October 31, 2020
Money market mutual funds	$ 237,499	$ —	$ —	$ 237,499
Foreign currency derivative contracts	$ —	$ 34	$ —	$ 34
Total assets	$ 237,499	$ 34	$ —	$ 237,533

The following table presents information about the Company's assets and liabilities that are measured at fair value as of January 31, 2020 and indicates the classification of each item within the fair value hierarchy (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of January 31, 2020
Money market mutual funds	$ 86,600	$ —	$ —	$ 86,600
Foreign currency derivative contracts	—	58	—	58
Total assets	$ 86,600	$ 58	$ —	$ 86,658

The carrying value of the Company’s short-term financial instruments, including accounts receivable and accounts payable approximate fair value due to the short-term nature of these instruments.

The Company uses certain derivative financial instruments as part of its risk management strategy to reduce its foreign currency risk. The Company does not designate any derivatives as hedges in accordance with ASC 815 *Derivatives and Hedging*. The Company recognizes all derivatives on the balance sheet at fair value based on quotes obtained from financial institutions. The fair value of its foreign currency contracts as of October 31, 2020 was an asset of $34, which is included in prepaid expenses and other current assets on the accompanying balance sheet. The fair value of its foreign currency contracts as of January 31, 2020 was an asset of $58, which is included in prepaid and other current assets on the accompanying balance sheet. The fair value of the foreign currency contracts are considered Level 2 in the fair value hierarchy as of October 31, 2020 and January 31, 2020, respectively. The Company includes gains and losses on its foreign currency forward contracts within other income (expense). During the three and nine months ended October 31, 2020, the Company recognized a gain of $59 and a loss of $250, respectively. During the three and nine months ended October 31, 2019, the Company recognized gains of $327 and $256, respectively.

As the Company refinanced all of its debt on February 28, 2019 and again on May 5, 2020 (See Note 6), the Company's debt bears interest at floating rates, and there have been no significant changes in the Company's credit risk since the issuance of the debt, the Company believes that the face value of its outstanding debt at October 31, 2020 and January 31, 2020 approximates fair value.

The Company did not have any transfers of assets and liabilities between levels of the fair value measurement hierarchy during the three and nine months ended October 31, 2020 and 2019.

11. Leases

(a) Phreesia as Lessee

The Company leases office premises in New York, North Carolina, and Ottawa, and data center space in Virginia under operating leases which expire on various dates through March 2024. Certain of these arrangements have escalating rent payment provisions or optional renewal clauses. The table below only considers lease obligations through the renewal date as the Company is not reasonably certain to elect the option to extend its leases beyond the option date. No arrangements contain residual value guarantees or restrictions imposed on the leases. We are also committed to pay a portion of the actual operating expenses under certain of these lease agreements. These operating expenses are not included in the table below.

The operating right-of-use assets were calculated as the present value of operating lease liabilities, less the amount of unamortized tenant improvement allowance and deferred rent. The discount rate used was the Company’s incremental borrowing rate given that the implicit rate to each lease was not readily determinable.

The Company also entered into various finance lease arrangements of computer equipment. These agreements are typically for two to three years and are secured by the underlying equipment.

Supplemental balance sheet information related to operating and finance leases as of October 31, 2020 was as follows:

	October 31, 2020
Operating leases:	
Lease right-of-use assets	$ 3,192
Lease liabilities, current	$ 1,288
Lease liabilities, noncurrent	2,158
Total operating lease liabilities	$ 3,446
Finance leases:	
Property and equipment, at cost	$ 17,078
Accumulated depreciation	(9,555)
Property and equipment, net	$ 7,523
Lease liabilities (included in Current portion of debt and finance leases)	$ 3,018
Lease liabilities, noncurrent (included in Long-term debt and finance leases)	4,589
Total finance lease liabilities	$ 7,607

For office leases and leased equipment, the Company has elected the practical expedient to not separate lease and non-lease components, and as such, the variable lease cost primarily represents variable payments such as common area maintenance, utilities and equipment maintenance.

As of October 31, 2020, for operating leases, the weighted-average remaining lease term is 2.7 years and the weighted-average discount rate is 3.5%. As of October 31, 2020, for finance leases, the weighted-average remaining lease term is 2.8 years, and the weighted-average discount rate is 4.9%.

The components of lease expense for the nine months ended October 31, 2020 were as follows:

	October 31, 2020
Operating leases:	
Operating lease cost	$ 1,300
Variable lease cost	191
Total operating lease cost	$ 1,491
Finance leases:	
Amortization of right-of-use assets	$ 2,278
Interest on lease liabilities	236
Total finance lease cost	$ 2,514

The following represents a schedule of maturing lease commitments for operating and finance leases as of October 31, 2020:

	October 31, 2020	
	Operating	Finance
Maturity of lease liabilities		
Fiscal 2021 (remaining three months)	$ 434	$ 850
Fiscal year ending January 31,		
2022	1,228	3,139
2023	1,142	2,352
2024	758	1,290
2025	$ 52	$ 472
Total future minimum lease payments	$ 3,614	$ 8,103
Less: interest	(168)	(496)
Present value of lease liabilities	$ 3,446	$ 7,607

Future minimum lease payments under non-cancelable operating leases as of January 31, 2020 under ASC 840 were as follows:

	January 31, 2020
	Operating
Fiscal year ending January 31,	
2021	$ 1,824
2022	819
2023	464
2024	277
	$ 3,384

Other supplemental cash flow information for the nine months ended October 31, 2020 was as follows:

	October 31, 2020
Supplemental cash flow information	
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash used for operating leases	$ 1,234
Operating cash used for finance leases	236
Financing cash used for finance leases	1,797
Total	$ 3,267
Right-of-use assets obtained in exchange for lease liabilities:	
Operating	$ 4,420
Finance	6,050
Total	$ 10,470

An initial right-of-use asset of $2,741 for operating leases was recognized as a non-cash asset addition in connection with the adoption of ASC 842. Cash paid for amounts included in the present value of operating lease liabilities was $1,234 during the nine months ended October 31, 2020 and is included in cash (used in) provided by operating activities.

(b) Phreesia as Lessor

In connection with the patient intake and registration process, Phreesia offers its customers the ability to lease PhreesiaPads and Arrival Stations along with their monthly subscription. These rentals fall under the guidance of ASC 842. The Company elected the practical expedient to not separate lease and non-lease components. More specifically, all contractual hardware maintenance is included with the hardware lease components. The leases

contain no variable lease payments, no options to extend the lease that are reasonably certain to be exercised, and do not give the lessee an option to purchase the hardware at the end of the lease term. Additionally, the lease term does not represent a major part of the remaining economic life of the assets, and the present value of the lease payments does not equal or exceed substantially all of the fair value of the assets. As a result, all leased hardware in the SaaS arrangements are classified as operating leases.

During the three and nine months ended October 31, 2020, the Company recognized $1,593 and $4,732, respectively, in subscription and related services revenue related to the leasing of PhreesiaPads and Arrival Stations.

Future lease payments receivable under operating leases were immaterial as of October 31, 2020, except for those with terms less than one year.

12. Commitments and contingencies

In the ordinary course of business, the Company may be subject from time to time to various proceedings, lawsuits, disputes or claims. Although the Company cannot predict with assurance the outcome of any litigation, the Company does not believe there are currently any such actions that, if resolved unfavorably, would have a material impact on its financial condition, results of operations or cash flows.

13. Income taxes

For the three and nine months ended October 31, 2020, the Company recorded a tax provision of $194 and $371, respectively, compared to a tax provision of $64 and $183, respectively, for the corresponding three and nine month periods in the prior year. Our provision for income taxes was 2.0% and 1.1% of loss before income taxes for the nine months ended October 31, 2020 and 2019, respectively. The Company's effective tax rate differs from the U.S. statutory tax rate of 21% primarily because the Company records a valuation allowance against the majority of its deferred tax assets, and due to foreign income tax expense recorded for the Company's Canada branch.

Deferred tax assets and deferred tax liabilities are recognized based on temporary differences between the financial reporting and tax basis of assets and liabilities using statutory rates. Management of the Company has evaluated the positive and negative evidence pertaining to the realizability of its deferred tax assets, including the Company’s history of losses, and concluded that it is more likely than not that the Company will not recognize the benefits for the majority of its deferred tax assets. On the basis of this evaluation, the Company has recorded a valuation allowance against its deferred tax assets that are not more likely than not to be realized at October 31, 2020 and January 31, 2020.

14. Net loss per share attributable to common stockholders

Basic and diluted net loss per share attributable to common stockholders was calculated as follows:

	Three months ended October 31,		Nine months ended October 31,	
	2020	2019	2020	2019
Numerator:				
Net loss	$ (6,713)	$ (2,437)	$ (19,196)	$ (16,625)
Preferred stock dividend paid	—	—	—	(14,955)
Accretion of redeemable convertible preferred stock to redemption value	—	—	—	(56,175)
Net loss attributable to common stockholders	$ (6,713)	$ (2,437)	$ (19,196)	$ (87,755)
Denominator:				
Weighted-average shares of common stock outstanding, basic and diluted	38,511,370	35,790,951	37,855,503	15,007,247
Net loss per share attributable to common stockholders	$ (0.17)	$ (0.07)	$ (0.51)	$ (5.85)

The Company's potential dilutive securities, which include convertible preferred, stock options, restricted stock units and outstanding warrants to purchase shares of common and preferred stock, have been excluded from the computation of diluted net loss per share as the effect would be to reduce the net loss per share. Therefore, the weighted-average number of common shares outstanding used to calculate both basic and diluted net loss per share attributable to common stockholders is the same. The following potential common shares, presented based on amounts outstanding at each period end, were excluded from the calculation of diluted net loss per share attributable to common stockholders for the periods indicated because including them would have had an anti-dilutive effect:

	As of October 31,	
	2020	**2019**
Stock options to purchase common stock and restricted stock units	5,830,142	6,645,106
Warrants to purchase common stock	75,137	228,178
	5,905,279	6,873,284

15. Related party transactions

The Company recognized revenue totaling approximately $1,223 from an affiliate of a stockholder of the Company for the three months ended October 31, 2019. The Company recognized revenue totaling approximately $2,425 and $4,098 from an affiliate of a stockholder of the Company for the nine months ended October 31, 2020 and 2019, respectively. Accounts receivable from the affiliate totaled approximately $2,072 as of January 31, 2020, The entity was no longer a related party as of October 31, 2020.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis of financial condition and results of operations

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our unaudited financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and our financial statements and related notes thereto included in our Form 10-K for the fiscal year ended January 31, 2020. In addition to historical financial information, the following discussion and analysis and information set forth elsewhere in this Quarterly Report on Form 10-Q contain forward-looking statements that involve risks, uncertainties and assumptions. Our actual results could differ materially from those anticipated by these forward-looking statements as a result of many factors. We discuss factors that we believe could cause or contribute to these differences below and elsewhere in this Quarterly Report on Form 10-Q, including those set forth under "Risk Factors" and "Special Note Regarding Forward-Looking Statements."

Financial highlights

- Total revenue increased 17% to $38.5 million in the three months ended October 31, 2020, compared with $32.8 million in the three months ended October 31, 2019.
- Total revenue increased 16% to $106.9 million in the nine months ended October 31, 2020 compared with $92.0 million in the nine months ended October 31, 2019.
- Net loss was $6.7 million in the three months ended October 31, 2020, compared to $2.4 million in the three months ended October 31, 2019.
- Net loss was $19.2 million in the nine months October 31, 2020, compared to $16.6 million in the nine months ended October 31, 2019.
- Adjusted EBITDA was positive $1.2 million in the three months ended October 31, 2020, compared to positive $3.0 million in the three months ended October 31, 2019.
- Adjusted EBITDA was positive $3.9 million in the nine months ended October 31, 2020, compared to positive $3.5 million in the nine months ended October 31, 2019.
- Cash used in operating activities was $0.7 million and $1.2 million for the three and nine months ended October 31, 2020, respectively. Free cash flow was negative $4.4 million and negative $12.3 million for the three and nine months ended October 31, 2020, respectively.
- Cash used in operating activities was $3.0 million and $0.4 million for the three and nine months ended October 31, 2019, respectively. Free cash flow was negative $6.6 million and negative $9.6 million for the three and nine months ended October 31, 2019, respectively.

For a reconciliation of Adjusted EBITDA to net loss and a reconciliation of free cash flow to cash used in operating activities, and for more information as to how we define and calculate such measures, see the section below titled "Non-GAAP financial measures."

Overview

We are a leading provider of comprehensive solutions that transform the healthcare experience by engaging patients in their care and enabling healthcare provider organizations to optimize operational efficiency, improve profitability and enhance clinical care. As evidenced in industry survey reports from KLAS, a healthcare information technology and insights company, we have been recognized as a leader based on our integration capabilities with healthcare provider organizations, the broad adoption of our patient intake functionalities and by overall client satisfaction. Through the SaaS-based Phreesia Platform, we offer our provider clients a robust suite of solutions to manage the patient intake process and an integrated payments solution for secure processing of patient payments. Our Platform also provides life sciences companies with an engagement channel for targeted and direct communication with patients.

We serve an array of healthcare provider organizations of all sizes ranging from single-specialty practices, which include internal and family medicine, urology, dermatology and orthopedics, to large, multi-specialty groups. Our life sciences services are provided to clients in the pharmaceutical, biotechnology and medical device industries.

We derive revenue from (i) subscription fees from healthcare provider organizations for access to the Phreesia Platform and related services fees, (ii) payment processing fees based on levels of patient payment volume processed through the Phreesia Platform, and (iii) fees from life science companies to deliver digital marketing

content to patients using the Phreesia Platform. We have strong visibility into our business as the majority of our revenue is derived from recurring subscription fees and re-occurring payment processing fees.

We market and sell our products and services to provider clients throughout the United States using a direct sales organization divided into several highly targeted and coordinated teams, which are concentrated in Raleigh, North Carolina, New York, New York and Ottawa, Canada. Our demand generation team develops content and identifies prospects that our sales development team researches and qualifies to generate high-grade, actionable sales programs. Our direct sales force executes on these qualified sales programs, partnering with client services to ensure prospects are educated on the breadth of our capabilities and demonstrable value proposition, with the goal of attracting and retaining clients and expanding their use of our Phreesia Platform over time. Most of our Phreesia Platform solutions are contracted pursuant to annual, auto-renewing agreements. Our sales typically involve competitive processes and sales cycles have, on average, varied in duration from two months to eight months, depending on the size of the potential client. However, there is potential for our sales cycle to extend beyond two to eight months as a result of COVID-19. In addition, through Phreesia University (Phreesia's in-house training program), events, client conferences and webinars, we help our provider clients optimize their businesses and, as a result, support client retention.

Since our inception, we have not marketed or sold our products internationally. Accordingly, all of our revenue from historical periods has come from the United States, and our current strategy is to continue to focus our sales efforts within the United States.

Our revenue growth has been entirely organic and reflects our significant addition of new provider clients and increased revenue from existing clients. New provider clients are defined as clients that go live in the applicable period and existing provider clients are defined as clients that go live in any period before the applicable period.

Recent developments

COVID-19

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and spread to a number of other countries, including the United States and Canada. In March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic and the United States declared a national emergency with respect to COVID-19. The impact of the outbreak has been rapidly evolving and has led to the implementation of various responses, including government-imposed quarantines, travel restrictions, business and school closures and other public health safety measures. It has also disrupted the normal operations of many businesses, including ours. COVID-19 has also disrupted, and we believe will continue to disrupt, the normal operations of our clients, which are primarily healthcare providers. Because our business relies, in part, on the growth and success of our clients, any disruption to our clients' operations will impact our revenue as follows:

- *Subscription and related services*: Disruptions to provider operations, including travel restrictions and provider office closures, impact our subscription and related services revenue because of disruptions to sales processes and client implementations.
- *Payment processing*: The decline in non-essential and elective patient visits directly impacts the revenue we receive from payment processing tools.
- *Life sciences*: Because our life sciences revenue is driven by the number of patients receiving targeted messages, a decline in patient visits may impact our revenue earned through patient engagement.

Beginning in early September 2020, we saw patient visits return to pre-pandemic levels as some of the restrictions and other safety measures have been lifted. We have seen positive trends as a result of our ability to use our Platform and solutions to assist our healthcare provider clients as they implement new safety protocols in order to continue to see patients, including minimizing contact during intake of patients, mobile check-in, transitioning patients to telehealth visits and enabling providers to screen patients for COVID-19 risk factors. Our COVID-19 module was used in over 30 million patient screenings between February 10, 2020 and November 30, 2020.

Given the unknown timeline and the near-term uncertainty of COVID-19 on our business, there continues to be uncertainty as to the extent to which the global COVID-19 pandemic may adversely impact our business operations, financial performance, and results of operations at this time. Further, due to recent surges of COVID-19 cases in many states, or a second wave, we may see quarantines and additional restrictions being put in place again, which could impact patient visits across our provider clients similar to the trends during the earlier periods of the pandemic.

On December 9, 2020, the Company changed its headquarters from New York, NY to its Raleigh, North Carolina location.

Key metrics

We regularly review the following key metrics to measure our performance, identify trends affecting our business, formulate financial projections, make strategic business decisions and assess working capital needs.

	Three months ended October 31,		Nine months ended October 31,	
	2020	2019	2020	2019
Key Metrics:				
Provider clients (average over period)	1,737	1,573	1,679	1,560
Average revenue per provider client	$ 17,490	$ 16,637	$ 51,604	$ 48,768
Patient payment volume (in millions)	$ 524	$ 463	$ 1,445	$ 1,388

- *Provider clients*. We define provider clients as the average number of healthcare provider organizations that generate revenue each month during the applicable period. In one specific case wherein we act as a subcontractor providing white-label services to our partner's clients, we treat this contractual relationship as a single provider client. We believe growth in the number of provider clients is a key indicator of the performance of our business and depends, in part, on our ability to successfully develop and market our Platform to healthcare provider organizations that are not yet clients. While growth in the number of provider clients is an important indicator of expected revenue growth, it also informs our management of the areas of our business that will require further investment to support expected future provider client growth. For example, as the number of provider clients increases, we may need to add to our customer support team and invest to maintain effectiveness and performance of our Platform and software for our provider clients and their patients.
- *Average revenue per provider client.* We define average revenue per provider client as the total subscription and related services and payment processing revenue generated from provider clients in a given period divided by the average number of provider clients that generate revenue each month during that same period. We are focused on continually delivering value to our provider clients and believe that our ability to increase average revenue per provider client is an indicator of the long-term value of our existing provider client relationships.
- *Patient payment volume*. We measure patient payment volume as the total dollar volume of transactions between our provider clients and their patients utilizing our payment platform, including via credit and debit cards, cash and check. Patient payment volume is a major driver of our payment processing revenue, and we believe that patient payment volume is an indicator of both the underlying health of our provider clients' businesses and the continuing shift of healthcare costs to patients.

Components of statements of operations

Revenue

We generate revenue primarily from providing an integrated SaaS-based software and payment platform for the healthcare industry. We derive revenue from subscription fees and related services generated from our provider clients for access to the Phreesia Platform, payment processing fees based on the levels of patient payment volume processed through the Phreesia Platform, and from digital marketing revenue from life sciences companies to reach, educate and communicate with patients when they are most receptive and actively seeking care.

Our total revenue consists of the following:

- *Subscription and related services.* We primarily generate subscription fees from our provider clients based on the number of providers that subscribe to and utilize the Phreesia Platform. Our provider clients are typically billed monthly in arrears, though in some instances, provider clients may opt to be billed quarterly or annually in advance. Subscription fees are typically auto-debited from provider clients' accounts every month. As we target and add larger enterprise provider clients, these clients may choose to contract differently than our typical per provider subscription model. To the extent we charge in an alternative manner with larger enterprise provider clients, we expect that such a pricing model will recur and, combined with our per provider subscription fees, will increase as a percentage of our total revenue.

In addition, we receive certain fees from provider clients for professional services associated with our implementation services as well as travel and expense reimbursements, shipping and handling fees, sales of hardware (PhreesiaPads and Arrivals Stations), and on-site support and training.

- *Payment processing fees.* We generate revenue from payment processing fees based on the number of transactions and the levels of patient payment volume processed on credit and debit cards on the Phreesia Platform through our payment facilitator model. Payment processing fees are generally calculated as a percentage of the total transaction dollar value processed and/or a fee per transaction. Credit and debit patient payment volume processed through our payment facilitator model represented 80% and 82% of our patient payment volume in the three months ended October 31, 2020 and 2019, respectively. Credit and debit patient payment volume processed through our payment facilitator model represented 82% and 83% of our patient payment volume in the nine months ended October 31, 2020 and 2019, respectively. The remainder of our patient payment volume is composed of credit and debit transactions for which Phreesia acts as a gateway to another payment processor, and cash and check transactions.
- *Life sciences.* We generate revenue from the sale of digital marketing solutions to life sciences companies. As we expand our provider client base, we increase the number of new patients we can reach to deliver targeted marketing content on behalf of our life sciences clients.

Cost of revenue (excluding depreciation and amortization)

Our cost of revenue primarily consists of personnel costs, including salaries, benefits, bonuses and stock-based compensation for implementation and technical support, and costs to verify insurance eligibility and benefits, infrastructure costs to operate our Platform such as hosting fees and fees paid to various third-party partners for access to their technology.

Payment processing expense

Payment processing expense consists primarily of interchange fees set by payment card networks and that are ultimately paid to the card-issuing financial institution, assessment fees paid to payment card networks, and fees paid to third-party payment processors and gateways. Payment processing expense may change as a percentage of payment processing revenue if card networks change pricing for interchange and assessment fees or if we change pricing to our clients or as the mix of various card type usage changes.

Sales and marketing

Sales and marketing expense consists primarily of personnel costs, including salaries, benefits, bonuses, stock-based compensation and commission costs for our sales and marketing personnel. Sales and marketing expense also includes costs for advertising, promotional and other marketing activities, as well as certain fees paid to various third-party partners for sales and lead generation. Advertising is expensed as incurred.

Research and development

Research and development expense consists of costs for the design, development, testing and enhancement of our products and services and are generally expensed as incurred. These costs consist primarily of personnel costs, including salaries, benefits, bonuses and stock-based compensation for our development personnel. Research and development expense also includes product management, life sciences analytics costs, third-party partner fees and third-party consulting fees.

General and administrative

General and administrative expense consists primarily of personnel costs, including salaries, benefits, bonuses, and stock-based compensation for our executive, finance, legal, human resources, information technology and other administrative personnel. General and administrative expense also includes consulting, legal, security, accounting services and allocated overhead. We expect general and administrative expense to continue to increase in absolute dollars as we grow our operations and continue to operate as a public company, although we expect such expense to decline as a percentage of total revenue over time.

Depreciation

Depreciation represents depreciation expense for PhreesiaPads and Arrivals Stations, data center and other computer hardware, purchased computer software, furniture and fixtures and leasehold improvements.

Amortization

Amortization primarily represents amortization of our capitalized internal-use software related to the Phreesia Platform as well as amortization of acquired intangible assets.

Other income (expense)

Our other income and loss line items consist of the following:

- *Other income (expense)*. Other income (expense) consists of foreign currency-related gains and losses and other income (expense).
- *Change in fair value of warrant liability*. Prior to our initial public offering, the Company had preferred stock warrants which were marked to market based on third-party valuations and the change in fair value was recorded in other income (expense). Upon the closing of our IPO, the outstanding warrants to purchase shares of preferred stock automatically converted into warrants to purchase shares of common stock. Upon such conversion, we reclassified the warrants to equity and recorded the then current value of the warrant liability on the date of reclassification to additional paid-in-capital, a component of stockholders' equity.
- *Interest income*. Interest income consists of interest earned on our cash and cash equivalent balances. Interest income has not been material to our operations to date.
- *Interest expense*. Interest expense consists primarily of the interest incurred on debt and our financing obligations as well as amortization of discounts and deferred financing costs.

Provision for income taxes

Based upon our historical operating losses and the available evidence, we have determined that it is more likely than not that the deferred tax assets as of October 31, 2020 will not be realized in the near term. On the basis of this evaluation, the Company has recorded a valuation allowance against its deferred tax assets that are not more likely than not to be realized at October 31, 2020 and January 31, 2020. In future periods, if we conclude we have future taxable income sufficient to recognize the deferred tax assets, we may reduce or eliminate the valuation allowance.

Comparison of results of operations for the three and nine months ended October 31, 2020 and 2019

Revenue

	Three months ended October 31,			
(in thousands)	**2020**	**2019**	**$ Change**	**% Change**
Subscription and related services	$ 17,468	$ 14,606	$ 2,862	20 %
Payment processing fees	12,917	11,559	1,358	12 %
Life sciences	8,079	6,678	1,401	21 %
Total revenue	$ 38,464	$ 32,843	$ 5,621	17 %

- *Subscription and related services*. Our subscription and related services revenue from healthcare provider organizations increased $2.9 million to $17.5 million in the three months ended October 31, 2020, as compared to $14.6 million in the three months ended October 31, 2019, primarily due to new provider clients added during the quarter, expansion of and cross-selling to existing provider clients, and higher related services revenues.
- *Payment processing fees*. Our revenue from patient payments processed through the Phreesia Platform increased $1.3 million to $12.9 million in the three months ended October 31, 2020, as compared to $11.6 million in the three months ended October 31, 2019. The increase was due to a mix of transactions priced with higher per transaction revenue, as well as higher volume of debit and credit payments processed through the Phreesia Platform driven by an increase in patient visits during the quarter.
- *Life sciences.* Our revenue from life science clients for digital marketing increased $1.4 million to $8.1 million in the three months ended October 31, 2020, as compared to $6.7 million in the three months ended October 31, 2019 due to an increase in new digital marketing solutions programs and an increase in scale among the existing programs.

(in thousands)	Nine months ended October 31, 2020	2019	$ Change	% Change
Subscription and related services	$ 50,196	$ 41,292	$ 8,904	22 %
Payment processing fees	36,452	34,781	1,671	5 %
Life sciences	20,221	15,895	4,326	27 %
Total revenue	$ 106,869	$ 91,968	$ 14,901	16 %

- *Subscription and related services*. Our subscription and related services revenue from healthcare provider organizations increased $8.9 million to $50.2 million in the nine months ended October 31, 2020, as compared to $41.3 million in the nine months ended October 31, 2019, primarily due to new provider clients added in the current year-to-date period as well as expansion of and cross-selling to existing provider clients.
- *Payment processing fees*. Our revenue from patient payments processed through the Phreesia Platform increased $1.7 million to $36.5 million in the nine months ended October 31, 2020, as compared to $34.8 million in the nine months ended October 31, 2019. The increase was due to a mix of transactions priced with higher per transaction revenue as well as a higher volume of debit and credit patient payments processed through the Phreesia Platform driven by an increase in patient visits during the current fiscal year-to-date period.
- *Life sciences.* Our revenue from life science clients for digital marketing increased $4.3 million to $20.2 million in the nine months ended October 31, 2020, as compared to $15.9 million in the nine months ended October 31, 2019 due to an increase in new digital marketing solutions programs and an increase in scale among the existing programs.

Cost of revenue (excluding depreciation and amortization)

(in thousands)	Three months ended October 31, 2020	2019	$ Change	% Change
Cost of revenue (excluding depreciation and amortization)	$ 6,472	$ 4,388	$ 2,084	47 %

Cost of revenue (excluding depreciation and amortization) increased $2.1 million to $6.5 million in the three months ended October 31, 2020, as compared to $4.4 million in the three months ended October 31, 2019. The increase resulted primarily from higher headcount and associated compensation cost driven by growth in revenues, as well as higher payments to third-party partners.

Stock compensation expense included in cost of revenue was $0.2 million and $0.1 million for the three months ended October 31, 2020 and 2019, respectively.

(in thousands)	Nine months ended October 31, 2020	2019	$ Change	% Change
Cost of revenue (excluding depreciation and amortization)	$ 16,477	$ 12,594	$ 3,883	31 %

Cost of revenue (excluding depreciation and amortization) increased $3.9 million to $16.5 million in the nine months ended October 31, 2020, as compared to $12.6 million in the nine months ended October 31, 2019. The increase resulted primarily from higher headcount and associated compensation cost driven by growth in revenues, as well as higher payments to third-party partners.

Stock compensation expense included in cost of revenue was $0.4 million and $0.1 million for the nine months ended October 31, 2020 and 2019, respectively.

Payment processing expense

(in thousands)	Three months ended October 31, 2020	2019	$ Change	% Change
Payment processing expense	$ 7,530	$ 6,902	$ 628	9 %

Payment processing expense increased $0.6 million to $7.5 million in the three months ended October 31, 2020, as compared to $6.9 million in the three months ended October 31, 2019. The increase resulted primarily from an increase in patient payments processed through the Phreesia Platform driven by an increase in patient visits in the current quarter, partially offset by certain lower cost payment routing.

(in thousands)	Nine months ended October 31, 2020	2019	$ Change	% Change
Payment processing expense	$ 21,125	$ 20,952	$ 173	1 %

Payments processing expense increased $0.2 million to $21.1 million in the nine months ended October 31, 2020, as compared to $21.0 million in the nine months ended October 31, 2019. The increase resulted primarily from an increase in patient payments processed through the Phreesia Platform driven by an increase in patient visits over the prior year period, partially offset by certain lower cost payment routing.

Sales and marketing

(in thousands)	Three months ended October 31, 2020	2019	$ Change	% Change
Sales and marketing	$ 10,481	$ 8,348	$ 2,133	26 %

Sales and marketing expense increased $2.1 million to $10.5 million in the three months ended October 31, 2020, as compared to $8.3 million in the three months ended October 31, 2019. The increase was primarily attributable to headcount and total compensation increases of $1.9 million.

Stock compensation expense included in sales and marketing expense was $1.0 million and $0.4 million for the three months ended October 31, 2020 and 2019, respectively.

(in thousands)	Nine months ended October 31, 2020	2019	$ Change	% Change
Sales and marketing	$ 30,013	$ 24,170	$ 5,843	24 %

Sales and marketing expense increased $5.8 million to $30.0 million in the nine months ended October 31, 2020, as compared to $24.2 million in the nine months ended October 31, 2019. The increase was primarily attributable to headcount and total compensation increases of $5.7 million as well as a $1.0 million increase in partner payments, partially offset by a $0.9 million decrease in travel and entertainment costs.

Stock compensation expense included in sales and marketing expense was $2.5 million and $0.9 million for the nine months ended October 31, 2020 and 2019, respectively.

Research and development

(in thousands)	Three months ended October 31, 2020	2019	$ Change	% Change
Research and development	$ 5,732	$ 4,774	$ 958	20 %

Research and development expense increased $1.0 million to $5.7 million in the three months ended October 31, 2020, as compared to $4.8 million in the three months ended October 31, 2019. The increase resulted primarily from a $1.0 million increase in total compensation costs driven by an increase in headcount to support our product development efforts.

Stock compensation expense included in research and development expense was $0.5 million and $0.2 million for the three months ended October 31, 2020 and 2019, respectively.

(in thousands)	Nine months ended October 31, 2020	2019	$ Change	% Change
Research and development	$ 16,267	$ 13,762	$ 2,505	18 %

Research and development expense increased $2.5 million to $16.3 million in the nine months ended October 31, 2020, as compared to $13.8 million in the nine months ended October 31, 2019. The increase resulted primarily from a $2.5 million increase in total compensation costs driven by an increase in headcount to support our product development efforts.

Stock compensation expense included in research and development expense was $1.5 million and $0.5 million for the nine months ended October 31, 2020 and 2019, respectively.

General and administrative

(in thousands)	Three months ended October 31, 2020	2019	$ Change	% Change
General and administrative	$ 10,370	$ 7,184	$ 3,186	44 %

General and administrative expense increased $3.2 million to $10.4 million in the three months ended October 31, 2020, as compared to $7.2 million in the three months ended October 31, 2019. The increase resulted primarily from a $2.5 million increase in total compensation costs due to higher headcount and a $0.8 million increase in software fees to improve our information systems, partially offset by lower travel and entertainment costs.

Stock compensation expense included in general and administrative expense was $1.6 million and $1.0 million for the three months ended October 31, 2020 and 2019, respectively.

(in thousands)	Nine months ended October 31, 2020	2019	$ Change	% Change
General and administrative	$ 28,721	$ 20,849	$ 7,872	38 %

General and administrative expense increased $7.9 million to $28.7 million in the nine months ended October 31, 2020, as compared to $20.8 million in the nine months ended October 31, 2019. The increase resulted primarily from our efforts to build our internal control structure, including a $6.7 million increase in total compensation costs due to higher headcount and a $1.8 million increase in software fees to improve our information systems, partially offset by lower travel and entertainment costs.

Stock compensation expense included in general and administrative expense was $5.2 million and $2.4 million for the nine months ended October 31, 2020 and 2019, respectively.

Depreciation

(in thousands)	Three months ended October 31, 2020	2019	$ Change	% Change
Depreciation	$ 2,447	$ 2,153	$ 294	14 %

Depreciation expense increased $0.3 million to $2.4 million in the three months ended October 31, 2020 as compared to $2.2 million in the three months ended October 31, 2019. The increase was attributable to higher data center depreciation driven by continued investment in our Platform.

(in thousands)	Nine months ended October 31, 2020	2019	$ Change	% Change
Depreciation	$ 7,125	$ 6,444	$ 681	11 %

Depreciation expense increased $0.7 million to $7.1 million in the nine months ended October 31, 2020 as compared to $6.4 million in the nine months ended October 31, 2019. The increase was attributable to higher data center depreciation driven by continued investment in our Platform.

Amortization

(in thousands)	Three months ended October 31, 2020	2019	$ Change	% Change
Amortization	$ 1,546	$ 1,325	$ 221	17 %

Amortization expense increased $0.2 million to $1.5 million in the three months ended October 31, 2020, as compared to $1.3 million in the three months ended October 31, 2019. The increase was due to higher amortization of internal-use software development costs as we continue to improve and add new functionality to the Phreesia Platform.

(in thousands)	Nine months ended October 31, 2020	2019	$ Change	% Change
Amortization	$ 4,531	$ 3,823	$ 708	19 %

Amortization expense increased $0.7 million to $4.5 million in the nine months ended October 31, 2020, as compared to $3.8 million in the nine months ended October 31, 2019. The increase was due to higher amortization of internal-use software development costs as we continue to improve and add new functionality to the Phreesia Platform.

Other income (expense)

(in thousands)	Three months ended October 31, 2020	2019	$ Change	% Change
Other income	$ 62	$ 77	$ (15)	(19) %

Other income remained essentially unchanged at $0.1 million in the three months ended October 31, 2020 as compared to $0.1 million for the three months ended October 31, 2020.

(in thousands)	Nine months ended October 31, 2020	2019	$ Change	% Change
Other expense	$ (229)	$ (740)	$ 511	(69) %

Other expense decreased by $0.5 million to $0.2 million in the nine months ended October 31, 2020 as compared to $0.7 million as there was no related loss on extinguishment of debt in the nine months ended October 31, 2020. This was offset by an increase in foreign currency-related losses for the nine months ended October 31, 2020.

Change in fair value of warrant liability

(in thousands)	Nine months ended October 31, 2020	2019	$ Change	% Change
Change in fair value of warrant liability	$ —	$ (3,307)	$ 3,307	(100) %

The change in fair value of warrant liability decreased $3.3 million to $0 in the nine months ended October 31, 2020 as compared to an expense of $3.3 million in the nine months ended October 31, 2019. The decrease resulted from the conversion of warrants to equity classified warrants in connection with the IPO in our fiscal quarter ended July 31, 2019. The Company did not record a change in the fair value of warrants liability during the three months ended October 31, 2020 or the three months ended October 31, 2019, because the Company's warrants had been converted to equity classified warrants prior to the beginning of these periods.

Interest income (expense)

(in thousands)	Three months ended October 31, 2020	2019	$ Change	% Change
Interest income (expense)	$ (467)	$ (219)	$ (248)	113 %

Interest expense increased $0.2 million to $0.5 million in the three months ended October 31, 2020, as compared to $0.2 million in the three months ended October 31, 2019. Interest expense increased compared to prior year due to lower interest income in the current year as a result of higher average cash balances in the prior year in connection with the IPO, partially offset by a lower interest rate on the Company's debt.

(in thousands)	Nine months ended October 31, 2020	2019	$ Change	% Change
Interest income (expense)	$ (1,206)	$ (1,769)	$ 563	(32) %

Interest expense decreased $0.6 million to $1.2 million in the nine months ended October 31, 2020, as compared to $1.8 million in the nine months ended October 31, 2019. Interest expense decreased compared to prior year because the Company utilized a portion of the proceeds of the IPO to pay off debt, and due to higher interest income in the current year due to higher average cash balances as a result of our equity financings.

Provision for income taxes

(in thousands)	Three months ended October 31, 2020	2019	$ Change	% Change
Provision for income taxes	$ (194)	$ (64)	$ (130)	203 %

Provision for income taxes increased in the three months ended October 31, 2020 as compared to the three months ended October 31, 2019 primarily due to the accrual for certain state income taxes and the utilization of deferred tax assets to offset taxable income in Canada.

(in thousands)	Nine months ended October 31, 2020	2019	$ Change	% Change
Provision for income taxes	$ (371)	$ (183)	$ (188)	103 %

Provision for income taxes increased in the nine months ended October 31, 2020 as compared to the nine months ended October 31, 2019 primarily due to the accrual for certain state income taxes and the utilization of deferred tax assets to offset taxable income in Canada.

Non-GAAP financial measures

Adjusted EBITDA is a supplemental measure of our performance that is not required by, or presented in accordance with, GAAP. Adjusted EBITDA is not a measurement of our financial performance under GAAP and should not be considered as an alternative to net income or loss or any other performance measure derived in accordance with GAAP, or as an alternative to cash flows from operating activities as a measure of our liquidity. We define Adjusted EBITDA as net income or loss, before net interest (income) expense, provision for income taxes, depreciation and amortization, and before stock-based compensation expense, non-cash change in fair value of warrant liability and other income (income) expense.

We have provided below a reconciliation of Adjusted EBITDA to net loss, the most directly comparable GAAP financial measure. We have presented Adjusted EBITDA in this Quarterly Report on Form 10-Q because it is a key measure used by our management and board of directors to understand and evaluate our core operating performance and trends, to prepare and approve our annual budget, and to develop short and long-term operational plans. In particular, we believe that the exclusion of the amounts eliminated in calculating Adjusted EBITDA can provide a useful measure for period-to-period comparisons of our core business. Accordingly, we believe that Adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors.

Our use of Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our financial results as reported under GAAP. Some of these limitations are as follows:

- although depreciation and amortization expense are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- Adjusted EBITDA does not reflect: (1) changes in, or cash requirements for, our working capital needs; (2) the potentially dilutive impact of non-cash stock-based compensation; or (3) tax payments that may represent a reduction in cash available to us; (4) net interest expense (income); and
- Other companies, including companies in our industry, may calculate Adjusted EBITDA or similarly titled measures differently, which reduces its usefulness as a comparative measure.

Because of these and other limitations, you should consider Adjusted EBITDA along with other GAAP-based financial performance measures, including various cash flow metrics, net loss, and our GAAP financial results. The following table presents a reconciliation of Adjusted EBITDA to net loss for each of the periods indicated:

	Three months ended October 31,		Nine months ended October 31,	
(in thousands, unaudited)	**2020**	**2019**	**2020**	**2019**
Net loss	$ (6,713)	$ (2,437)	$ (19,196)	$ (16,625)
Interest (income) expense	467	219	1,206	1,769
Depreciation and amortization	3,993	3,478	11,656	10,267
Stock-based compensation expense	3,316	1,766	9,616	3,832
Change in fair value warrant liability	—	—	—	3,307
Provision for income taxes	194	64	371	183
Other (income) expense	(62)	(77)	229	740
Adjusted EBITDA	$ 1,195	$ 3,013	$ 3,882	$ 3,473

We calculate free cash flow as net cash used in operating activities less purchases of property and equipment and capitalized internal-use software development costs.

Additionally, free cash flow is a supplemental measure of our performance that is not required by, or presented in accordance with, GAAP. We consider free cash flow to be a liquidity measure that provides useful information to management and investors about the amount of cash generated by our business that can be used for strategic opportunities, including investing in our business, making strategic investments, partnerships and acquisitions and strengthening our financial position.

The following table presents a reconciliation of free cash flow from net cash used in operating activities, the most directly comparable GAAP financial measure, for each of the periods indicated:

	Three months ended October 31,		Nine months ended October 31,	
(in thousands)	**2020**	**2019**	**2020**	**2019**
Net cash used in operating activities	$ (667)	$ (3,032)	$ (1,187)	$ (448)
Less:				
Capitalized internal-use software	(1,926)	(1,451)	(4,663)	(4,329)
Purchases of property and equipment	(1,781)	(2,072)	(6,440)	(4,826)
Free cash flow	$ (4,374)	$ (6,555)	$ (12,290)	$ (9,603)

Seasonality

Largely due to our focus on the healthcare industry, certain seasonal factors may cause us to record higher revenue in some quarters compared with others. For example, we receive a large increase in payment processing revenue during the first two to three months of the calendar year, primarily due to the resetting of patient deductibles at the beginning of each calendar year. Orders for our life sciences solutions are seasonal, primarily due to the annual spending patterns of our clients. While we believe we have visibility into the seasonality of our business, our rapid

growth rate over the last couple years may have made seasonal fluctuations more difficult to detect. If our rate of growth slows over time, seasonal or cyclical variations in our operations may become more pronounced, and our business, results of operations and financial position may be adversely affected.

Liquidity and capital resources

Since our inception in 2005 and until the completion of our IPO, we financed our operations primarily through the private sale of preferred stock and from various debt arrangements. In July 2019, we completed our IPO in which we and certain of our selling stockholders sold 10,681,423 shares of common stock at a public offering price of $18.00 per share, resulting in aggregate proceeds to us of approximately $130.8 million, net of underwriters' discounts and commissions, and before deducting offering costs of approximately $6.4 million. On October 23, 2020, the Company closed an additional public offering in which the Company issued and sold 5,750,000 shares of its common stock at a public offering price of $32.00 per share, resulting in net proceeds of $174.5 million after deducting underwriting discounts and offering expenses. As of October 31, 2020, we had cash and cash equivalents of $254.1 million. Cash and cash equivalents consist of cash on deposit and held in money market accounts.

We believe that our existing cash and cash equivalents, along with our available financial resources from our credit facility, will be sufficient to meet our needs for at least the next 12 months. Our future capital requirements and the adequacy of available funds will depend on many factors, including those set forth under "Risk factors."

In the event that additional financing is required from outside sources, we may be unable to raise the funds on acceptable terms, if at all. If we are unable to raise additional capital when desired, our business, operating results and financial condition could be adversely affected.

Silicon Valley Bank facility

In February 2019, we entered into a loan and security agreement with Silicon Valley Bank (SVB), or the First SVB facility, which provided for a secured term loan facility and a revolving credit facility. On February 28, 2019, we borrowed $20.0 million as a term loan borrowing and used the proceeds to pay the outstanding principal amount under a loan and security agreement with another lender. See Note 6 to the Unaudited Financial Statements for additional information regarding the First SVB Facility.

We used a portion of the net proceeds from the IPO to fully repay our revolving line of credit with Silicon Valley Bank, which had an outstanding balance of $17.7 million as of the closing of the IPO on July 22, 2019.

On May 5, 2020, the Company entered into a Second Amended and Restated Loan and Security Agreement, or the Second SVB Facility. The Second SVB Facility provides for a revolving line of credit of up to $50.0 million that replaces the Company's existing line of credit of up to $25.0 million (with options to increase to up to $65.0 million). The Company transferred the outstanding balance on the First SVB Facility term loan, plus related prepayment fees, into the revolving credit borrowings outstanding under the Second SVB Facility. The Company incurred $0.5 million of fees in connection with the Second SVB Facility, including $0.4 million of fees to terminate the First SVB Facility and $0.1 million of fees to enter into the Second SVB Facility.

Borrowings under the revolving credit facility are payable on May 5, 2025 (the "Maturity Date"). Borrowings under the revolving credit facility bear interest, which is payable monthly, at a floating rate equal to the greater of the bank's prime rate or 4.5%. The interest rate will be reduced if the Company reaches certain defined SVB Facility Adjusted EBITDA levels. As of October 31, 2020 the interest rate on the revolving credit facility was 4.5%. In addition to principal and interest due under the revolving credit facility, the Company is required to pay an annual commitment fee of $0.1 million per year. The first facility fee payment of $0.1 million was paid during the three months ended July 31, 2020. The Company has $29.3 million of availability as of October 31, 2020.

In the event that the Company terminates the Second SVB Facility prior to the Maturity Date, the Company will be required to pay a termination fee equal to (i) $0.2 million plus a percent of total borrowing capacity, both of which are reduced based on the amount of time elapsed before the termination.

The Company's obligations under the Second SVB Facility are secured by a first priority security interest in substantially all of its assets, other than intellectual property. The Second SVB Facility includes a financial covenant that requires the Company to achieve specified levels of Covenant Adjusted EBITDA, as defined in the Second SVB Facility. The financial covenant will not be effective if the Company maintains certain levels of liquidity as defined. The Company was in compliance with all covenants related to the Second SVB Facility as of October 31, 2020.

Cash Flows

The following table summarizes our sources and uses of cash for the nine months ended October 31, 2020 and 2019:

	Nine months ended October 31,	
(in thousands)	**2020**	**2019**
Net cash used in operating activities	$ (1,187)	$ (448)
Net cash used in investing activities	(11,103)	(9,155)
Net cash provided by financing activities	176,093	99,449
Net increase in cash and cash equivalents	$ 163,803	$ 89,846

Operating activities

The primary source of cash from operating activities is cash received from our customers. The primary uses of cash for operating activities are for payments to suppliers and employees, payments for operating leases, as well as cash paid for interest on our borrowings and finance leases and cash paid for various payroll, sales, property and income taxes.

During the nine months ended October 31, 2020 cash used in operating activities was $1.2 million, principally resulting from our net loss of $19.2 million as well as $8.0 million of cash used for changes in working capital, partially offset by $26.0 million of cash provided by adjustments to reconcile net loss. The primary drivers attributable to the cash used for changes in working capital included cash used for changes in accounts receivable, accounts payable, prepaid expenses and other assets, deferred contract acquisition costs and lease liability of $5.6 million, $2.3 million, $1.9 million, and $1.9 million and $1.4 million, respectively, partially offset by cash provided by changes in accrued expenses and other liabilities of $4.0 million and changes in deferred revenue of $1.2 million. Adjustments to reconcile net loss were primarily driven by depreciation and amortization of $11.7 million and stock compensation of $9.6 million.

During the nine months ended October 31, 2019, cash used in operating activities was $0.4 million, principally resulting from our net loss of $16.6 million, adjustments to reconcile net loss of $20.9 million and changes to working capital of $4.7 million.

Investing activities

The primary uses of cash for investing activities are for capital expenditures for property and equipment and capitalized software, as well as cash used for acquisitions of businesses.

During the nine months ended October 31, 2020, cash used in investing activities was $11.1 million, principally resulting from capital expenditures, principally hardware used by clients and purchase of data center equipment of $6.4 million and capitalized internal-use software costs of $4.7 million.

During the nine months ended October 31, 2019, cash used in investing activities was $9.2 million, principally resulting from capital expenditures for purchases of property and equipment of $4.8 million and capitalized internal-use software of $4.3 million.

Financing activities

The primary sources of cash from financing activities are cash received from debt and equity financings as well as cash received from employees for the exercise of stock options. The primary uses of cash for financing activities are for payments of financing fees for debt and equity financings, principal payments on our borrowings, principal payments on finance leases, and payments to purchase treasury stock to satisfy tax withholding payments upon vesting of restricted stock units.

During the nine months ended October 31, 2020 net cash provided by financing activities was $176.1 million consisting of $174.8 million in proceeds from the October 2020 offering of our common stock, net of underwriters' discounts and commissions, $3.4 million in proceeds from the issuance of common stock upon the exercise of stock options as well as $2.0 million in proceeds from an insurance financing arrangement, partially offset by $2.0 million used for finance lease and loan facility payments, $0.9 million used to purchase treasury stock, $0.3 million used for payments of net offering costs related to our offering of common stock and $0.1 million used for third-party debt issuance costs. The First SVB Facility was settled through a cashless transfer of existing balances to the Second SVB Facility. Additionally, the lender fees incurred in connection with the Second SVB Facility were transferred into the principal balance of the Second SVB Facility. We have included these transactions within the supplemental non-

cash investing and financing information on our unaudited statements of cash flows included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

During the nine months ended October 31, 2019, net cash provided by financing activities was $99.4 million, consisting of $130.8 million proceeds from our IPO (net of underwriters' discounts and commissions), $20.0 million of proceeds from Term Loan borrowings under the First Amended and Restated Loan Agreement, and $9.9 million of borrowings on our line of credit. partially offset by $21.0 million of cash used to pay down term loan borrowings, $17.7 million of payments on our revolving line of credit, and $15.0 million used for payment of dividends to the holders of Senior Convertible preferred stock, $5.9 million used for payments for offering costs, $1.6 million used for the principal portion of payments on finance leases and $0.4 million used for payments of debt issuance and extinguishment costs.

Contractual obligations and commitments

Our principal commitments consist of debt obligations, interest on debt, and finance lease, operating lease, and purchase obligations. During the nine months ended October 31, 2020, our debt obligations increased by $2.9 million, driven by a $2.0 million insurance financing agreement, a $0.7 million increase in connection with the Second SVB Facility, as well as a $1.0 million increase due to software financing arrangements, partially offset by $0.9 million of principal payments. During the nine months ended October 31, 2020, our finance lease obligations increased by $3.7 million, driven by $6.0 million of new finance leases, partially offset by payments on finance leases. During the nine months ended October 31, 2020, our operating lease obligations increased by $0.2 million, driven by new operating leases signed during fiscal 2021 as well as accrued interest, partially offset by payments.

	Payments due by period				
(in thousands)	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**More than 5 years**
Long-term debt obligations	$ 22,874	$ 845	$ 1,261	$ 20,768	$ —
Interest on long-term debt	4,583	947	1,869	1,767	—
Finance lease obligations	8,103	850	5,491	1,762	—
Operating lease obligations	3,614	434	2,370	810	—
Purchase obligations	1,174	1,174	—	—	—
Total	$ 40,348	$ 4,250	$ 10,991	$ 25,107	$ —

Critical accounting policies and estimates

Our unaudited financial statements are prepared in accordance with GAAP. The preparation of our unaudited financial statements and related disclosures requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, costs and expenses, and the disclosure of contingent assets and liabilities in our financial statements. We base our estimates on historical experience, known trends and events and various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. We evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ from these estimates under different assumptions or conditions.

There have been no significant changes in our critical accounting policies and estimates during the nine months ended October 31, 2020 as compared to the critical accounting policies and estimates described in our Annual Report on Form 10-K for the fiscal year ended January 31, 2020.

Recent accounting pronouncements

See Note 3 to our unaudited financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for a discussion of recent accounting pronouncements.

Off-balance sheet arrangements

As of October 31, 2020 and January 31, 2020, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or variable interest entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

We have operations both within the United States and in Canada, and we are exposed to market risks in the ordinary course of our business. These risks primarily include interest rate and foreign exchange risks.

Interest Rate Risk

Our cash and cash equivalents consist of cash on deposit and money market funds. The primary objective of our investment activities is to preserve principal while maximizing income without significantly increasing risk. Because our cash equivalents have a short maturity, our portfolio's fair value is relatively insensitive to interest rate changes. Our debt accrues interest at the greater of the Wall Street Journal Prime Rate or 4.5%. As of October 31, 2020, the Wall Street Journal Prime Rate was 3.25%. As a result, we do not believe that an increase or decrease in interest rates of 100 basis points would have a material effect on our operating results or financial condition. In future periods, we will continue to evaluate our investment policy in order to ensure that we continue to meet our overall objectives, and we will continue to monitor our indebtedness and contractual obligations for interest.

Foreign Currency Exchange Risks

We have foreign currency risks related to our expenses denominated in Canadian dollars, which are subject to fluctuations due to changes in foreign currency exchange rates. Additionally, fluctuations in foreign currency exchange rates may cause us to recognize transaction gains and losses in our statements of operations. We have entered into foreign currency forward contracts as economic hedges to minimize those fluctuations. We have not designated our foreign currency forward contracts as hedges as defined in GAAP. To date, foreign currency transaction gains and losses have not been material to our financial statements.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures were not effective due to the existence of the material weakness described below.

However, our management, including our Chief Executive Officer and our Chief Financial Officer, has concluded that, notwithstanding the identified material weaknesses in our internal control over financial reporting, the financial statements in this Quarterly Report fairly present, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with U.S. GAAP.

Material Weakness in Internal Control Over Financial Reporting

In connection with the audit of our financial statements as of and for the fiscal year ended January 31, 2020, we identified a material weakness in our internal control over financial reporting. A "material weakness" is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

We determined that we had a material weakness because we did not maintain a sufficient complement of personnel with an appropriate degree of knowledge, experience, and training, commensurate with our accounting and reporting requirements. As a result of the lack of personnel, we had inappropriate segregation of duties throughout several control processes, including the review and approval of manual journal entries. Accordingly, internal controls over our financial statement close process were not designed appropriately to detect a material error in the financial statements in a timely manner.

Management's Plan to Remediate the Material Weakness

With the oversight of senior management and our audit committee, we have hired and will continue hiring additional accounting personnel with technical accounting and financial reporting experience and implement improved process level and management review controls. During the current fiscal year, we have added several key positions at the director and manager level, and we have made a number of improvements to our information systems. While we are implementing a plan to remediate this material weakness, we cannot predict the success of such plan or the outcome of our assessment of these plans at this time. These improvements to our internal control infrastructure are ongoing, including during the preparation of our financial statements as of the end of the period covered by this report. As such, the remediation initiatives outlined above were not sufficient to fully remediate the material

weakness in internal control over financial reporting as discussed above. We are committed to continuing to improve our internal control processes and will continue to diligently review our financial reporting controls and procedures.

Changes in Internal Control Over Financial Reporting

Except for continuing to take steps to remediate the material weakness in our internal control over financial reporting as described above, there were no changes in our internal control over financial reporting (as defined by 13a-15(f) and 15d-15(f) under the Exchange Act) during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Disclosure Controls and Procedures

Our management, including our principal executive officer and principal financial officer, do not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well designed 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 the 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 is also 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. Due to 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

The information contained in Note 12 to the Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q is incorporated by reference herein.

ITEM 1A. RISK FACTORS

Risk factors

A description of the risks and uncertainties associated with our business and industry is set forth below. The risk factors set forth below that are marked with an asterisk (*) are new or contain changes to the similarly titled risk factors included in our Annual Report on Form 10-K for the fiscal year ended January 31, 2020. You should carefully consider the risks and uncertainties described below, together with all of the other information in this Quarterly Report on Form 10-Q, including our unaudited financial statements and notes thereto and the "Management's discussion and analysis of financial condition and results of operations" section of this Quarterly Report on Form 10-Q before deciding whether to purchase shares of our common stock. If any of the following risks are realized, our business, financial condition, operating results and prospects could be materially and adversely affected. In that event, the price of our common stock could decline, perhaps significantly. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operation. Certain statements in this Quarterly Report on Form 10-Q are forward-looking statements. See the section of this Quarterly Report on Form 10-Q titled "Special Note Regarding Forward-Looking Statements."

Risks relating to our business

Business or economic disruptions or global health concerns have and may continue to seriously harm our business and increase our costs and expenses.

Broad-based business or economic disruptions could adversely affect our business. For example, in December 2019 an outbreak of a novel strain of coronavirus, or COVID-19 originated in Wuhan, China, and it has spread to a number of other countries, including the United States and more specifically, New York, New York where our primary office is located. On March 11, 2020, the World Health Organization declared COVID-19 a pandemic, and on March 13, 2020, the United States declared a national emergency with respect to COVID-19. The global impact of the outbreak has been rapidly evolving in many countries, including the United States, and has led to the implementation of various responses, including government-imposed quarantines, travel restrictions, business and school closures and other public health safety measures. COVID-19 has and may continue to materially and adversely impact our business and results of operations due to, among other factors:

- a general decline in business activity including the impact of our clients' office closures;
- a disproportionate impact on the healthcare groups and other healthcare professionals with whom we contract;
- disruptions to our supply chains and our third-party vendors, partners, and suppliers;
- difficulty accessing the capital and credit markets on favorable terms, or at all, and a severe disruption and instability in the global financial markets, or deteriorations in credit and financing conditions which could affect our access to capital necessary to fund business operations or address maturing liabilities on a timely basis;
- the potential negative impact on the health or productivity of employees, especially if a significant number of them are impacted;
- a deterioration in our ability to ensure business continuity during a disruption; and
- social, economic, and labor instability in the countries in which we or the third parties with whom we engage operate.

This outbreak, as well as intensified measures undertaken to contain the spread of COVID-19, could decrease healthcare industry spending, adversely affect demand for our technology and services, cause one or more of our customers to file for bankruptcy protection or go out of business, cause one or more of our customers to fail to renew, terminate, or renegotiate their contracts, affect the ability of our sales team to travel to potential customers and the ability of our professional services teams to conduct in-person services and trainings, impact expected spending from new customers, negatively impact collections of accounts receivable, and harm our business, results of operations, and financial condition.

We have grown rapidly in recent periods, and if we fail to manage our growth effectively, our expenses could increase more than expected, our revenue may not increase and we may be unable to implement our business strategy.

We have experienced significant growth in recent periods, which puts strain on our business, operations and employees. We anticipate that our operations will continue to rapidly expand. To manage our current and anticipated future growth effectively, we must continue to maintain and enhance our IT infrastructure, financial and accounting systems and controls. We must also attract, train and retain a significant number of qualified sales and marketing personnel, client support personnel, professional services personnel, software engineers, technical personnel and management personnel, and the availability of such personnel, in particular software engineers, may be constrained.

A key element of how we manage our growth is our ability to scale our capabilities and satisfactorily implement our solution for our clients' needs. Our provider clients often require specific features or functions unique to their organizational structure, which, at a time of significant growth or during periods of high demand, may strain our implementation capacity and hinder our ability to successfully implement our solution to our clients in a timely manner. Our success also depends on our ability to satisfactorily integrate our Platform with the existing information systems and staff workflows utilized by our provider clients. If we are unable to address the needs of our provider clients, including by integrating our Platform with the EHR and PM systems of our provider clients, or our provider clients are unsatisfied with the quality of our solution or services, they may not renew their contracts, seek to cancel or terminate their relationship with us or renew on less favorable terms, any of which could adversely affect our business.

Failure to effectively manage our growth could also lead us to over-invest or under-invest in development and operations, result in weaknesses in our infrastructure, systems or controls, give rise to operational mistakes, financial losses, loss of productivity or business opportunities and result in loss of employees and reduced productivity of remaining employees. Our growth is expected to require significant capital expenditures and may divert financial resources from other projects such as the development of new applications and services. We may

also need to make further investments in our technology and automate portions of our solution or services to decrease our costs. If our management is unable to effectively manage our growth, our expenses may increase more than expected, our revenue may not increase or may grow more slowly than expected and we may be unable to implement our business strategy.

We have identified a material weakness in our internal control over financial reporting and may identify additional material weaknesses in the future or otherwise fail to maintain an effective system of internal controls, which may result in material misstatements of our financial statements or cause us to fail to meet our periodic reporting obligations.

As a public company, we are required to maintain internal control over financial reporting and to report any material weaknesses in such internal control. Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, requires that we evaluate and determine the effectiveness of our internal control over financial reporting and, beginning with our annual report for the fiscal year ending January 31, 2021, provide a management report on the internal control over financial reporting. Our independent registered public accounting firm is not required to audit the effectiveness of our internal control over financial reporting until after we are no longer an "emerging growth company," as defined in the Jumpstart Our Business Startups Act, or the JOBS Act.

Prior to our initial public offering, or IPO, we were a private company and had limited accounting and financial reporting personnel and other resources with which to address our internal controls and procedures. In connection with the audit of our financial statements as of and for the fiscal year ended January 31, 2020, we and our independent registered public accounting firm identified a material weakness in our internal control over financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

We determined that we had a material weakness because we did not maintain a sufficient complement of personnel with an appropriate degree of knowledge, experience, and training, commensurate with our accounting and reporting requirements. As a result of the lack of personnel, we had inappropriate segregation of duties throughout several control processes, including the review and approval of manual journal entries. Accordingly, internal controls over our financial statement close process were not designed appropriately to detect a material error in the financial statements in a timely manner.

To address this material weakness, we have hired and will continue to hire additional accounting personnel and implement process level and management review controls. While we intend to implement a plan to remediate this material weakness, we cannot predict the success of such plan or the outcome of our assessment of these plans at this time. If our steps are insufficient to successfully remediate the material weakness and otherwise establish and maintain an effective system of internal control over financial reporting, the reliability of our financial reporting, investor confidence in us and the value of our common stock could be materially and adversely affected. We can give no assurance that this implementation will remediate this deficiency in internal control or that additional material weaknesses in our internal control over financial reporting will not be identified in the future. Our failure to implement and maintain effective internal control over financial reporting could result in errors in our financial statements that could result in a restatement of our financial statements, cause us to fail to meet our reporting obligations.

Effective internal control over financial reporting is necessary for us to provide reliable and timely financial reports and, together with adequate disclosure controls and procedures, are designed to reasonably detect and prevent fraud. Any failure to implement required new or improved controls, or difficulties encountered in their implementation could cause us to fail to meet our reporting obligations. For as long as we are an "emerging growth company" under the JOBS Act, our independent registered public accounting firm will not be required to attest to the effectiveness of our internal control over financial reporting pursuant to Section 404. An independent assessment of the effectiveness of our internal control over financial reporting could detect problems that our management's assessment might not. Undetected material weaknesses in our internal control over financial reporting could lead to financial statement restatements and require us to incur the expense of remediation.

We have experienced net losses in the past and we may not achieve profitability in the future.

We have incurred significant operating losses since our inception. For the three and nine months ended October 31, 2020 and the years ended January 31, 2020 and January 31, 2019, we had net losses of $6.7 million, $19.2 million, $20.3 million, and $15.1 million, respectively, and losses from operations of $6.1 million, $17.4 million, $15.3 million, and $9.5 million, respectively. Our operating expenses may increase substantially in the foreseeable future as we continue to invest to grow our business and build relationships with our clients and partners, develop the SaaS-

based Phreesia Platform, which we refer to as the Phreesia Platform or our Platform, develop new solutions and comply with being a public company. We expect to incur significant additional expenses as a public company. These efforts may prove to be more expensive than we currently anticipate, and we may not succeed in increasing our revenue sufficiently to offset these higher expenses. In addition, to the extent we are successful in increasing our client base, we could incur increased losses because significant costs associated with entering into client agreements are generally incurred up front, while revenue is generally recognized ratably over the term of the agreement. As a result, we may need to raise additional capital through equity and debt financings in order to fund our operations. If we are unable to effectively manage these risks and difficulties as we encounter them, our business, financial condition and results of operations may suffer.

We typically incur significant upfront costs in our client relationships, and if we are unable to develop or grow these relationships over time, we are unlikely to recover these costs and our operating results may suffer.

We devote significant resources to establish relationships with new clients and deepen relationships with existing clients. Our sales cycle for our services can be variable, typically ranging from two to eight months from initial contact to contract execution. However, there is potential for our sales cycle to extend beyond two to eight months as a result of COVID-19. During the period of our sales cycle, our efforts involve educating our clients and patients about the use, technical capabilities and benefits of our products and services. We do not charge fees during this initial sales period. For clients that decide to enter into a contract with us, some of these contracts may provide for a preliminary trial period where a subset of providers from the client is granted access to our Platform. Following any such trial period, we aim to increase the number of providers within the client that utilize the Platform. Accordingly, our operating results depend in substantial part on our ability to deliver a successful client and patient experience and persuade our clients and patients to grow their relationship with us over time. As we expect to grow rapidly, our client acquisition costs could outpace our build-up of recurring revenue, and we may be unable to reduce our total operating costs through economies of scale such that we are unable to achieve profitability. Any increased or unexpected costs or unanticipated delays, including delays caused by factors outside of our control, could cause our operating results to suffer.

We depend on our senior management team, and the loss of one or more of our executive officers or key employees or an inability to attract and retain highly skilled employees could adversely affect our business.

Our success depends, in part, on the skills, working relationships and continued services of our founders, Chaim Indig (Chief Executive Officer) and Evan Roberts (Chief Operating Officer), and senior management team and other key personnel. From time to time, there may be changes in our senior management team resulting from the hiring or departure of executives, which could disrupt our business. The replacement of one or more of our executive officers or other key employees would likely involve significant time and costs and may significantly delay or prevent the achievement of our business objectives.

In addition, competition for qualified management in our industry is intense. Many of the companies with which we compete for management personnel have greater financial and other resources than we do. While we have entered into offer letters or employment agreements with certain of our executive officers, all of our employees are “at-will” employees, and their employment can be terminated by us or them at any time, for any reason and without notice, subject, in certain cases, to severance payment rights. In order to retain valuable employees, in addition to salary and cash incentives, we provide stock options and restricted stock units that vest over time or based on performance. The value to employees of stock options and restricted stock units that vest over time or based on performance will be significantly affected by movements in our stock price that are beyond our control and may at any time be insufficient to counteract offers from other organizations. The departure of key personnel could adversely affect the conduct of our business. In such event, we would be required to hire other personnel to manage and operate our business, and there can be no assurance that we would be able to employ a suitable replacement for the departing individual, or that a replacement could be hired on terms that are favorable to us. In addition, volatility or lack of performance in our stock price may affect our ability to attract replacements should key personnel depart. If we are not able to retain any of our key management personnel, our business could be harmed.

As a result of our variable sales and implementation cycles, we may be unable to recognize revenue to offset expenditures, which could result in fluctuations in our quarterly results of operations or otherwise harm our future operating results.

The sales cycle for our services can be variable, typically ranging from two to eight months from initial contact to contract execution. During the sales cycle, we expend time and resources, and we do not recognize any revenue to offset such expenditures. Our implementation cycle is also variable, typically ranging from one to 24 months from contract execution to completion of implementation. The variability of our sales and implementation cycles are dependent on numerous factors, including the size and complexity of the applicable customer. Some of our new-client set-up projects are complex and require a lengthy delay and significant implementation work, including to educate prospective clients about the uses and benefits of our Platform. Each customer's situation is different, and unanticipated difficulties and delays may arise as a result of failure by us or by the client to meet our respective implementation responsibilities. During the implementation cycle, we expend substantial time, effort and financial resources implementing our service, but accounting principles do not allow us to recognize the resulting revenue until the service has been implemented, at which time we begin recognition of implementation revenue over the life of the contract. This could harm our future operating results.

After a client contract is signed, we provide an implementation process for the client during which appropriate connections and registrations are established and checked, data is loaded into our Platform system, data tables are set up and practice personnel are given initial training. The length and details of this implementation process vary widely from client to client. Typically, implementation of larger clients takes longer than implementation for smaller clients. Implementation for a given client may be cancelled. Despite the fact that we typically require a deposit in advance of implementation for our larger clients, some clients have cancelled before our service has been started. In addition, implementation may be delayed or the target dates for completion may be extended into the future for a variety of reasons, including to meet the needs and requirements of the customer, because of delays with payer processing and because of the volume and complexity of the implementations awaiting our work. If implementation periods are extended, our revenue cycle will be delayed and our financial condition may be adversely affected. In addition, cancellation of any implementation after it has begun may involve loss to us of time, effort and expenses invested in the cancelled implementation process and lost opportunity for implementing paying clients in that same period of time.

These factors may contribute to substantial fluctuations in our quarterly operating results, particularly in the near term and during any period in which our sales volume is relatively low. As a result, in future quarters our operating results could fall below the expectations of securities analysts or investors, in which event our stock price would likely decrease.

We historically derive a significant portion of our revenues from our largest clients.

Historically, we have relied on a limited number of clients for a substantial portion of our total revenue and accounts receivable. The sudden loss of any of our clients, or the renegotiation of any of our client contracts, could adversely affect our operating results. Because we rely on a limited number of clients for a significant portion of our revenues, we depend on the creditworthiness of these clients. If the financial condition of our clients declines, our credit risk could increase. Should one or more of our significant clients declare bankruptcy, it could adversely affect the collectability of our accounts receivable and affect our bad debt reserves and net income.

Most of our provider client contracts have an annual term. However, these contracts may be terminated before their term expires for various reasons. For example, after a specified period, certain of these contracts are terminable for convenience by our clients during an initial term and after the client has paid a termination fee. Certain of our contracts are terminable immediately upon the occurrence of certain events. For example, certain of our life sciences contracts may be terminated by the client immediately following certain actions by the Food and Drug Administration, or FDA. If any of our contracts with our clients is terminated, we may not be able to recover all fees due under the terminated contract, which may adversely affect our operating results.

The growth of our business relies, in part, on the growth and success of our clients and certain revenues from our engagements, which are difficult to predict and are subject to factors outside of our control.

We enter into agreements with our provider clients, under which a significant portion of our fees are variable, including fees which are dependent upon the number of add-on features to the Phreesia Platform subscribed for by our clients and the number of patients utilizing our payment processing tools. If there is a general reduction in spending by healthcare provider organizations on healthcare technology solutions, it may result in a reduction in fees generated from our provider clients or a reduction in the number of add-on features subscribed for by our provider clients. This could lead to a decrease in our revenue, which could harm our business, financial condition and results of operations.

In addition, the number of patients utilizing our payment processing tools, and the amounts those patients pay to their healthcare providers directly for services, is often impacted by factors outside of our control, such as the number of patients with high deductible health plans. Accordingly, revenue under these agreements is uncertain and unpredictable. If the number of patients utilizing our payment systems, or the aggregate amounts paid by such patients directly to their healthcare providers through the Phreesia Platform, were to be reduced by a material amount, such decrease would lead to a decrease in our revenue, which could harm our business, financial condition and results of operations. In addition, growth forecasts of our clients are subject to significant uncertainty and are based on assumptions and estimates that may prove to be inaccurate. Even if the markets in which our provider clients compete meet the size estimates and growth forecasted, including with respect to the number of patients and revenues derived from their healthcare services, the number of patients using our payment processing tools, and the aggregate dollar amount of payments made by patients directly to their healthcare providers through the Phreesia Platform, could fail to grow at similar rates, if at all.

We also generate revenue through fees charged to our life sciences clients by delivering targeted messages to patients who opt-in to such communications. These messages enable life sciences companies to engage with patients and deliver relevant, targeted messages at the point when such patients are actively seeking care. The growth of our life sciences revenue stream is driven, in part, by our ability to maintain high patient opt-in rates, the number of newly approved drugs and the success of newly launched drugs, each of which is impacted by factors outside of our control. If there is a reduction in newly approved drugs, or newly launched drugs are not successful, this could negatively affect the ability of our life science clients to deliver relevant, targeted messages to patients who would have otherwise been candidates to receive such drugs, and accordingly may reduce patient opt-in rates. A reduction in patient opt-in rates could lead to a decrease in our life sciences revenues, which could harm our business, financial condition and results of operations.

We may potentially compete with our partners, which may adversely affect our business.

Our partners, including our integration partners for EHR and PM solutions, could become our competitors by offering similar services. Some of our partners offer, or may begin to offer, services, including patient intake and engagement services, payment processing tools and targeted patient communication services, in the same or similar manner as we do. Although there are many potential opportunities for, and applications of, these services, our partners may seek opportunities or target new clients in areas that may overlap with those that we have chosen to pursue. In such cases we may potentially compete against our partners. Competition from our partners may adversely affect our business and results from operations.

If our existing clients do not continue to renew their contracts with us, renew at lower fee levels or decline to purchase additional applications and services from us, it could have a material adverse effect on our business, financial condition and results of operations.

We expect to derive a significant portion of our revenue from renewal of existing clients' contracts and sales of additional applications and services to existing clients. As part of our growth strategy, for instance, we have recently focused on expanding our services amongst current clients. As a result, achieving a high client retention rate and selling additional applications and services are critical to our future business, revenue growth and results of operations.

Factors that may affect our retention rate and our ability to sell additional applications and services include, but are not limited to, the following:

- the price, performance and functionality of our Platform;
- patient acceptance and adoption of services and utilization of our payment processing tools;
- the availability, price, performance and functionality of competing solutions;
- our ability to develop and sell complimentary applications and services;
- the stability, performance and security of our hosting infrastructure and hosting services;
- changes in healthcare laws, regulations or trends; and
- the business environment of our clients.

We typically enter into annual contracts with our clients, which have a stated initial term of one year and automatically renew for one-year subsequent terms. Most of our clients have no obligation to renew their subscriptions for our Platform solution after the initial term expires. In addition, our clients may negotiate terms less

advantageous to us upon renewal, which may reduce our revenue from these clients and may decrease our annual revenue. If our clients fail to renew their contracts, renew their contracts upon less favorable terms or at lower fee levels or fail to purchase new products and services from us, our revenue may decline or our future revenue growth may be constrained. Should any of our clients terminate their relationship with us after implementation has begun, we would not only lose our time, effort and resources invested in that implementation, but we would also have lost the opportunity to leverage those resources to build a relationship with other clients over that same period of time.

Failure to adequately expand our direct sales force will impede our growth.

We believe that our future growth will depend on the continued development of our direct sales force and its ability to obtain new clients and to manage our existing client base. Identifying and recruiting qualified personnel and training them requires significant time, expense and attention. It can take six months or longer before a new sales representative is fully trained and productive. Our business may be adversely affected if our efforts to expand and train our direct sales force do not generate a corresponding increase in revenue. In particular, if we are unable to hire and develop sufficient numbers of productive direct sales personnel or if new direct sales personnel are unable to achieve desired productivity levels in a reasonable period of time, sales of our services will suffer and our growth will be impeded.

If the estimates and assumptions we use to determine the size of our target market are inaccurate, our future growth rate may be impacted and our business would be harmed.

Market estimates and growth forecasts that we disclose are subject to significant uncertainty and are based on assumptions and estimates that may not prove to be accurate. The estimates and forecasts relating to the size and expected growth of the market for our services may prove to be inaccurate. Even if the market in which we compete meets our size estimates and forecasted growth, our business could fail to grow at similar rates, if at all. Accordingly, any forecasts of market growth that we disclose should not be taken as indicative of our future growth.

The principal assumptions relating to our market opportunity include the number of healthcare providers currently taking appointments, the amount of annual out of pocket consumer spend for healthcare-related services, and the amount of annual spend by life sciences companies on digital patient engagement at the point of care. Our market opportunity is also based on the assumption that the strategic approach that our solution enables for our potential clients will be more attractive to our clients than competing solutions.

If these assumptions prove inaccurate, our business, financial condition and results of operations could be adversely affected.

Our risk management policies and procedures may not be fully effective in mitigating our risk exposure in all market environments or against all types of risk.

We operate in a rapidly changing industry. Accordingly, our risk management policies and procedures may not be fully effective to identify, monitor and manage all risks our business encounters. If our policies and procedures are not fully effective or we are not successful in identifying and mitigating all risks to which we are or may be exposed, we may suffer uninsured liability, harm to our reputation or be subject to litigation or regulatory actions that could adversely affect our business, financial condition or results of operations.

We are bound by exclusivity provisions that restrict our ability to enter into certain sales and marketing relationships in order to market and sell our services.

Some of our client contracts include exclusivity or other restrictive clauses. Any contracts with exclusivity or other restrictive provisions may limit our ability to conduct business with certain potential clients. Client contracts with exclusivity or other restrictive provisions may constrain our ability to partner with or provide services to other prospective clients or purchase services from other vendors within certain time periods. Accordingly, these exclusivity clauses may prevent us from entering into long-term relationships with potential clients and could cause our business, financial condition and results of operations to be harmed.

If we cannot implement our solution for clients or resolve any technical issues in a timely manner, we may lose clients and our reputation may be harmed.

Our clients utilize a variety of data formats, applications and infrastructure and our solution must support our clients' data formats. Furthermore, the healthcare industry has shifted towards digitalized record keeping, and accordingly, many of our provider clients have developed their own software, or utilize third-party software, for practice management and secure storage of electronic medical records. Our ability to develop and maintain logic-based and scalable technology for patient intake management and engagement and payment processing that successfully integrates with our clients' software systems for practice management and storage of electronic medical records is critical. If our Platform does not currently support a client's required data format or appropriately integrate with clients' systems, then we must configure our Platform to do so, which increases our expenses.

Additionally, we do not control our clients' implementation schedules. As a result, if our clients do not allocate the internal resources necessary to meet their implementation responsibilities or if we face unanticipated implementation difficulties, the implementation may be delayed. If the client implementation process is not executed successfully or if execution is delayed, we could incur significant costs, clients could become dissatisfied and decide not to increase utilization of our solution or not to implement our solution beyond an initial period prior to their term commitment or, in some cases, revenue recognition could be delayed. In addition, competitors with more efficient operating models with lower implementation costs could jeopardize our client relationships.

Our clients and patients depend on our support services to resolve any technical issues relating to our solution and services, and we may be unable to respond quickly enough to accommodate short-term increases in demand for support services, particularly as we increase the size of our client bases (including healthcare provider organizations and the number of patients that they serve). We also may be unable to modify the format of our support services to compete with changes in support services provided by competitors. It is difficult to predict client and patient demand for technical support services, and if client or patient demand increases significantly, we may be unable to provide satisfactory support services to our clients. Further, if we are unable to address the needs of our clients and their patients in a timely fashion or further develop and enhance our solution, or if a client or patient is not satisfied with the quality of work performed by us or with the technical support services rendered, then we could incur additional costs to address the situation or be required to issue credits or refunds for amounts related to unused services, and our profitability may be impaired and clients' or patients' dissatisfaction with our solution could damage our ability to expand the number of applications and services purchased by such clients. These clients may not renew their contracts, seek to terminate their relationship with us or renew on less favorable terms. Moreover, negative publicity related to our client and patient relationships, regardless of its accuracy, may further damage our business by affecting our reputation or ability to compete for new business with current and prospective clients. If any of these were to occur, our revenue may decline and our business, financial condition and results of operations could be adversely affected.

We may make future acquisitions and investments which may be difficult to integrate, divert management resources, result in unanticipated costs or dilute our stockholders.

We have in the past acquired, and we may in the future acquire or invest in, businesses, products or technologies that we believe could complement or expand our products and services, enhance our technical capabilities or otherwise offer growth opportunities. We cannot assure you that we will realize the anticipated benefits of these or any future acquisitions. The pursuit of potential acquisitions may divert the attention of management and cause us to incur various expenses related to identifying, investigating and pursuing suitable acquisitions, whether or not they are consummated.

There are inherent risks in integrating and managing acquisitions. If we acquire additional businesses, we may not be able to assimilate or integrate the acquired personnel, operations and technologies successfully or effectively manage the combined business following the acquisition, and our management may be distracted from operating our business. We also may not achieve the anticipated benefits from the acquired business due to a number of factors, including, without limitation:

- difficulty integrating the purchased operations, products or technologies and maintaining the quality and security standards consistent with our brand;
- the need to integrate or implement additional controls, procedures and policies;
- unanticipated costs or liabilities associated with the acquisition;
- our inability to comply with the regulatory requirements applicable to the acquired business;
- substantial unanticipated integration costs;

- assimilation of the acquired businesses, which may divert significant management attention and financial resources from our other operations and could disrupt our ongoing business;
- use of substantial portions of our available cash or the incurrence of debt to consummate the acquisition;
- the loss of key employees, particularly those of the acquired operations;
- difficulty retaining or developing the acquired business' customers;
- adverse effects on our existing business relationships;
- failure to realize the potential cost savings or other financial benefits or the strategic benefits of the acquisitions, including failure to consummate any proposed or contemplated transaction; and
- liabilities from the acquired businesses for infringement of intellectual property rights or other claims and failure to obtain indemnification for such liabilities or claims.

Acquisitions also increase the risk of unforeseen legal liability, including for potential violations of applicable law or industry rules and regulations, arising from prior or ongoing acts or omissions by the acquired businesses which are not discovered by due diligence during the acquisition process. Generally, if an acquired business fails to meet our expectations, our operating results, business and financial condition may suffer. Acquisitions could also result in dilutive issuances of equity securities or the incurrence of debt, which could adversely affect our business, results of operations or financial condition. Even if we are successful in completing and integrating an acquired business, the acquired business may not perform as we expect or enhance the value of our business as a whole.

We may become subject to litigation, which could have a material adverse effect on our business, financial condition and results of operations.

We may become subject to litigation in the future. Some of these claims may result in significant defense costs and potentially significant judgments against us, some of which we are not, or cannot be, insured against. We generally intend to defend ourselves vigorously; however, we cannot be certain of the ultimate outcomes of any claims that may arise in the future. Resolution of these types of matters against us may result in our having to pay significant fines, judgments or settlements, which, if uninsured, or if the fines, judgments and settlements exceed insured levels, could adversely impact our earnings and cash flows, thereby having a material adverse effect on our business, financial condition, results of operations, cash flow and per share trading price of our common stock. Certain litigation or the resolution of certain litigation may affect the availability or cost of some of our insurance coverage, which could adversely impact our results of operations and cash flows, expose us to increased risks that would be uninsured and adversely impact our ability to attract directors and officers.

Our operating results have in the past and may continue to fluctuate significantly and if we fail to meet the expectations of analysts or investors, our stock price and the value of your investment could decline substantially.

Our operating results are likely to fluctuate, and if we fail to meet or exceed the expectations of securities analysts or investors, the trading price of our common stock could decline. Moreover, our stock price may be based on expectations of our future performance that may be unrealistic or that may not be met. Some of the important factors that could cause our revenues and operating results to fluctuate from quarter to quarter include:

- the extent to which our services achieve or maintain market acceptance;
- our ability to introduce new services and enhancements to our existing services on a timely basis;
- new competitors and the introduction of enhanced products and services from new or existing competitors;
- the length of our contracting and implementation cycles;
- the financial condition of our current and potential clients;
- the ability of our Platform to integrate with the systems, including EHR and PM systems, utilized by our provider clients;
- changes in client budgets and procurement policies;
- amount and timing of our investment in research and development activities;
- technical difficulties or interruptions in our services;

- our ability to hire and retain qualified personnel, including the rate of expansion of our sales force;
- changes in the regulatory environment related to healthcare;
- regulatory compliance costs;
- the timing, size and integration success of potential future acquisitions; and
- unforeseen legal expenses, including litigation and settlement costs.

Many of these factors are not within our control, and the occurrence of one or more of them might cause our operating results to vary widely. As such, we believe that quarter-to-quarter comparisons of our revenues and operating results may not be meaningful and should not be relied upon as an indication of future performance.

A significant portion of our operating expense is relatively fixed in nature and planned expenditures are based in part on expectations regarding future revenue. Accordingly, unexpected revenue shortfalls may decrease our margins and could cause significant changes in our operating results from quarter to quarter.

Certain of our operating results and financial metrics, including the key metrics included in this report, may be difficult to predict as a result of seasonality.

We believe there are significant seasonal factors that may cause us to record higher revenue in some quarters compared with others. We believe this variability is largely due to our focus on the healthcare industry. For example, with respect to our provider clients, we receive a disproportionate increase in revenue from such clients during the first two to three months of the calendar year relative to the other months of the year, which is driven, in part, by the resetting of patient deductibles at the beginning of each calendar year. Sales for our life sciences solutions are also seasonal, primarily due to the annual spending patterns of our clients. This portion of our sales is usually the highest in the fourth quarter of each calendar year. While we believe we have visibility into the seasonality of our business, our rapid growth rate over the last several years may have made seasonal fluctuations more difficult to detect. If our rate of growth slows over time, seasonal or cyclical variations in our operations may become more pronounced, and our business, results of operations and financial position may be adversely affected.

Our marketing efforts depend significantly on our ability to receive positive references from our existing clients.

Our marketing efforts depend significantly on our ability to call upon our current clients to provide positive references to new potential clients. Given our limited number of long-term clients, the loss or dissatisfaction of any client could substantially harm our brand and reputation, inhibit widespread adoption of our solution and impair our ability to attract new clients and maintain existing clients. Any of these consequences could lower our revenues and have a material adverse effect on our business, financial condition and results of operations.

Our business and growth strategy depend on our ability to maintain and expand a network of provider clients. If we are unable to do so, our future growth would be limited and our business, financial condition and results of operations would be harmed.

Our success is dependent upon our continued ability to maintain a network of qualified provider clients. If we are unable to recruit and retain healthcare groups and other healthcare professionals, it would have a material adverse effect on our business and ability to grow and would adversely affect our results of operations. In any particular market, healthcare groups and professionals could demand higher payments or take other actions that could result in higher medical costs, less attractive service for our clients and the patients that they serve or difficulty meeting regulatory or accreditation requirements. Our ability to develop and maintain satisfactory relationships with qualified healthcare groups and professionals also may be negatively impacted by other factors not associated with us, such as changes in Medicare and/or Medicaid reimbursement levels and other pressures on healthcare providers and consolidation activity among hospitals, physician groups and healthcare providers. The failure to maintain or to secure new cost-effective client contracts may result in a loss of or inability to grow our client base, higher costs, healthcare provider network disruptions, less attractive service for our clients and/or difficulty in meeting regulatory or accreditation requirements, any of which could have a material adverse effect on our business, financial condition and results of operations.

If we cannot maintain our corporate culture as we grow, we could lose the innovation, teamwork, passion and focus on execution that we believe contribute to our success, and our business may be harmed.

We believe that a critical component to our success has been our corporate culture. We have invested substantial time and resources in building our team. As we continue to grow, we may find it difficult to maintain these important aspects of our corporate culture. Any failure to preserve our culture could negatively affect our future success, including our ability to retain and recruit personnel and to effectively focus on and pursue our corporate objectives.

Any failure to offer high-quality client support services could adversely affect our relationships with our clients and strategic partners and our operating results.

Our clients and patients depend on our support and client education organizations to educate them about, and resolve technical issues relating to, our products and services. We may be unable to respond quickly enough to accommodate short-term increases in client demand for education and support services. Increased client demand for these services, without a corresponding increase in revenue, could increase costs and adversely affect our operating results. In addition, our sales process is highly dependent on the reputation of our products and services and business and on positive recommendations from our existing clients. Any failure to maintain high-quality education and technical support, or a market perception that we do not maintain high-quality education support, could adversely affect our reputation, our ability to sell our products and services to existing and prospective clients and our business and operating results.

Our ability to limit our liabilities by contract or through insurance may be ineffective or insufficient to cover our future liabilities.

We attempt to limit, by contract, our liability for damages arising from our negligence, errors, mistakes or security breaches. Contractual limitations on liability, however, may not be enforceable or may otherwise not provide sufficient protection to us from liability for damages and we are not always able to negotiate meaningful limitations. We maintain liability insurance coverage, including coverage for cyber security and errors and omissions. It is possible, however, that claims could exceed the amount of our applicable insurance coverage, if any, or that this coverage may not continue to be available on acceptable terms or in sufficient amounts. Even if these claims do not result in liability to us, investigating and defending against them could be expensive and time-consuming and could divert management's attention away from our operations. In addition, negative publicity caused by these events may delay market acceptance of our products and services, any of which could materially and adversely affect our reputation and our business.

Economic uncertainties or downturns in the general economy or the industries in which our clients operate could disproportionately affect the demand for our solution and negatively impact our results of operations.

Market volatility and economic uncertainty remain widespread, making it potentially very difficult for our clients and us to accurately forecast and plan future business activities. During challenging economic times, our clients and patients may have difficulty gaining timely access to sufficient credit or obtaining credit on reasonable terms, which could impair their ability to make timely payments to us and adversely affect our revenue. If that were to occur, our financial results could be harmed. Further, challenging economic conditions may impair the ability of our clients to pay for the applications and services they already have purchased from us and, as a result, our write-offs of accounts receivable could increase. Patients utilizing our payment processing tools may also fail to make such payments on a timely basis or at all. We cannot predict the timing, strength or duration of any economic slowdown or recovery. If the condition of the general economy or markets in which we operate worsens, our business could be harmed.

If we are not able to maintain and enhance our reputation and brand recognition, our business and results of operations will be harmed.

We believe that maintaining and enhancing our reputation and brand recognition is critical to our relationships with existing clients and the patients that they serve and to our ability to attract new clients. The promotion of our brand may require us to make substantial investments and we anticipate that, as our market becomes increasingly competitive, these marketing initiatives may become increasingly difficult and expensive. Our marketing activities may not be successful or yield increased revenue, and to the extent that these activities yield increased revenue, the increased revenue may not offset the expenses we incur and our results of operations could be harmed. In addition, any factor that diminishes our reputation or that of our management, including failing to meet the

expectations of our clients and patients, could make it substantially more difficult for us to attract new clients. Similarly, because our partners often act as references for us with prospective new provider clients, any existing partner that questions the quality of our work or that of our employees could impair our ability to secure additional new clients. If we do not successfully maintain and enhance our reputation and brand recognition with our clients and their patients, our business may not grow and we could lose our relationships with clients.

Natural or man-made disasters and other similar events may significantly disrupt our business and negatively impact our business, financial condition and results of operations.

Our offices may be harmed or rendered inoperable by natural or man-made disasters, including earthquakes, power outages, fires, floods, nuclear disasters and acts of terrorism or other criminal activities, which may render it difficult or impossible for us to operate our business for some period of time. For example, our headquarters is located in the greater New York City area, a region with a history of terrorist attacks and hurricanes. Any disruptions in our operations related to the repair or replacement of our offices, could negatively impact our business and results of operations and harm our reputation. Insurance may not be sufficient to compensate for losses that may occur. Any such losses or damages could have a material adverse effect on our business, financial condition and results of operations. In addition, our clients' facilities may be harmed or rendered inoperable by such natural or man-made disasters, which may cause disruptions, difficulties or material adverse effects on our business.

Risks relating to our payments business

Our payments platform is a core element of our business. If our payments platform is limited, restricted, curtailed or degraded in any way, or if we fail to continue to grow and develop our payments platform, our business may be materially and adversely affected.

Our payments platform is a core element of our business. For the fiscal year ended January 31, 2020, our payments platform generated 37% of our total revenue. Our future success depends in large part on the continued growth and development of our payments platform. If such activities are limited, restricted, curtailed or degraded in any way, or if we fail to continue to grow and develop our payments platform, our business may be materially and adversely affected. The utilization of our payment processing tools may be impacted by factors outside of our control, such as disruptions in the payment processing industry generally. If the number of patients utilizing our payments platform, or the aggregate amounts paid by such patients directly to their healthcare providers through our payments platform, were to be reduced as a result of disruptions in the payment processing industry, it could result in a decrease to our revenue, which could harm our business, financial condition and results of operations.

The continued growth and development of our payment processing activities will also depend on our ability to anticipate and adapt to changes in client behavior. For example, client behavior may change regarding the use of credit card transactions, including the relative increased use of cash, crypto-currencies, other emerging or alternative payment methods and credit card systems that we or our processing partners do not adequately support or that do not provide adequate commissions to independent sales organizations such as us. Any failure to timely integrate emerging payment methods (e.g. ApplePay or Bitcoin) into our software, anticipate client behavior changes, or contract with payment processing partners that support such emerging payment technologies could cause us to lose traction among our clients, resulting in a corresponding loss of revenue, in the event such methods become popular among their customers.

Increases in card network fees and other changes to fee arrangements may result in the loss of clients who use our payment processing services or a reduction in our earnings.

From time to time, card networks, including Visa, MasterCard, American Express and Discover, increase the fees that they charge acquirers, which would be passed down to processors, payment facilitators and merchants. We could attempt to pass these increases along to our clients, but this strategy might result in the loss of clients to competitors who do not pass along the increases. If competitive practices prevent us from passing along the higher fees to our clients in the future, we may have to absorb all or a portion of such increases, which may increase our operating costs and reduce our earnings.

If we fail to comply with the applicable requirements of card networks, they could seek to fine us, suspend us or terminate our payment facilitator status. If our clients or sales partners incur fines or penalties that we cannot collect from them, we may have to bear the cost of such fines or penalties.

We provide a payments solution for the secure processing of patient payments. Our payment processing tools can connect to multiple clearinghouses and can also connect directly with patients. We have developed partnerships with primary credit card processors in the United States to facilitate payment processing, and we are registered with Visa, MasterCard, American Express, Discover and other card networks as service providers for acquiring member institutions. These card networks set the operating rules and standards with which we must comply. The termination of our status as a certified service provider, a decision by the card networks to exclude payment facilitators or bar us from serving as such, or any changes in network rules or standards, including interpretation and implementation of the operating rules or standards, that increase the cost of doing business or limit our ability to provide transaction processing services to our clients or partners, could adversely affect our business, financial condition or results of operations.

As such, we and our clients are subject to card network rules that could subject us or our clients to a variety of fines or penalties that may be levied by card networks for certain acts or omissions by us. The rules of card networks are set by their boards, which may be influenced by card issuers. Many banks directly or indirectly sell processing services to clients in direct competition with us. These banks could attempt, by virtue of their influence on the networks, to alter the networks' rules or policies to the detriment of non-members including our businesses. If a client or sales partner fails to comply with the applicable requirements of card networks, it could be subject to a variety of fines or penalties that may be levied by card networks. If we cannot collect processing fees from the applicable client, we may have to bear the cost of such fines or penalties, resulting in lower earnings for us. The termination of our registration, including a card network barring us from acting as a payment facilitator, or any changes in card network rules that would impair our registration, could require us to stop providing payment processing services relating to the affected card network, which would adversely affect our ability to conduct our business.

Changes in laws and regulations relating to interchange fees on payment card transactions would adversely affect our revenue and results of operations.

A provision of the Dodd-Frank Wall Street Reform and Consumer Protection Act, or Dodd-Frank Act, known as the Durbin Amendment empowered the Federal Reserve Board, or FRB, to establish and regulate a cap on the interchange fees that merchants pay banks for electronic clearing of debit card transactions. The final rule implementing the Durbin Amendment established standards for assessing whether debit card interchange fees received by debit card issuers were reasonable and proportional to the costs incurred by issuers for electronic debit transactions, and it established a maximum permissible interchange fee that an issuer may receive for an electronic debit transaction, limiting the fee revenue to debit card issuers and payment processors. HSA-linked payment cards are currently exempt from the rule, assuming the card is the only means of access to the underlying funds (except when all remaining funds are provided to the cardholder in a single transaction). The FRB is empowered to issue amendments to the rule, or a state or federal legislative body could enact new legislation, which could change the scope of the current rule and the basis upon which interchange rate caps are calculated. To the extent that HSA-linked payment cards and other exempt payment cards used on our Platform (or their issuing banks) lose their exempt status under the current rules or if the current interchange rate caps applicable to other payment cards used on our Platform are reduced, any such amendment, rulemaking, or legislation could impact interchange rates applicable to payment card transactions processed through our Platform. As a result, this could decrease our revenue and profit and could have a material adverse effect on our financial condition and results of operations.

Our services present the potential for embezzlement, identity theft or other similar illegal behavior by our employees or subcontractors with respect to third parties.

Among other things, our services involve handling payments from patients for many of our clients, and this frequently includes original checks and/or credit card information. Even in those cases in which we do not handle payments, our services also involve the use and disclosure of personal and business information that could be used to impersonate third parties or otherwise gain access to their data or funds. If any of our employees or subcontractors takes, converts or misuses such funds, documents or data, we could be liable for damages, and our business reputation could be damaged or destroyed.

Risk related to our data and intellectual property

Privacy concerns or security breaches relating to our Platform could result in economic loss, damage to our reputation, deterring users from using our products, and our exposure to legal penalties and liability.

We collect, process and store significant amounts of data concerning our clients, including data pertaining to personally identifiable information, such as protected health information, of patients received in connection with the utilization of our Platform by patients of our healthcare provider and life sciences clients. While we have taken reasonable steps to protect such data, techniques used to gain unauthorized access to data and systems, disable or degrade service, or sabotage systems, are constantly evolving, and we may be unable to anticipate such techniques or implement adequate preventative measures to avoid unauthorized access or other adverse impacts to such data or our systems.

We may be subject to state laws requiring notification of affected individuals and state regulators in the event of a breach of personal information, which is a broader class of information than the health information protected by HIPAA. Furthermore, certain health privacy laws, data breach notification laws, consumer protection laws and genetic testing laws may apply directly to our business and/or those of our collaborators and may impose restrictions on our collection, use and dissemination of individuals' health information. Patients about whom we obtain health information, as well as the providers who share this information with us, may have statutory or contractual rights that limit our ability to use and disclose the information. We may be required to expend significant capital and other resources to ensure ongoing compliance with applicable privacy and data security laws. Claims that we have violated individuals' privacy rights or breached our contractual obligations, even if we are not found liable, could be expensive and time-consuming to defend and could result in adverse publicity that could harm our business.

Like all internet services, our service is vulnerable to software bugs, computer viruses, internet worms, break-ins, phishing attacks, attempts to overload servers with denial-of-service, or other attacks or similar disruptions from unauthorized use of our and third-party computer systems, any of which could lead to system interruptions, delays, or shutdowns, causing loss of critical data or the unauthorized access of data. Computer malware, viruses, and computer hacking and phishing attacks have become more prevalent in our industry. Functions that facilitate interactivity with other internet platforms could increase the scope of access of hackers to user accounts. Though it is difficult to determine what, if any, harm may directly result from any specific interruption or attack, any failure to maintain performance, reliability, security and availability of our products, or failure to prevent software bugs, to
the satisfaction of our clients or the health and safety of their patients, such events may harm our reputation and our ability to retain existing clients, and negatively affect our clients and their patients. In 2013, we experienced a security breach when one of our employees had a laptop containing Protected Health Information (as defined under HIPAA) stolen. This breach did not result in any claims against us, and since this incident, we have implemented policies that prohibit the download and storage of Protected Health Information and adopted a policy of encryption for all company laptops. Although we have in place systems and processes that are designed to protect our data, prevent data loss, disable undesirable accounts and activities on our Platform and prevent or detect security breaches, we cannot assure you that such measures will provide absolute security. If an actual or perceived breach of security occurs to our systems or a third party's systems, we also could be required to expend significant resources to mitigate the breach of security and to address matters related to any such breach, including notifying users or regulators. Although we maintain insurance for our business, the coverage under our policies may not be adequate to compensate us for all losses that may occur.

We are subject to data privacy and security laws and regulations governing our collection, use, disclosure, or storage of personally identifiable information, including protected health information and payment card data, which may impose restrictions on us and our operations and subject us to penalties if we are unable to fully comply with such laws.

As described below, we are required to comply with numerous federal and state laws and regulations governing the collection, use, disclosure, storage and transmission of personally identifiable information, including protected health information, that we may obtain or have access to in connection with the provision of our services. These laws and regulations, including their interpretation by governmental agencies, are subject to frequent change and could have a negative impact on our business.

We are a "Business Associate" as defined under the federal Health Insurance Portability and Accountability Act of 1996, as amended by the Health Information Technology for Economic and Clinical Health Act, or HITECH Act, and their implementing regulations, which we collectively refer to as HIPAA, and the U.S. Department of Health and Human Services, or HHS, Office of Civil Rights, or OCR, may impose penalties on a Business Associate for a failure

to comply with applicable requirement of HIPAA. Penalties will vary significantly depending on factors such as the date of the violation, whether the Business Associate knew or should have known of the failure to comply, or whether the Business Associate's failure to comply was due to willful neglect. Currently, these penalties include civil monetary penalties for violations. However, a single breach incident can result in violations of multiple requirements, resulting in possible penalties in excess of pre-set annual limits. Further, a person who knowingly obtains or discloses individually identifiable health information in violation of HIPAA may face a monetary criminal penalty and imprisonment up to one year. The criminal penalties increase if the wrongful conduct involves false pretenses, and further increase if the wrongful conduct involves the intent to sell, transfer, or use identifiable health information for commercial advantage, personal gain, or malicious harm. The U.S. Department of Justice, or the DOJ, is responsible for criminal prosecutions under HIPAA. State attorneys general also have the right to prosecute HIPAA violations committed against residents of their states. While HIPAA does not create a private right of action that would allow individuals to sue in civil court for HIPAA violations, its standards have been used as the basis for the duty of care in state civil suits, such as those for negligence or recklessness in misusing individuals' health information. Furthermore, in the event of a breach as defined by HIPAA, the Business Associate may have to comply with specific reporting requirements under HIPAA regulations.

Numerous other federal and state laws may apply that restrict the use and protect the privacy and security of personally identifiable information, as well as employee personal information. These include state medical privacy laws, state social security number protection laws and federal and state consumer protection laws. These various laws in many cases are not preempted by HIPAA and may be subject to varying interpretations by the courts and government agencies, creating complex compliance issues for us and our partners and potentially exposing us to additional expense, adverse publicity and liability, any of which could adversely affect our business.

Federal and state consumer protection laws are increasingly being applied by the United States Federal Trade Commission, or FTC, and states' attorneys general to regulate the collection, use, storage and disclosure of personal or personally identifiable information, through websites or otherwise, and to regulate the presentation of website content.

The security measures that we and our third-party vendors and subcontractors have in place to ensure compliance with privacy and data protection laws may not protect our facilities and systems from security breaches, acts of vandalism or theft, computer viruses, misplaced or lost data, programming and human errors or other similar events. Under the HITECH Act, as a Business Associate we may also be liable for privacy and security breaches and failures of our subcontractors. Even though we provide for appropriate protections through our agreements with our subcontractors, we still have limited control over their actions and practices. A breach of privacy or security of individually identifiable health information by a subcontractor may result in an enforcement action, including criminal and civil liability, against us. We are not able to predict the extent of the impact such incidents may have on our business. Our failure to comply may result in criminal and civil liability because the potential for enforcement action against Business Associates is now greater. Enforcement actions against us could be costly and could interrupt regular operations, which may adversely affect our business. While we have not received any notices of violation of the applicable privacy and data protection laws and believe we are in compliance with such laws, there can be no assurance that we will not receive such notices in the future.

There is ongoing concern from privacy advocates, regulators and others regarding data privacy and security issues, and the number of jurisdictions with data privacy and security laws has been increasing. Also, there are ongoing public policy discussions regarding whether the standards for de-identification, anonymization or pseudonymization of health information are sufficient, and the risk of re-identification sufficiently small, to adequately protect patient privacy. We expect that there will continue to be new proposed laws, regulations and industry standards concerning privacy, data protection and information security in the United States, including the California Consumer Privacy Act, or CCPA, which went into effect January 1, 2020. The CCPA creates new individual privacy rights for California consumers (as defined in the law) and places increased privacy and security obligations on entities handling personal data of consumers or households. The CCPA requires covered companies to provide certain disclosures to consumers about its data collection, use and sharing practices, and to provide affected California residents with ways to opt-out of certain sales or transfers of personal information. A series of legislative amendments to the CCPA were enacted on October 11, 2019, and the California State Attorney General submitted final regulations for review on June 2, 2020, which were finalized and are now effective. The California State Attorney General has commenced enforcement actions against violators as of July 1, 2020. Further, a new California privacy law, the California Privacy Rights Act, or CPRA, was passed by California voters on November 3, 2020. The CPRA will create additional obligations with respect to processing and storing personal information that are scheduled to take effect on January 1, 2023 (with certain provisions having retroactive effect to January 1, 2022). We will continue to monitor developments related to the CPRA and anticipate additional costs and expenses associated with CPRA compliance. Other U.S. states also are considering omnibus privacy legislation and industry organizations regularly adopt and

advocate for new standards in these areas. While the CCPA and CPRA contain an exception for certain activities involving PHI under HIPAA, we cannot yet determine the impact the CCPA, CPRA, or other such future laws, regulations and standards may have on our business. Future laws, regulations, standards and obligations, and changes in the interpretation of existing laws, regulations, standards and obligations could impair our or our clients' ability to collect, use or disclose information relating to consumers, which could decrease demand for our Platform, increase our costs and impair our ability to maintain and grow our client base and increase our revenue. New laws, amendments to or re-interpretations of existing laws and regulations, industry standards and contractual obligations could impair our or our customers' ability to collect, use or disclose information relating to patients or consumers, which could decrease demand for our Platform offerings, increase our costs and impair our ability to maintain and grow our client base and increase our revenue. In view of new or modified federal or state laws and regulations, industry standards, contractual obligations and other legal obligations, or any changes in their interpretation, we may find it necessary or desirable to fundamentally change our business activities and practices or to expend significant resources to modify our software or platform and otherwise adapt to these changes.

In addition to government regulation and the securities laws, we are subject to self-regulatory standards and industry certifications that may legally or contractually apply to us. These include the Payment Card Industry Data Security Standards, or PCI-DSS, and Security Organization Control 2 (SOC 2), with which we are currently compliant. We received HITRUST certification in 2017 and are currently seeking a biannual recertification. In the event we fail to comply with the PCI-DSS or fail to maintain our Security Organization Control 2 or receive recertification from HITRUST, we could be in breach of our obligations under customer and other contracts, fines and other penalties could result, and we may suffer reputational harm and damage to our business. Further, our clients may expect us to comply with more stringent privacy and data security requirements than those imposed by laws, regulations or self-regulatory requirements, and we may be obligated contractually to comply with additional or different standards relating to our handling or protection of data on or by our offerings.

Any failure or perceived failure by us to comply with federal or state laws or regulations, industry standards or other legal obligations, or any actual or suspected privacy or security incident, whether or not resulting in unauthorized access to, or acquisition, release or transfer of personally identifiable information or other data, may result in governmental enforcement actions and prosecutions, private litigation, fines and penalties or adverse publicity and could cause our clients to lose trust in us, which could have an adverse effect on our reputation and business. We may be unable to make such changes and modifications in a commercially reasonable manner or at all, and our ability to develop new products and features could be limited. Any of these developments could harm our business, financial condition and results of operations. Privacy and data security concerns, whether valid or not valid, may inhibit adoption of our Platform by new clients.

If our trademarks and trade names are not adequately protected, we may not be able to build name recognition in our markets of interest and our business may be adversely affected.

We believe that the Phreesia brand is critical to the success of our business, and we utilize trademark registration and other means to protect it. Our business would be harmed if we were unable to protect our brand against infringement and its value was to decrease as a result.

The registered or unregistered trademarks or trade names that we own or license may be challenged, infringed, circumvented, declared generic, lapsed or determined to be infringing on or dilutive of other marks. We may not be able to protect our rights in these trademarks and trade names, which we need in order to build name recognition with potential partners. In addition, third parties may in the future file for registration of trademarks similar or identical to our trademarks. If they succeed in registering or developing common law rights in such trademarks, and if we are not successful in challenging such third-party rights, we may not be able to use these trademarks to commercialize our technologies or products in certain relevant countries. If we are unable to establish name recognition based on our trademarks and trade names, we may not be able to compete effectively and our business may be adversely affected.

Our use of "open source" software could adversely affect our ability to offer our services and subject us to possible litigation.

We may use open source software in connection with our products and services. Companies that incorporate open source software into their products have, from time to time, faced claims challenging the use of open source software and/or compliance with open source license terms. As a result, we could be subject to suits by parties claiming ownership of what we believe to be open source software or claiming noncompliance with open source

licensing terms. Some open source software licenses require users who distribute software containing open source software to publicly disclose all or part of the source code to such software and/or make available any derivative works of the open source code, which could include valuable proprietary code of the user, on unfavorable terms or at no cost. While we monitor the use of open source software and try to ensure that none is used in a manner that would require us to disclose our proprietary source code or that would otherwise breach the terms of an open source agreement, such use could inadvertently occur, in part because open source license terms are often ambiguous. Any requirement to disclose our proprietary source code or pay damages for breach of contract could have a material adverse effect on our business, financial condition and results of operations and could help our competitors develop products and services that are similar to or better than ours.

If we are unable to protect the confidentiality of our trade secrets, know-how and other proprietary information, the value of our technology and products could be adversely affected.

We may not be able to protect our trade secrets, know-how and other proprietary information adequately. Although we use reasonable efforts to protect this proprietary information and technology, our employees, consultants and other parties may unintentionally or willfully disclose our information or technology to competitors. Enforcing a claim that a third party illegally obtained and is using any of our proprietary information or technology is expensive and time-consuming, and the outcome is unpredictable. In addition, courts outside the United States are sometimes less willing to protect trade secrets, know-how and other proprietary information. We rely, in part, on non-disclosure, confidentiality and invention assignment agreements with our employees, consultants and other parties to protect our trade secrets, know-how and other intellectual property and proprietary information. These agreements may not be self-executing, or they may be breached and we may not have adequate remedies for such breach. Moreover, third parties may independently develop similar or equivalent proprietary information or otherwise gain access to our trade secrets, know-how and other proprietary information.

Any restrictions on our use of, or ability to license, data, or our failure to license data and integrate third-party technologies, could have a material adverse effect on our business, financial condition and results of operations.

We depend upon licenses from third parties for some of the technology and data used in our applications, and for some of the technology platforms upon which these applications are built and operate. We expect that we may need to obtain additional licenses from third parties in the future in connection with the development of our products and services. In addition, we obtain a portion of the data that we use from government entities, public records and our partners for specific partner engagements. We believe that we have all rights necessary to use the data that is incorporated into our products and services. However, we cannot assure you that our licenses for information will allow us to use that information for all potential or contemplated applications and products. In addition, certain of our products depend on maintaining our data and analytics platform, which is populated with data disclosed to us by healthcare providers, life sciences companies and their respective patients and other partners with their consent. If these clients, patients or partners revoke their consent for us to maintain, use, de-identify and share this data, consistent with applicable law, our data assets could be degraded.

In the future, data providers could withdraw their data from us or restrict our usage for any reason, including if there is a competitive reason to do so, if legislation is passed restricting the use of the data or if judicial interpretations are issued restricting use of the data that we currently use in our products and services. In addition, data providers could fail to adhere to our quality control standards in the future, causing us to incur additional expense to appropriately utilize the data. If a substantial number of data providers were to withdraw or restrict their data, or if they fail to adhere to our quality control standards, and if we are unable to identify and contract with suitable alternative data suppliers and integrate these data sources into our service offerings, our ability to provide products and services to our partners would be materially adversely impacted, which could have a material adverse effect on our business, financial condition and results of operations.

We also integrate into our proprietary applications and use third-party software to maintain and enhance, among other things, content generation and delivery, and to support our technology infrastructure. Some of this software is proprietary and some is open source software. Our use of third-party technologies exposes us to increased risks, including, but not limited to, risks associated with the integration of new technology into our solutions, the diversion of our resources from development of our own proprietary technology and our inability to generate revenue from licensed technology sufficient to offset associated acquisition and maintenance costs. These technologies may not be available to us in the future on commercially reasonable terms or at all and could be difficult to replace once integrated into our own proprietary applications. Most of these licenses can be renewed only by mutual consent and

may be terminated if we breach the terms of the license and fail to cure the breach within a specified period of time. Our inability to obtain, maintain or comply with any of these licenses could delay development until equivalent technology can be identified, licensed and integrated, which would harm our business, financial condition and results of operations.

Most of our third-party licenses are non-exclusive and our competitors may obtain the right to use any of the technology covered by these licenses to compete directly with us. If our data suppliers choose to discontinue support of the licensed technology in the future, we might not be able to modify or adapt our own solutions.

Third parties may initiate legal proceedings alleging that we are infringing or otherwise violating their intellectual property rights, the outcome of which would be uncertain and could have a material adverse effect on our business, financial condition and results of operations.

Our commercial success depends on our ability to develop and commercialize our services and use our proprietary technology without infringing the intellectual property or proprietary rights of third parties. Intellectual property disputes can be costly to defend and may cause our business, operating results and financial condition to suffer. As the market for healthcare in the United States expands and more patents are issued, the risk increases that there may be patents issued to third parties that relate to our products and technology of which we are not aware or that we must challenge to continue our operations as currently contemplated. Whether merited or not, we may face allegations that we, our partners, our licensees or parties indemnified by us have infringed or otherwise violated the patents, trademarks, copyrights or other intellectual property rights of third parties. Such claims may be made by competitors seeking to obtain a competitive advantage or by other parties. Additionally, in recent years, individuals and groups have begun purchasing intellectual property assets for the purpose of making claims of infringement and attempting to extract settlements from companies like ours. We may also face allegations that our employees have misappropriated the intellectual property or proprietary rights of their former employers or other third parties. It may be necessary for us to initiate litigation to defend ourselves in order to determine the scope, enforceability and validity of third-party intellectual property or proprietary rights, or to establish our respective rights. Regardless of whether claims that we are infringing patents or other intellectual property rights have merit, such claims can be time-consuming, divert management's attention and financial resources and can be costly to evaluate and defend. Results of any such litigation are difficult to predict and may require us to stop commercializing or using our products or technology, obtain licenses, modify our services and technology while we develop non-infringing substitutes or incur substantial damages, settlement costs or face a temporary or permanent injunction prohibiting us from marketing or providing the affected products and services. If we require a third-party license, it may not be available on reasonable terms or at all, and we may have to pay substantial royalties, upfront fees or grant cross-licenses to intellectual property rights for our products and services. We may also have to redesign our products or services so they do not infringe third-party intellectual property rights, which may not be possible or may require substantial monetary expenditures and time, during which our technology and products may not be available for commercialization or use. Even if we have an agreement to indemnify us against such costs, the indemnifying party may be unable to uphold its contractual obligations. If we cannot or do not obtain a third-party license to the infringed technology, license the technology on reasonable terms or obtain similar technology from another source, our revenue and earnings could be adversely impacted.

From time to time, we may be subject to legal proceedings and claims in the ordinary course of business with respect to intellectual property. We are not currently subject to any claims from third parties asserting infringement of their intellectual property rights. Some third parties may be able to sustain the costs of complex litigation more effectively than we can because they have substantially greater resources. Even if resolved in our favor, litigation or other legal proceedings relating to intellectual property claims may cause us to incur significant expenses and could distract our technical and management personnel from their normal responsibilities. In addition, there could be public announcements of the results of hearings, motions or other interim proceedings or developments, and if securities analysts or investors perceive these results to be negative, it could have a material adverse effect on the price of our common stock. Moreover, any uncertainties resulting from the initiation and continuation of any legal proceedings could have a material adverse effect on our ability to raise the funds necessary to continue our operations. Assertions by third parties that we violate their intellectual property rights could therefore have a material adverse effect on our business, financial condition and results of operations.

Interruption or failure of our information technology and communications systems could impair our ability to effectively deliver our products and services, which could cause us to lose clients and harm our operating results.

Our business depends on the continuing operation of our technology infrastructure and systems. Proprietary software development is time-consuming, expensive and complex, and may involve unforeseen difficulties. We may encounter technical obstacles in enhancing our existing software and developing new software, and it is possible that we may discover additional problems that prevent our proprietary applications from operating properly. In addition, any damage to or failure of our existing systems could result in interruptions in our ability to deliver our products and services. Interruptions in our service could reduce our revenue and profits, and our reputation could be damaged if people believe our systems are unreliable.

Our systems and operations are vulnerable to damage or interruption from earthquakes, terrorist attacks, floods, fires, power loss, break-ins, hardware or software failures, telecommunications failures, computer viruses or other attempts to harm our systems and similar events. Any unscheduled interruption in our service would result in an immediate loss of revenue. Frequent or persistent system failures that result in the unavailability of our Platform or slower response times could reduce our clients' ability to access our Platform, impair our delivery of our products and services and harm the perception of our Platform as reliable, trustworthy and consistent. Our insurance policies provide only limited coverage for service interruptions and may not adequately compensate us for any losses that may occur due to any failures or interruptions in our systems.

If our services fail to provide accurate and timely information, or if our content or any other element of our service is associated with errors or malfunctions, we could have liability to clients, providers or patients which could adversely affect our results of operations.

Our software, content and services are used to assist medical groups, health systems and payers with managing the patient intake process and to empower patients and healthcare organizations as they navigate the challenges of an evolving healthcare system. If our software, content or services fail to provide accurate and timely information or are associated with errors or malfunctions, then clients, providers or patients could assert claims against us that could result in substantial costs to us, harm our reputation in the industry and cause demand for our services to decline.

Our proprietary service is utilized in patient intake and engagement and to help healthcare providers better understand patients through medical histories, insurance benefits and socio-economic indicators. If our service fails to provide accurate and timely information, or if our content or any other element of our service is associated with errors or malfunctions, we could have liability to clients, providers or patients.

The assertion of such claims and ensuing litigation, regardless of its outcome could result in substantial cost to us, divert management's attention from operations, damage our reputation and decrease market acceptance of our services. We attempt to limit by contract our liability for damages and to require that our clients assume responsibility for medical care and approve key system rules, protocols and data. Despite these precautions, the allocations of responsibility and limitations of liability set forth in our contracts may not be enforceable, may not be binding upon patients or may not otherwise protect us from liability for damages.

We maintain general liability and insurance coverage, but this coverage may not continue to be available on acceptable terms or may not be available in sufficient amounts to cover one or more large claims against us. In addition, the insurer might disclaim coverage as to any future claim. One or more large claims could exceed our available insurance coverage.

Our proprietary software may contain errors or failures that are not detected until after the software is introduced or updates and new versions are released. It is challenging for us to test our software for all potential problems because it is difficult to simulate the wide variety of computing environments or methodologies that our clients may deploy or rely upon. From time to time we have discovered defects or errors in our software, and such defects or errors can be expected to appear in the future. Defects and errors that are not timely detected and remedied could expose us to risk of liability to clients, providers and patients and cause delays in introduction of new services, result in increased costs and diversion of development resources, require design modifications or decrease market acceptance or client satisfaction with our services. If any of these risks occur, they could materially adversely affect our business, financial condition or results of operations.

We may be liable for use of incorrect or incomplete data we provide which could harm our business, financial condition and results of operations.

We store and display data for use by healthcare providers in handling patient intake and engagement, including data regarding personal health information of patients. Our clients, their patients, or third parties provide us with

most of this data. If this data is incorrect or incomplete or if we make mistakes in the capture or input of this data, adverse consequences may occur and give rise to product liability and other claims against us. In addition, a court or government agency may take the position that our storage and display of health information exposes us to liability for wrongful delivery or handling of healthcare services or erroneous health information. While we maintain insurance coverage, we cannot be certain that this coverage will prove to be adequate or will continue to be available on acceptable terms, if at all. Even unsuccessful claims could result in substantial costs and diversion of management resources. A claim brought against us that is uninsured or under-insured could harm our business, financial condition and results of operations.

If we are unable to obtain, maintain and enforce intellectual property protection for our technology and products or if the scope of our intellectual property protection is not sufficiently broad, others may be able to develop and commercialize technology and products substantially similar to ours, and our ability to successfully commercialize our technology and products may be adversely affected.

Our business depends on proprietary technology and content, including software, databases, confidential information and know-how, the protection of which is crucial to the success of our business. We rely on a combination of trademark, trade-secret and copyright laws, confidentiality procedures and contractual provisions to protect our intellectual property rights in our proprietary technology and content. We are pursuing the registration of our trademarks and service marks in the United States. We may, over time, increase our investment in protecting our intellectual property through additional trademark, patent and other intellectual property filings that could be expensive and time-consuming. Effective trademark, trade-secret and copyright protection is expensive to develop and maintain, both in terms of initial and ongoing registration requirements and the costs of defending our rights. These measures, however, may not be sufficient to offer us meaningful protection. If we are unable to protect our intellectual property and other proprietary rights, our competitive position and our business could be harmed, as third parties may be able to commercialize and use technologies and software products that are substantially the same as ours without incurring the development and licensing costs that we have incurred. Any of our owned or licensed intellectual property rights could be challenged, invalidated, circumvented, infringed or misappropriated, our trade secrets and other confidential information could be disclosed in an unauthorized manner to third parties, or our intellectual property rights may not be sufficient to permit us to take advantage of current market trends or otherwise provide us with competitive advantages, which could result in costly redesign efforts, discontinuance of certain offerings or other competitive harm.

Monitoring unauthorized use of our intellectual property is difficult and costly. From time to time, we seek to analyze our competitors' products and services, and may in the future seek to enforce our rights against potential infringement. However, the steps we have taken to protect our proprietary rights may not be adequate to prevent infringement or misappropriation of our intellectual property. We may not be able to detect unauthorized use of, or take appropriate steps to enforce, our intellectual property rights. Any inability to meaningfully protect our intellectual property rights could result in harm to our ability to compete and reduce demand for our technology and products. Moreover, our failure to develop and properly manage new intellectual property could adversely affect our market positions and business opportunities. Also, some of our products and services rely on technologies and software developed by or licensed from third parties. Any disruption or disturbance in such third-party products or services, which we have experienced in the past, could interrupt the operation of our Platform. We may not be able to maintain our relationships with such third parties or enter into similar relationships in the future on reasonable terms or at all.

We may also be required to protect our proprietary technology and content in an increasing number of jurisdictions, a process that is expensive and may not be successful, or which we may not pursue in every location. In addition, effective intellectual property protection may not be available to us in every country, and the laws of some foreign countries may not be as protective of intellectual property rights as those in the United States. Additional uncertainty may result from changes to intellectual property legislation enacted in the United States and elsewhere, and from interpretations of intellectual property laws by applicable courts and agencies. Accordingly, despite our efforts, we may be unable to obtain and maintain the intellectual property rights necessary to provide us with a competitive advantage. Our failure to obtain, maintain and enforce our intellectual property rights could therefore have a material adverse effect on our business, financial condition and results of operations.

Risks related to regulation

The healthcare regulatory and political framework is uncertain and evolving.

Healthcare laws and regulations are rapidly evolving and may change significantly in the future, which could adversely affect our financial condition and results of operations. For example, in March 2010, the Patient Protection and Affordable Care Act, or ACA, was adopted, which is a healthcare reform measure that provides healthcare insurance for approximately 30 million additional Americans. The ACA includes a variety of healthcare reform provisions and requirements that became effective at varying times through 2018 and substantially changes the way healthcare is financed by both governmental and private insurers, which may significantly impact our industry and our business. Since its enactment, there have been numerous judicial, administrative, executive, and legislative challenges to certain aspects of the ACA, and we expect there will be additional challenges and amendments to the ACA in the future. Various portions of the ACA are currently undergoing legal and constitutional challenges in federal court; the Trump Administration has issued various Executive Orders which eliminated cost sharing subsidies and various provisions that would impose a fiscal burden on states or a cost, fee, tax, penalty or regulatory burden on individuals, healthcare providers, health insurers, or manufacturers of pharmaceuticals or medical devices; and Congress has introduced several pieces of legislation aimed at significantly revising or repealing the ACA. It is unclear whether the ACA will be overturned, repealed, replaced, or further amended. We cannot predict what affect further changes to the ACA would have on our business. On November 10, 2020, the Supreme Court of the United States heard oral arguments regarding the constitutionality of the ACA; it is unclear when a decision will be made or how the Supreme Court will rule. Pending review, the ACA remains in effect, but it is unclear how this decision, and other efforts to repeal and replace the ACA will impact the ACA and our business.

Further, on March 9, 2020, the HHS, Office of the National Coordinator for Health Information Technology, or ONC, and CMS promulgated final rules aimed at supporting seamless and secure access, exchange, and use of electronic health information, or EHI, by increasing innovation and competition by giving patients and their healthcare providers secure access to health information and new tools, allowing for more choice in care and treatment. The final rules are intended to clarify and operationalize provisions of the 21st Century Cures Act, or Cures Act, regarding interoperability and "information blocking," and create significant new requirements for health care industry participants. Information blocking is defined as activity that is likely to interfere with, prevent, or materially discourage access, exchange, or use of EHI, where a health information technology developer, health information network or health information exchange knows or should know that such practice is likely to interfere with access to, exchange or use of EHI. The new rules create significant new requirements for health care industry participants, and require certain electronic health record technology to incorporate standardized application programming interfaces, or APIs, to allow individuals to securely and easily access structured EHI using smartphone applications. The ONC will also implement provisions of the Cures Act requiring that patients can electronically access all of their EHI (structured and/or unstructured) at no cost. Finally, to further support access and exchange of EHI, the final ONC rule implements the information blocking provisions of the Cures Act and identified eight "reasonable and necessary activities" as exceptions to information blocking activities, as long as specific conditions are met. In light of the COVID-19 public health emergency, on October 29, 2020, HHS published an interim final rule delaying the effective date of compliance with the final information blocking and Conditions and Maintenance of Certification portions of the rule beyond the enforcement discretion period that was initially announced. Pursuant to the interim final rule, health IT developers will be subject to requirements such as prohibitions on participating in any action that constitutes information blocking, providing certification to the Secretary of HHS that they will not take actions that constitute information blocking, and other requirements regarding information blocking beginning April 5, 2021. Certified API Developers must comply with new administrative requirements by April 5, 2021 and must provide all certified API technology by December 31, 2022.

The final CMS rule focuses on patients enrolled in Medicare Advantage plans, Medicaid and Children's Health Insurance Program (CHIP) fee-for-service programs, Medicaid managed care plans, CHIP managed care entities, and qualified health plans on the federally-facilitated exchanges, and enacts measures to enable patients to have both their clinical and administrative information travel with them. By January 1, 2021, payors must make patient data dating back to January 1, 2016 available through an API. As a result of COVID-19 and to provide additional flexibility to payors, CMS will exercise enforcement discretion for a period of six months in connection with the Patient Access API and Provider Directory API provisions of the final CMS rule and therefore will not enforce these new requirements until July 1, 2021.

These rules constitute a significant departure from previous regulations regarding patient data. These rules may benefit us in that certain EHR vendors will no longer be permitted to interfere with our attempts at integration, but the rules may also make it easier for other similar companies to enter the market, creating increased competition and reducing our market share. It is unclear at this time what the costs of compliance with the final rules will be, and what additional risks there may be to our business.

In addition, we are subject to various other laws and regulations, including, among others, the Stark Law relating to self-referrals, anti-kickback laws, antitrust laws and the privacy and data protection laws described below.

If we or our clients fail to comply with federal and state laws governing submission of false or fraudulent claims to government healthcare programs and financial relationships among healthcare providers, we or our clients may be subject to civil and criminal penalties or loss of eligibility to participate in government healthcare programs.

As a participant in the healthcare industry, our operations and relationships, and those of our clients, are regulated by a number of federal, state and local governmental entities. The impact of these regulations can adversely affect us even though we may not be directly regulated by specific healthcare laws and regulations. We must ensure that our products and services can be used by our clients in a manner that complies with those laws and regulations. Inability of our clients to do so could affect the marketability of our products and services or our compliance with our client contracts, or even expose us to direct liability under the theory that we had assisted our clients in a violation of healthcare laws or regulations.

A number of federal and state laws, including anti-kickback restrictions and laws prohibiting the submission of false or fraudulent claims, apply to healthcare providers and others that make, offer, seek or receive referrals or payments for products or services that may be paid for through any federal or state healthcare program and, in some instances, any private program. For example, the federal Anti-Kickback Statute prohibits any person or entity from offering, paying, soliciting or receiving anything of value, directly or indirectly, covertly or overtly, in cash or in kind, for the referral of patients covered by Medicare, Medicaid and other federal healthcare programs or the leasing, purchasing, ordering or arranging for or recommending the lease, purchase or order of any item, good, facility or service covered by these programs. A person or entity does not need to have actual knowledge of the statute or specific intent to violate it in order to have committed a violation. Further, courts have found that if "one purpose" of remuneration is to induce referrals, the federal Anti-Kickback Statute is violated.

On October 9, 2019, OIG and CMS proposed further modifications to the federal Anti-Kickback Statute and the Physician Self-Referral Law, or the Stark Law. Under the proposed rules, OIG proposes to add safe harbor protections under the Anti-Kickback Statute for certain coordinated care and value-based arrangements among clinicians, providers, and others. CMS also proposed multiple new exceptions and revisions to current exceptions for value-based arrangements under the Stark Law. On November 20, 2020, CMS and OIG each published their final rule, both of which are set to become effective January 19, 2021. We continue to evaluate what effect, if any, these rules will have on our business.

HIPAA, as amended by the HITECH Act, and their respective implementing regulations, also impose criminal and civil liability for knowingly and willfully executing, or attempting to execute, a scheme to defraud any healthcare benefit program (including private payors) or obtain, by means of false or fraudulent pretenses, representations, or promises, any of the money or property owned by, or under the custody or control of, any healthcare benefit program, regardless of the payor (public or private) and knowingly and willfully falsifying, concealing or covering up by any trick or device a material fact or making any materially false statements in connection with the delivery of, or payment for, healthcare benefits, items or services. Similar to the federal Anti-Kickback Statute, a person or entity can be found guilty of violating HIPAA without actual knowledge of the statute or specific intent to violate it.

Many states also have similar anti-kickback laws that are not necessarily limited to items or services for which payment is made by a federal healthcare program. Moreover, both federal and state laws forbid bribery and similar behavior. These laws are complex and their application to our specific services and relationships may not be clear and may be applied to our business in ways that we do not anticipate. Determination by a court or regulatory agency that our services violate these laws could subject us to civil or criminal penalties, could invalidate all or portions of some of our client contracts, could require us to change or terminate some portions of our business, could require us to refund portions of our services fees, could cause us to be disqualified from serving clients doing business with government payors and could have an adverse effect on our business. Even an unsuccessful challenge by regulatory authorities of our activities could result in adverse publicity and could require a costly response from us.

There are federal and state laws that forbid the offering or giving of remuneration, which includes, without limitation, any transfer of items or services for free or for less than fair market value (with limited exceptions), in exchange for patient referrals, patient brokering, remuneration of patients or billing based on referrals between individuals and/or entities that have various financial, ownership or other business relationships. In many cases, billing for care arising from such actions is illegal. These limitations can vary widely from state to state, and application of these state laws, the federal anti-inducement law and the Stark Law is very complex. Any determination by a state or federal regulatory agency that any of our clients violate or have violated any of these laws may result in allegations that claims that we have processed or forwarded are improper. This could subject us to civil or criminal penalties, could require us to change or terminate some portions of our business, could require us to refund portions of our services

fees and could have an adverse effect on our business. Even an unsuccessful challenge by regulatory authorities of our activities could result in adverse publicity and could require a costly response from us.

Federal and state regulatory and law enforcement authorities have recently increased enforcement activities with respect to Medicare and Medicaid fraud and abuse regulations and other healthcare reimbursement laws and rules. From time to time, participants in the healthcare industry receive inquiries or subpoenas to produce documents in connection with government investigations. We could be required to expend significant time and resources to comply with these requests, and the attention of our management team could be diverted by these efforts. The occurrence of any of these events could give our clients the right to terminate our contracts with us and result in significant harm to our business and financial condition.

These laws and regulations may change rapidly, and it is frequently unclear how they apply to our business. Any failure of our products or services to comply with these laws and regulations could result in substantial civil or criminal liability and could, among other things, adversely affect demand for our services, force us to expend significant capital, research and development and other resources to address the failure, invalidate all or portions of some of our contracts with our clients, require us to change or terminate some portions of our business, require us to refund portions of our revenue, cause us to be disqualified from serving clients doing business with government payors, and give our clients the right to terminate our contracts with them, any one of which could have an adverse effect on our business.

The U.S. Food and Drug Administration may in the future determine that our technology solutions are subject to the Federal Food, Drug, and Cosmetic Act and we may face additional costs and risks as a result.

The FDA may promulgate a policy or regulation that affects our products and services. For example, the FDA in future rule-making may consider our technology solution as a medical device. Medical devices are subject to extensive regulation by the FDA under the Federal Food, Drug, and Cosmetic Act, or FDCA. Under the FDCA, medical devices include any instrument, apparatus, machine, contrivance or other similar or related articles that is intended for use in the diagnosis of disease or other conditions, or in the cure, mitigation, treatment or prevention of disease. FDA regulations govern among other things, product development, testing, manufacture, packaging, labeling, storage, clearance or approval, advertising and promotion, sales and distribution and import and export.

Non-compliance with applicable FDA requirements can result in, among other things, public warning letters, fines, injunctions, civil penalties, recall or seizure of products, total or partial suspension of production, failure of the FDA to grant marketing approvals, withdrawal of marketing approvals, a recommendation by the FDA to disallow us from entering into government contracts and criminal prosecutions. The FDA also has the authority to request repair, replace or refund of the cost of any device.

Potential additional regulation of the disclosure of health information outside the United States may adversely affect our operations and may increase our costs.

Federal or state governmental authorities may impose additional data security standards or additional privacy or other restrictions on the collection, use, transmission and other disclosures of health information. In the future, industry requirements or guidance (e.g., payor requirements), contractual obligations, and/or legislation at both the federal and the state level may limit, forbid or regulate the use or transmission of health information outside of the United States. These developments, if adopted, may render our use of Canadian employees for work related to such data impracticable or substantially more expensive. Alternative means of supporting our clients with the use of such information within the United States may involve substantial delay in implementation and increased cost.

Individuals may claim our text messaging services are not compliant with the Telephone Consumer Protection Act.

The Telephone Consumer Protection Act, or TCPA, is a federal statute that protects consumers from unwanted telephone calls and faxes. Since its inception, the TCPA's purview has extended to text messages sent to consumers. We must ensure that our services that leverage text messaging comply with TCPA regulations and agency guidance. While we strive to adhere to strict policies and procedures, the Federal Communications Commission, or FCC, as the agency that implements and enforces the TCPA, may disagree with our interpretation of the TCPA and subject us to penalties and other consequences for noncompliance. Determination by a court or regulatory agency that our services violate the TCPA could subject us to civil penalties, could invalidate all or portions of some of our client contracts, could require us to change or terminate some portions of our business, could require us to refund portions of our services fees, and could have an adverse effect on our business. Even an unsuccessful challenge by consumers or regulatory authorities of our activities could result in adverse publicity and could require a costly response from us.

Our office in Ottawa, Canada is subject to the laws and regulations of the government of Canada and its subdivisions.

Our office in Ottawa, Ontario, Canada and our employees in that office are subject to additional laws and regulations by the government of Canada, as well as its provinces. These include Canadian federal and local corporation requirements, restrictions on exchange of funds, employment-related laws and qualification for tax status. If we fail to comply with Canadian laws and regulations, or if the government of Canada or its provinces determines that our corporate actions do not comply with applicable Canadian law, we could face sanctions or fines, which could have a material adverse effect on our business.

Risks relating to our dependence on third parties

We rely on a limited number of third-party suppliers and contract manufacturers to support our products, and a loss or degradation in performance of these suppliers and contract manufacturers could have a negative effect on our business, financial condition and results of operations.

We rely on third-party suppliers and contract manufacturers for the materials and components used to operate our Phreesia Platform and product offerings, and to manufacture and assemble our hardware, including the PhreesiaPad and our on-site kiosks, which we refer to as Arrivals Stations. We rely on a sole supplier, for example, as the manufacturer of our PhreesiaPads and Arrivals Stations, which help drive our business and support our provider, patient processing and life sciences offerings. In connection with these services, our supplier builds new hardware for us and refurbishes and maintains existing hardware.

Any of our other suppliers or third-party contract manufacturers may be unwilling or unable to supply the necessary materials and components or manufacture and assemble our products reliably and at the levels we anticipate or that are required by the market. Our ability to supply our products commercially and to develop any future products depends, in part, on our ability to obtain these materials, components and products in accordance with regulatory requirements and in sufficient quantities for commercialization.

While our suppliers and contract manufacturers have generally met our demand for products and services on a timely basis in the past, we cannot guarantee that they will in the future be able to meet our demand for products, either because of acts of nature, the nature of our agreements with those manufacturers or our relative importance to them as a customer, and our manufacturers may decide in the future to discontinue or reduce the level of business they conduct with us. If we are required to change contract manufacturers due to any change in or termination of our relationships with these third parties, or if our manufacturers are unable to obtain the materials they need to produce our products at consistent prices or at all, (including, without limitation, because of the effect of tariffs or other trade restrictions), we may lose sales, experience manufacturing or other delays, incur increased costs or otherwise experience impairment to our client relationships. We cannot guarantee that we will be able to establish alternative relationships on similar terms, without delay or at all.

While we believe replacement suppliers and manufacturers exist for all materials, components and services necessary to our systems and the Phreesia Platform, establishing additional or replacement suppliers for any of these materials, components or services, if required, could be time-consuming and expensive, may result in interruptions in our operations and product delivery, may affect the performance of our business or could require that we modify our operations. Even if we are able to find replacement suppliers or third-party contract manufacturers, we will be required to verify that the new supplier or third-party manufacturer maintains facilities, procedures and operations that comply with our quality expectations and applicable regulatory requirements.

If our third-party suppliers fail to deliver the required quantities of materials on a timely basis and at commercially reasonable prices, and we are unable to find one or more replacement suppliers capable of production at a substantially equivalent cost in substantially equivalent volumes and quality on a timely basis, the supply of our products to clients and the development of any future products will be delayed, limited or prevented, which could have material adverse effect on our business, financial condition and results of operations.

We rely on Internet infrastructure, bandwidth providers, data center providers, other third parties and our own systems for providing services to our clients, and any failure or interruption in the services provided by these third parties or our own systems could expose us to litigation and negatively impact our relationships with clients, adversely affecting our brand and our business.

Our ability to deliver our products and services, particularly our cloud-based solutions, is dependent on the development and maintenance of the infrastructure of the Internet and other telecommunications services by third parties. This includes maintenance of a reliable network connection with the necessary speed, data capacity and security for providing reliable Internet access and services and reliable telephone and facsimile services. Our services are designed to operate without interruption in accordance with our service level commitments.
However, we have experienced limited interruptions in these systems in the past, including server failures that temporarily slow down the performance of our services, and we may experience more significant interruptions in the future. We rely on internal systems as well as third-party suppliers, including bandwidth and telecommunications equipment providers, to provide our services. We do not maintain redundant systems or facilities for some of these services. Interruptions in these systems, whether due to system failures, computer viruses, physical or electronic break-ins or other catastrophic events, could affect the security or availability of our services and prevent or inhibit the ability of our partners to access our services. In the event of a catastrophic event with respect to one or more of these systems or facilities, we may experience an extended period of system unavailability, which could result in substantial costs to remedy those problems or negatively impact our relationship with our clients, our business, results of operations and financial condition. To operate without interruption, both we and our service providers must guard against:

- damage from fire, power loss and other natural disasters;
- telecommunications failures;
- software and hardware errors, failures and crashes;
- security breaches, computer viruses and similar disruptive problems; and
- other potential interruptions.

Any disruption in the network access, telecommunications or co-location services provided by third-party providers or any failure of or by third-party providers' systems or our own systems to handle current or higher volume of use could significantly harm our business. We exercise limited control over our third-party suppliers, which increases our vulnerability to problems with services they provide. We have experienced failures by third-party providers' systems which resulted in a limited interruption of our system, although this failure did not result in any claims against us. Any errors, failures, interruptions or delays experienced in connection with these third-party technologies and information services or our own systems could negatively impact our relationships with clients and adversely affect our business and could expose us to third-party liabilities. Although we maintain insurance for our business, the coverage under our policies may not be adequate to compensate us for all losses that may occur. In addition, we cannot provide assurance that we will continue to be able to obtain adequate insurance coverage at an acceptable cost.
The reliability and performance of our Internet connection may be harmed by increased usage or by denial-of-service attacks. The Internet has experienced a variety of outages and other delays as a result of damages to portions of its infrastructure, and it could face outages and delays in the future. These outages and delays could reduce the level of Internet usage as well as the availability of the Internet to us for delivery of our Internet-based services.

We rely on our third-party vendors and partners to execute our business strategy. Replacing them could be difficult and disruptive to our business. If we are unsuccessful in forming or maintaining such relationships on terms favorable to us, our business may not succeed.

We have entered into contracts with third-party vendors to provide critical services relating to our business, including initial software development and cloud hosting. Some of these third-party vendors utilize employees or consultants located offshore. We also rely on third-party providers to enable automated eligibility and benefits verification through our Platform. We depend on our third-party processing partners to perform payment processing services, which generate almost all of our payments revenue. Our processing partners may go out of business or otherwise be unable or unwilling to continue providing such services, which could significantly and materially reduce our payments revenue and disrupt our business. A number of our processing contracts require us to assume liability

for any losses our processing partners may suffer as a result of losses caused by our provider clients and their patients, including losses caused by chargebacks and fraud. Thus, in the event of a significant loss by our processing partners, we may be required to pay-out a large amount of cash in one or two business days following such event and, if we do not have sufficient cash on hand, may be deemed in breach of such contracts. A contractual dispute with our processing partners could adversely impact our revenue. Certain contracts may expire or be terminated, and we may not be able to enter into a new payment processor relationship that replicates the associated revenue for a considerable period of time.

In the event that these service providers fail to maintain adequate levels of support, do not provide high quality service, increase the fees they charge us, discontinue their lines of business, terminate our contractual arrangements or cease or reduce operations, we may suffer additional costs and be required to pursue new third-party relationships, which could materially disrupt our operations and our ability to provide our products and services, and could divert management's time and resources. It would be difficult to replace some of our third-party vendors in a timely manner if they were unwilling or unable to provide us with these services in the future, and our business and operations could be adversely affected. If these services fail or are of poor quality, our business, reputation and operating results could be harmed.

In addition, we have entered into strategic alliances with providers of EHR and PM solutions, and we intend to pursue such alliances in the future. These strategic alliance agreements are typically structured as commercial and technical partnership agreements, pursuant to which we integrate certain of our Platform solutions into the EHR and PM systems that are utilized by many of our clients, for agreed payments or provision of services to such integration partners. Our ability to form and maintain these alliances with such partners in order to facilitate the integration of our Platform into the EHR and PM systems used by our provider clients and their patients is important to the success of our business. If providers of EHR or PM solutions amend, terminate or fail to perform their obligations under their strategic alliance agreements with us, we may need to seek other ways of integrating our Platform with the EHR and PM systems of our provider clients, which could be costly and time consuming, and could adversely affect our business results.

We or our EHR and PM partners may terminate or seek to amend our strategic alliance agreements in order to incorporate new final rules promulgated on March 9, 2020 by the HHS, ONC, and CMS, which are further described above and are aimed at supporting seamless and secure access, exchange, and use of EHI by increasing innovation and competition by giving patients and their healthcare providers secure access to health information and new tools, allowing for more choice in care and treatment.

We may also seek new strategic alliances in the future, and we may not be successful in entering into future alliances on terms favorable to us. Any delay in entering into strategic alliances with providers of EHR or PM solutions or other technology partners could either delay the development and adoption of our products and services and reduce their competitiveness. Any such delay could adversely affect our business.

Risks relating to taxes and accounting standards

We may be subject to additional tax liabilities in connection with our operations or due to future legislation, each of which could materially impact our financial position and results of operation.

We are subject to federal and state income, sales, use, value added and other taxes in the United States and other countries in which we conduct business, and such laws and rates vary by jurisdiction. We are now registered in all states that assess sales taxes. Certain jurisdictions may seek to impose additional sales, use, value added or other taxes on us, including for past sales by us, which could result in tax assessments, penalties and interest, and we may be required to collect such taxes in the future.

Although we believe our tax practices and provisions are reasonable, the final determination of tax audits and any related litigation could be materially different from our historical tax practices, provisions and accruals. If we receive an adverse ruling as a result of an audit, or we unilaterally determine that we have misinterpreted provisions of the tax regulations to which we are subject, there could be a material effect on our tax provision, net income or cash flows in the period or periods for which that determination is made, which could materially impact our financial results. Further, any changes in the taxation of our activities, including certain proposed changes in U.S. tax laws,

may increase our effective tax rate and adversely affect our financial position and results of operations. In addition, liabilities associated with taxes are often subject to an extended or indefinite statute of limitations period. Therefore, we may be subject to additional tax liability (including penalties and interest) for a particular year for extended periods of time.

Our ability to use our net operating losses to offset future taxable income may be subject to certain limitations.

As of January 31, 2020, we had U.S. federal and state net operating loss carryforwards, or NOLs, of $124.5 million due to prior period losses, which, subject to the following discussion, are generally available to be carried forward to offset a portion of our future taxable income, if any, until such NOLs are used or expire. In general, under Section 382 of the Internal Revenue Code of 1986, as amended, or the Code, a corporation that undergoes an "ownership change" is subject to limitations on its ability to utilize its pre-ownership change NOLs to offset future taxable income. Similar rules may apply under state tax laws. Our existing NOLs may be subject to limitations arising from previous ownership changes. Future changes in our stock ownership, some of which are outside of our control, could result in an ownership change under Section 382 of the Code. In addition, under the Tax Act, the amount of post 2017 NOLs that we are permitted to utilize in any taxable year is limited to 80% of our taxable income in such year, where taxable income is determined without regard to the NOL deduction itself. For these reasons, we may not be able to realize a tax benefit from the use of our NOLs. We have a valuation allowance related to our NOLs to recognize only the portion of the deferred tax asset that is more likely than not to be realized.

Changes in accounting rules, assumptions and/or judgments could materially and adversely affect us.

Accounting rules and interpretations for certain aspects of our operations are highly complex and involve significant assumptions and judgment. These complexities could lead to a delay in the preparation and dissemination of our financial statements. Furthermore, changes in accounting rules and interpretations or in our accounting assumptions and/or judgments could significantly impact our financial statements. In some cases, we could be required to apply a new or revised standard retroactively, resulting in restating prior period financial statements. Any of these circumstances could have a material adverse effect on our business, prospects, liquidity, financial condition and results of operations.

Risks relating to our indebtedness

In order to support the growth of our business, we may need to incur additional indebtedness under our current credit facilities or seek capital through new equity or debt financings, which sources of additional capital may not be available to us on acceptable terms or at all.

Our operations have consumed substantial amounts of cash since inception and we intend to continue to make significant investments to support our business growth, respond to business challenges or opportunities, develop new applications and services, enhance our existing solution and services, enhance our operating infrastructure and potentially acquire complementary businesses and technologies. For the fiscal year ended January 31, 2020 our net cash provided by operating activities was $0.8 million. For the nine months ended October 31, 2020 our net cash used in operating activities was $1.2 million. As of October 31, 2020, we had $254.1 million of cash and cash equivalents, which are held for working capital purposes. As of October 31, 2020, we had $20.7 million of outstanding borrowings under our revolving line of credit, with the ability to borrow up to $29.3 million in our revolving line of credit. Borrowings under our credit facility are secured by substantially all of our properties, rights and assets, excluding intellectual property.

Our future capital requirements may be significantly different from our current estimates and will depend on many factors, including the need to:

- finance unanticipated working capital requirements;
- develop or enhance our technological infrastructure and our existing products and services;
- fund strategic relationships, including joint ventures and co-investments;
- fund additional implementation engagements;
- respond to competitive pressures; and

- acquire complementary businesses, technologies, products or services.

Accordingly, we may need to engage in equity or debt financings or collaborative arrangements to secure additional funds. Additional financing may not be available on terms favorable to us, or at all. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. Any debt financing secured by us in the future could involve additional restrictive covenants relating to our capital-raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. In addition, during times of economic instability, it has been difficult for many companies to obtain financing in the public markets or to obtain debt financing, and we may not be able to obtain additional financing on commercially reasonable terms, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us, it could have a material adverse effect on our business, financial condition and results of operations.

Restrictive covenants in the agreements governing our credit facility may restrict our ability to pursue our business strategies.

The credit agreement governing our credit facility contains certain customary restrictive covenants that limit our ability to incur additional indebtedness and liens, merge with other companies or consummate certain changes of control, acquire other companies, engage in new lines of business, make certain investments, pay dividends, create subsidiaries, enter into certain transactions with affiliates, and transfer or dispose of assets as well as financial covenants requiring us to maintain a specified level of recurring revenue growth, a specified maximum funded debt to recurring revenue ratio and a specified amount of minimum liquidity.

Our ability to comply with these covenants may be affected by events beyond our control, and we may not be able to meet those covenants. A breach of any of these covenants could result in a default under the loan agreement, which could cause all of the outstanding indebtedness under our credit facility to become immediately due and payable and terminate all commitments to extend further credit. These covenants could also limit our ability to seek capital through the incurrence of new indebtedness or, if we are unable to meet our obligations, require us to repay any outstanding amounts with sources of capital we may otherwise use to fund our business, operations and strategy.

Despite our outstanding indebtedness, we may still be able to incur substantially more debt. This could further exacerbate the risks associated with our substantial leverage.

We may incur substantial additional indebtedness in the future. Although the agreement governing our credit facility contains restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions and the indebtedness we can incur in compliance with these restrictions could be substantial. If we incur additional debt, the risks associated with our substantial leverage would increase.

Risks relating to ownership of our common stock

Risks related to investment in our securities

Our share price may be volatile, and you could lose all or part of your investment.

The trading price of our common stock may be volatile and subject to wide price fluctuations in response to various factors, including:

- market conditions in the broader stock market in general, or in our industry in particular;
- the impact of COVID-19 on the economy, our company, our customers, suppliers or employees
- actual or anticipated fluctuations in our quarterly financial reports and results of operations;
- our ability to satisfy our ongoing capital needs and unanticipated cash requirements;
- indebtedness incurred in the future;
- introduction of new products and services by us or our competitors;
- issuance of new or changed securities analysts' reports or recommendations;
- sales of large blocks of our common stock;

- additions or departures of key personnel;
- regulatory developments;
- litigation and governmental investigations;
- economic and political conditions or events; and
- our sale of common stock or other securities in the future.

These and other factors may cause the market price and demand for our common stock to fluctuate substantially, which may limit or prevent investors from readily selling their shares of common stock and may otherwise negatively affect the liquidity of our common stock. In addition, in the past, when the market price of a stock has been volatile, holders of that stock have instituted securities class action litigation against the company that issued the stock. If any of our stockholders brought a lawsuit against us, we could incur substantial costs defending the lawsuit. Such a lawsuit could also divert the time and attention of our management from our business.

The trading market for our common stock is also influenced by the research and reports that industry or securities analysts publish about us or our business. If one or more securities or industry analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline. If one or more of the analysts who cover us downgrades our common stock or provides more favorable recommendations about our competitors, or if our results of operations do not meet their expectations, our stock price could decline.

If a substantial number of shares become available for sale and are sold in a short period of time, the market price of our common stock could decline.

If our existing stockholders sell substantial amounts of our common stock in the public market, the market price of our common stock could decrease significantly. The perception in the public market that our existing stockholders might sell shares of common stock could also depress our market price. As of October 31, 2020, we had 44,039,563 shares of common stock outstanding. The market price of shares of our common stock may drop significantly when the restrictions on resale by our existing stockholders lapse. A decline in the price of shares of our common stock might impede our ability to raise capital through the issuance of additional shares of our common stock or other equity securities.

In addition, certain stockholders are entitled, under our investors' rights agreement, to require us to register shares owned by them for public sale in the United States. We also filed a registration statement to register shares reserved for future issuance under our equity compensation plans. As a result, subject to the satisfaction of applicable exercise periods, the shares issued upon exercise of outstanding stock options or upon settlement of outstanding RSU awards will be available for immediate resale in the United States in the open market, subject to volume limitations under Rule 144 for our executive officers and directors.

Sales of our common stock pursuant to registration rights may make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. These sales could also cause the trading price of our common stock to fall and make it more difficult for you to sell shares of our common stock.

Additionally, certain of our employees, executive officers, and directors have entered or may enter into Rule 10b5-1 trading plans providing for sales of shares of our common stock from time to time. Under a Rule 10b5-1 trading plan, a broker executes trades pursuant to parameters established by the employee, officer, or director when entering into the plan, without further direction from the employee, officer, or director. A Rule 10b5-1 trading plan may be amended or terminated in some circumstances. Our employees, executive officers, and directors also may buy or sell additional shares outside of a Rule 10b5-1 trading plan when they are not in possession of material, nonpublic information, subject to the Rule 144 limitations as referred to above.

We do not currently intend to pay dividends on our common stock and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.

We have never declared or paid any cash dividends on our common stock and do not currently intend to do so for the foreseeable future. We currently intend to invest our future earnings, if any, to fund our growth. Therefore, you are not likely to receive any dividends on your common stock for the foreseeable future and the success of an investment in shares of our common stock will depend upon any future appreciation in its value. There is no guarantee that shares of our common stock will appreciate in value or even maintain the price at which our stockholders have purchased their shares.

We are currently an emerging growth company, and we cannot be certain if the reduced reporting requirements applicable to emerging growth companies will make our common stock less attractive to investors.

We are currently an emerging growth company, as defined in the JOBS Act. For as long as we continue to be an emerging growth company, we may take advantage of exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and exemptions from the requirements of holding nonbinding advisory votes on executive compensation and stockholder approval of any golden parachute payments not previously approved. We cannot predict if investors will find our common stock less attractive because we may rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

Under the JOBS Act, emerging growth companies can also delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have elected not to "opt out" of such extended transition period, which means that when a standard is issued or revised and it has different application dates for public or private companies, we will adopt the new or revised standard at the time private companies adopt the new or revised standard and will do so until such time that we either (i) irrevocably elect to "opt out" of such extended transition period or (ii) no longer qualify as an emerging growth company. This may make comparison of our financial statements with the financial statements of another public company that is not an emerging growth company, or an emerging growth company that has opted out of using the extended transition period, difficult or impossible because of the potential differences in accounting standards used.

We will remain an emerging growth company until the earlier of (1) the last day of the fiscal year (a) following the fifth anniversary of the completion of our IPO; (b) in which we have total annual gross revenue of at least $1.07 billion; or (c) in which we are deemed to be a large accelerated filer, which requires the market value of our common stock that is held by non-affiliates to exceed $700 million as of the prior July 31st; and (2) the date on which we have issued more than $1.0 billion in non-convertible debt during the prior three-year period. Based on the closing price of our common stock and the market value of our common stock held by non-affiliates as of July 31, 2020, we have determined that we will no longer be an emerging growth company as of February 1, 2021. As a result, we will no longer be able to take advantage of specified reduced disclosure and other requirements that are available to emerging growth companies after such date.

We could be subject to securities class action litigation.

In the past, securities class action litigation has often been brought against a company following a decline in the market price of its securities. If we face such litigation, it could result in substantial costs and a diversion of management's attention and resources, which could have a material adverse effect on our business, financial condition or results of operations.

We are subject to increased costs as a result of operating as a public company, and our management will devote substantial time to new compliance initiatives.

As a public company, we will continue to incur significant legal, accounting and other expenses that we did not incur as a private company prior to our IPO in July 2019. We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, which require, among other things, that we file with the SEC, annual, quarterly and current reports with respect to our business and financial condition. In addition, the Sarbanes-Oxley Act, as well as rules subsequently adopted by the SEC and the New York Stock Exchange to implement provisions of the Sarbanes-Oxley Act, impose significant requirements on public companies, including requiring the establishment and maintenance of effective disclosure and financial controls and changes in corporate governance practices. Further, in July 2010, the Dodd-Frank Act was enacted. There are significant corporate governance and executive compensation related provisions in the Dodd-Frank Act that require the SEC to adopt additional rules and regulations in these areas, such as "say on pay" and proxy access. Recent legislation permits emerging growth companies to implement many of these requirements over a longer period and up to five years from their IPOs. We intend to take advantage of this new legislation but cannot guarantee that we will not be required to implement these requirements sooner than budgeted or planned and thereby incur unexpected expenses. Stockholder activism, the current political environment and the current high level of government intervention and regulatory reform may lead to substantial new regulations and disclosure obligations, which may lead to additional compliance costs and impact the manner in which we operate our business in ways we cannot currently anticipate.

We expect the rules and regulations applicable to public companies to continue to increase our legal and financial compliance costs and to make some activities more time-consuming and costly. If these requirements divert the attention of our management and personnel from other business concerns, they could have a material adverse effect on our business, financial condition and results of operations. The increased costs will decrease our net income or increase our net loss and may require us to reduce costs in other areas of our business or increase the prices of our products or services. For example, we expect these rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance and we may be required to incur substantial costs to maintain the same or similar coverage. We cannot predict or estimate the amount or timing of additional costs we may incur to respond to these requirements. The impact of these requirements could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as executive officers.

Risks relating to our bylaws and certificate of incorporation

Anti-takeover provisions under our incorporation documents and Delaware law could delay or prevent a change of control which could limit the market price of our common stock and may prevent or frustrate attempts by our stockholders to replace or remove our current management.

Our amended and restated certificate of incorporation, or our certificate of incorporation, and our amended and restated bylaws, or, as amended, our bylaws, contain provisions that could delay or prevent a change of control of our company or changes in our board of directors that our stockholders might consider favorable. Some of these provisions include:

- a board of directors divided into three classes serving staggered three-year terms, such that not all members of the board will be elected at one time;
- a prohibition on stockholder action through written consent, which requires that all stockholder actions be taken at a meeting of our stockholders;
- a requirement that special meetings of stockholders be called only by the board of directors acting pursuant to a resolution approved by the affirmative vote of a majority of the directors then in office;
- advance notice requirements for stockholder proposals and nominations for election to our board of directors;
- a requirement that no member of our board of directors may be removed from office by our stockholders except for cause and, in addition to any other vote required by law, upon the approval of not less than 75% of all outstanding shares of our voting stock then entitled to vote in the election of directors;
- a requirement of approval of not less than 75% of all outstanding shares of our voting stock to amend any bylaws by stockholder action or to amend specific provisions of our certificate of incorporation; and
- the authority of the board of directors to issue preferred stock on terms determined by the board of directors without stockholder approval and which preferred stock may include rights superior to the rights of the holders of common stock.

In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporate Law, or DGCL, which may prohibit certain business combinations with stockholders owning 15% or more of our outstanding voting stock. These anti-takeover provisions and other provisions in our certificate of incorporation and our bylaws could make it more difficult for stockholders or potential acquirers to obtain control of our board of directors or initiate actions that are opposed by the then-current board of directors and could also delay or impede a merger, tender offer or proxy contest involving our company. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors of your choosing or cause us to take other corporate actions you desire. Any delay or prevention of a change of control transaction or changes in our board of directors could cause the market price of our common stock to decline.

Our bylaws designate certain specified courts as the sole and exclusive forums for certain disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.

Our bylaws provide that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware, or the Chancery Court, will be the sole and exclusive forum for state law claims for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty

owed by any of our directors, officers or other employees to us or our stockholders, (iii) any action asserting a claim pursuant to any provision of the DGCL, our certificate of incorporation or our bylaws, (iv) any action to interpret, apply, enforce or determine the validity of our certificate of incorporation or bylaws, or (v) any action asserting a claim governed by the internal affairs doctrine, or the Delaware Forum Provision. The Delaware Forum Provision does not apply to any causes of action arising under the Securities Act of 1933, as amended, or the Securities Act, or the Securities Exchange Act of 1934, or, as amended, the Exchange Act. Our bylaws further provide that, unless we consent in writing to the selection of an alternative forum, the U.S. District Court for the Southern District of New York will be the sole and exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act, or the Federal Forum Provision. Our bylaws provide that any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock is deemed to have notice of and consented to the foregoing Delaware Forum Provision and the Federal Forum Provision; provided, however, that stockholders cannot and will not be deemed to have waived our compliance with the federal securities laws and the rules and regulations thereunder.

The Delaware Forum Provision and the Federal Forum Provision may impose additional litigation costs on stockholders in pursuing the claims identified above, particularly if the stockholders do not reside in or near the State of Delaware or the State of New York. Additionally, the Delaware Forum Provision and the Federal Forum Provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits. In addition, while the Delaware Supreme Court ruled in March 2020 that federal forum selection provisions purporting to require claims under the Securities Act be brought in federal court are "facially valid" under Delaware law, there is uncertainty as to whether other courts will enforce our Federal Forum Provision. If the Federal Forum Provision is found to be unenforceable in an action, we may incur additional costs associated with resolving such an action. The Federal Forum Provision may also impose additional litigation costs on stockholders who assert that the provision is not enforceable or invalid. The Chancery Court or the U.S. District Court for the Southern District of New York may also reach different judgments or results than would other courts, including courts where a stockholder considering an action may be located or would otherwise choose to bring the action, and such judgments may be more or less favorable to us than our stockholders.

Risks relating to our industry

The healthcare industry is rapidly evolving and the market for technology-enabled services that empower healthcare consumers is relatively immature and unproven. If we are not successful in promoting the benefits of our Platform, our growth may be limited.

The market for our products and services is subject to rapid and significant changes. The market for technology-enabled services that empower healthcare consumers is characterized by rapid technological change, new product and service introductions, increasing patient financial responsibility, consumerism and engagement, the ongoing shift to value-based care and reimbursement models, and the entrance of non-traditional competitors. In addition, there may be a limited-time opportunity to achieve and maintain a significant share of this market due in part to the rapidly evolving nature of the healthcare and technology industries and the substantial resources available to our existing and potential competitors. The market for technology-enabled services that empower healthcare consumers is relatively new and unproven, and it is uncertain whether this market will achieve and sustain high levels of demand and market adoption.

In order to remain competitive, we are continually involved in a number of projects to compete with these new market entrants by developing new services, growing our client base and penetrating new markets. Some of these projects include the expansion of our integration capabilities with additional electronic health record, or EHR, and practice management, or PM, solutions, the expansion of our mobile platform, and the recent roll-out of our cost estimation features. These projects carry risks, such as cost overruns, delays in delivery, performance problems and lack of acceptance by our clients. Our integration partners may also decide to develop and offer their own patient engagement solutions that are similar to our Platform offerings.

Our success depends on providing high-quality products and services that healthcare providers use to improve clinical, financial and operational performance and which are used and positively received by patients. If we cannot

adapt to rapidly evolving industry standards and technology and increasingly sophisticated and varied healthcare provider and patient needs, our existing technology could become undesirable, obsolete or harm our reputation. We must continue to invest significant resources in our personnel and technology in a timely and cost-effective manner in order to enhance our existing products and services and introduce new high-quality products and services that existing clients and potential new clients will want. Our operating results would also suffer if our innovations are not responsive to the needs of our existing clients or potential new clients, are not appropriately timed with market opportunity, are not effectively brought to market or significantly increase our operating costs. If our new or modified product and service innovations are not responsive to the preferences of healthcare providers and their patients, emerging industry standards or regulatory changes, are not appropriately timed with market opportunity or are not effectively brought to market, we may lose existing clients or be unable to obtain new clients and our results of operations may suffer.

We believe demand for our products and services has been driven in large part by increasing patient responsibility, engagement and consumerism, high deductible health plans and declining reimbursements. According to the American Hospital Association, the shift to value-based reimbursement models requires healthcare provider organizations to manage new challenges related to measurement and reporting, population health management, care coordination and other patient demands, all of which may require additional staff and capabilities. Our ability to streamline the intake process and critical workflows in order to improve provider and staff efficiency and allow for optimal allocation of resources will be critical to our business. Our success also depends to a substantial extent on the ability of our Platform to increase patient engagement, and our ability to demonstrate the value of our Platform to provider clients, patients and life sciences companies. If our existing clients do not recognize or acknowledge the benefits of our Platform or our Platform does not drive patient engagement, then the market for our products and services might not develop at all, or it might develop more slowly than we expect, either of which could adversely affect our operating results.

In addition, we have limited insight into trends that might develop and affect our business. We might make errors in predicting and reacting to relevant business, legal and regulatory trends and healthcare reform, which could harm our business. If any of these events occur, it could materially adversely affect our business, financial condition or results of operations.

Finally, our competitors may have the ability to devote more financial and operational resources than we can to developing new technologies and services, including services that provide improved operating functionality, and adding features to their existing service offerings. If successful, their development efforts could render our services less desirable, resulting in the loss of our existing clients or a reduction in the fees we generate from our products and services.

Consolidation in the healthcare industry could have a material adverse effect on our business, financial condition and results of operations.

Many healthcare industry participants are consolidating to create larger and more integrated healthcare delivery systems with greater market power. We expect regulatory and economic conditions to result in additional consolidation in the healthcare industry in the future. As consolidation accelerates, the economies of scale of our clients' organizations may grow. If a client experiences sizable growth following consolidation, it may determine that it no longer needs to rely on us and may reduce its demand for our products and services. In addition, as healthcare providers and life sciences companies consolidate to create larger and more integrated healthcare delivery systems with greater market power, these providers may try to use their market power to negotiate fee reductions for our products and services. Finally, consolidation may also result in the acquisition or future development by our healthcare provider and life sciences clients of products and services that compete with our products and services. Any of these potential results of consolidation could have a material adverse effect on our business, financial condition and results of operations.

We may face intense competition, which could limit our ability to maintain or expand market share within our industry, and if we do not maintain or expand our market share our business and operating results will be harmed.

The market for our products and services is fragmented, competitive and characterized by rapidly evolving technology standards, client needs and the frequent introduction of new products and services. Our competitors range from smaller niche companies to large, well-financed and technologically-sophisticated entities. As costs fall and technology improves, increased market saturation may change the competitive landscape in favor of competitors with greater scale than we currently possess.

We compete on the basis of several factors, including breadth, depth and quality of product and service offerings, ability to deliver clinical, financial and operational performance improvement through the use of products and services, quality and reliability of services, ease of use and convenience, brand recognition and the ability to integrate our Platform solutions with various PM and EHR systems and other technology. Some of our competitors have greater name recognition, longer operating histories and significantly greater resources than we do. As a result, our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards or client requirements. In addition, current and potential competitors have established, and may in the future establish, cooperative relationships with vendors of complementary products, technologies or services to increase the availability of their products to the marketplace. Accordingly, new competitors or alliances may emerge that have greater market share, larger client bases, more widely adopted proprietary technologies, greater marketing expertise, greater financial resources and larger sales forces than we have, which could put us at a competitive disadvantage.

Further, in light of these advantages, even if our products or services are more effective than the product or service offerings of our competitors, current or potential clients might accept competitive products and services in lieu of purchasing our products or services. In addition to new niche vendors, who offer stand-alone products and services, we also face competition from PM and EHR providers, including those with which we have integration partnerships. PM or EHR providers may have existing systems in place at clients in our target market. These PM and EHR providers may now, or in the future, offer or promise products or services similar to ours, which leverage existing client and vendor relationships.

We also compete on the basis of price. We may be subject to pricing pressures as a result of, among other things, competition within the industry, consolidation of healthcare industry participants, practices of managed care organizations, government action and financial stress experienced by our clients. If our pricing experiences significant downward pressure, our business will be less profitable and our results of operations will be adversely affected.

We cannot be certain that we will be able to retain our current clients or expand our client base in this competitive environment. If we do not retain current clients or expand our client base, or if we have to renegotiate existing contracts, our business, financial condition and results of operations will be harmed. Moreover, we expect that competition will continue to increase as a result of consolidation in both the healthcare information technology and healthcare industries. If one or more of our competitors or potential competitors were to merge or partner with another of our competitors, the change in the competitive landscape could also adversely affect our ability to compete effectively and could harm our business, financial condition and results of operations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

(a) Recent Sales of Unregistered Equity Securities

None.

(b) Use of Proceeds from Initial Public Offering of Common Stock

On July 17, 2019, our Registration Statement on Form S-1 (File No. 333-232264) was declared effective by the SEC for our initial public offering. There has been no material change in the planned use of proceeds from our initial

public offering as described in the final prospectus, dated July 17, 2020 and filed with the SEC on July 19, 2020 pursuant to Rule 424(b) of the Securities Act.

(c) Issuer Purchases of Equity Securities

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS.

Exhibit Number	Description
3.1	Seventh Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q (File No. 001-38977) filed with the Securities and Exchange Commission on September 10, 2019)
3.2	Amended and Restated By-laws of the Registrant (incorporated by reference to Exhibit 3.2 to the Registrant's Quarterly Report on Form 10-Q (File No. 001-38977) filed with the Securities and Exchange Commission on September 10, 2019)
3.3	Amendment No. 1 to Amended and Restated By-laws of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K (File No. 001-38977) filed with the Securities and Exchange Commission on June 1, 2020)
31.1	Certification of Principal Executive Officer pursuant to Rules 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer pursuant to Rules 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1+	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2+	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

# Indicates a management contract or any compensatory plan, contract or arrangement.

\+ This certification will not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent specifically incorporated by reference into 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.

PHREESIA, INC.

Date: December 9, 2020

By: /s/ Chaim Indig
Chaim Indig
President, Chief Executive Officer and Director
(Principal Executive Officer)

Date: December 9, 2020

By: /s/ Thomas Altier
Thomas Altier
Chief Financial Officer
(Principal Financial Officer)

Exhibit 31.1

CERTIFICATION OF PRINCIPAL 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

I, Chaim Indig, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Phreesia, 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) {Paragraph omitted pursuant to SEC Release Nos. 33-8238-34-47986 and 33-8392/34-49313}

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

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: December 9, 2020

By: /s/ Chaim Indig
Chaim Indig
Chief Executive Officer and Director
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL 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

I, Thomas Altier, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Phreesia, 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) {Paragraph omitted pursuant to SEC Release Nos. 33-8238-34-47986 and 33-8392/34-49313}
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
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: December 9, 2020

By: /s/ Thomas Altier
Thomas Altier
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of Phreesia, Inc. (the "Company") for the fiscal quarter ended October 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Chaim Indig, the Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge, the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: December 9, 2020

By: /s/ Chaim Indig
Chaim Indig
Chief Executive Officer and Director
(Principal Executive Officer)

Exhibit 32.2

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

In connection with the Quarterly Report on Form 10-Q of Phreesia, Inc. (the "Company") for the fiscal quarter ended October 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas Altier, the Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge, the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: December 9, 2020

By: /s/ Thomas Altier
Thomas Altier
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)