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

FORM 8-K/A

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): April 16, 2024

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

Delaware	001-40129	85-3961600
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

6701 Democracy Blvd., Suite 300, Bethesda, Maryland	20817
(Address of principal executive offices)	(Zip Code)

(650) 248-9874
(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.0001 per share	AILE	Nasdaq Capital Market
Warrants, each whole warrant exercisable for one share of Common Stock at an exercise price of $11.50 per share	AILEW	Nasdaq Capital Market

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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. ☐

INTRODUCTORY NOTE

This Amendment No. 1 on Form 8-K/A (this "Amendment No. 1") amends Item 9.01 of the Current Report on Form 8-K filed by iLearningEngines, Inc. (the "Company") on April 22, 2024 (the "Original Report"), in which the Company reported, among other events, the completion of the Business Combination. This Amendment No. 1 amends the financial statements provided under Item 9.01(a) in the Original Report to include the unaudited condensed consolidated financial statements of the Company as of and for the three months ended March 31, 2024 and 2023 and the related notes.

This Amendment No. 1 does not amend any other item of the Original Report or purport to provide an update or a discussion of any developments at the Company subsequent to the filing date of the Original Report.

Capitalized terms used but not defined herein have the meanings given in the Original Report.

Item 9.01 Financial Statements and Exhibits.

(a) Financial Statements of Business Acquired.

The unaudited condensed financial statements of the Company as of March 31, 2024 and December 31, 2023 and for the three months ended March 31, 2024 and 2023 and related notes are filed herewith as Exhibit 99.1 and incorporated herein by reference.

Also included herewith as Exhibit 99.2 and incorporated herein by reference is the Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company for the three months ended March 31, 2024.

(d) Exhibits.

Exhibit No.	Description
99.1	Unaudited condensed financial statements of iLearningEngines, Inc. as of March 31, 2024 and December 31, 2023 and for the three months ended March 31, 2024 and 2023.
99.2	Management's Discussion and Analysis of Financial Condition and Results of Operations for iLearningEngines, Inc. for the three months ended March 31, 2024.
104	Cover Page Interactive Data File, formatted in Inline XBRL (embedded within the Inline XBRL document).

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 hereunto duly authorized.

ILEARNINGENGINES, INC.

Date: May 16, 2024

By: /s/ Harish Chidambaran
Name: Harish Chidambaran
Title: Chief Executive Officer

Exhibit 99.1

iLearningEngines, Inc. and Subsidiaries

INDEX TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

ILEARNINGENGINES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

	As of	
	March 31, 2024 (Unaudited)	December 31, 2023
Assets		
Current assets:		
Cash	$ 815	$ 4,763
Restricted cash	-	2,000
Accounts receivable, net of provision for credit loss of $510 and $336, respectively	82,904	73,498
Contract asset	297	509
Prepaid expenses	93	62
Total current assets	84,109	80,832
Receivable from Technology Partner	14,880	13,602
Receivable from related party	-	465
Other assets	672	729
Deferred tax assets, net	5,248	5,703
Deferred transaction costs	6,882	3,990
Total assets	$ 111,791	$ 105,321
Liabilities and shareholders' deficit		
Current liabilities:		
Trade accounts payable	$ 7,044	$ 3,753
Accrued expenses	3,850	2,982
Current portion of long-term debt, net	26,026	10,517
Contract liability	1,447	2,765
Payroll taxes payable	3,037	3,037
Loan restructuring share liability	2,813	-
Other current liabilities	139	116
Total current liabilities	44,356	23,170
Convertible notes	37,712	31,547
Warrant liability	26,988	11,870
Long-term debt, net	-	10,679
Subordinated payable to Technology Partner	49,789	49,163
Other non-current liabilities	63	74
Total liabilities	158,908	126,503
Shareholders' deficit:		
Common Shares $0.0001 par value: 200,000,000 shares authorized: 95,782,605 shares issued and outstanding at March 31, 2024 and December 31, 2023	10	10
Additional paid-in capital	36,384	36,384
Accumulated deficit	(83,511)	(57,576)
Total shareholders' deficit	(47,117)	(21,182)
Total liabilities and shareholders' deficit	$ 111,791	$ 105,321

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

ILEARNINGENGINES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(In thousands, except share and per share amounts)

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Revenue	$ 124,935	$ 93,980
Cost of revenue	38,714	31,551
Gross profit	86,221	62,429
Operating expenses:		
Selling, general, and administrative expenses	41,223	31,612
Research and development expenses	37,099	28,582
Total operating expenses	78,322	60,194
Operating income	**7,899**	**2,235**
Other expense:		
Interest expense	(1,986)	(1,588)
Change in fair value of warrant liability	(15,118)	(280)
Change in fair value of convertible notes	(5,465)	-
Loss on debt extinguishment	(10,041)	-
Other expense	-	(60)
Foreign exchange loss	(2)	(8)
Total other expense	**(32,612)**	**(1,936)**
Net (loss) income before income taxes	(24,713)	299
Income tax (expense) benefit	(1,222)	152
Net (loss) income	**$ (25,935)**	**$ 451**
Net (loss) income per share – basic and diluted	$ (0.27)	$ 0.00
Weighted average common shares outstanding – basic	95,782,605	95,782,605
Weighted average common shares outstanding – diluted	95,782,605	95,782,605

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

ILEARNINGENGINES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT (UNAUDITED)
(In thousands, except share amounts)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Shareholders' Deficit
	Shares	Amount			
Balances at December 31, 2023	95,782,605	$ 10	$ 36,384	$ (57,576)	$ (21,182)
Net loss	—	—	—	(25,935)	(25,935)
Balances at March 31, 2024	95,782,605	$ 10	$ 36,384	$ (83,511)	$ (47,117)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Shareholders' Deficit
	Shares	Amount			
Balances at December 31, 2022	95,782,605	$ 10	$ 36,384	$ (53,169)	$ (16,775)
Net income	—	—	—	451	451
Balances at March 31, 2023	95,782,605	$ 10	$ 36,384	$ (52,718)	$ (16,324)

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

ILEARNINGENGINES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In thousands)

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Cash flows used in operating activities:		
Net (loss) income	$ (25,935)	$ 451
Adjustments to reconcile net (loss) income to net cash flows used in operating activities:		
Depreciation and amortization	54	26
Amortization of debt issuance costs	631	531
Change in deferred taxes	455	324
Accretion of interest on subordinated payable to Technology Partner	626	417
Change in fair value of warrant liability	15,118	280
Change in fair value of convertible notes	5,465	-
Loss on debt extinguishment	10,041	-
Provision for current expected credit losses	174	-
Changes in operating assets and liabilities:		
Accounts receivable	(9,580)	(8,104)
Receivable from related party	465	130
Contract asset	212	5,880
Prepaid expenses and other current assets	(31)	6
Receivable from Technology Partner	(1,278)	(2,405)
Trade accounts payable	958	(19)
Accrued expenses and other liabilities	429	(574)
Contract liability	(1,318)	552
Payroll taxes payable	-	305
Deferred transaction costs	(96)	-
Net cash flows used in operating activities	(3,610)	(2,200)
Cash flows from investing activities:		
Purchases of property and equipment	(9)	-
Net cash flow used in investing activities	(9)	-
Cash flows from financing activities:		
Proceeds from term loans	-	5,000
Repayments of term loans	(3,029)	(2,063)
Proceeds from convertible note	700	-
Net cash flows (used in) provided by financing activities	(2,329)	2,937
Net change in cash	(5,948)	737
Cash, beginning of year	6,763	856
Cash, end of period	**$ 815**	**$ 1,593**
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 702	$ 670
Supplemental disclosure of non-cash investing and financing activities:		
Issuance of warrant to purchase common shares	$ -	$ 514
Transaction costs capitalized which are included in trade accounts payable and accrued expenses	$ 3,286	$ -

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

1. Nature of the Business and Basis of Presentation

iLearningEngines, Inc. (together with its subsidiaries, the "Company," or "ILE"), a company headquartered in Maryland, United States of America, was incorporated in Delaware on November 17, 2010. The Company offers an Artificial Intelligence ("AI") platform focused on automation of learning and enabling organizations to drive mission critical outcomes at scale. The AI Learning and Engagement platform has cloud-based, mobile, offline and multimedia capabilities that can be used to deliver highly personalized learning and engagement modules. The Company has developed an in-process learning platform that enables organizations to deliver learning in the flow of day-to-day activities.

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and the rules and regulations of the Securities and Exchange Commission ("SEC"). The condensed consolidated financial statements include the accounts of iLearningEngines, Inc. and its wholly-owned subsidiaries.

A description of the Company's significant accounting policies is included in the audited consolidated financial statements for the year ended December 31, 2023. No changes to significant accounting policies have occurred since December 31, 2023, other than new policy elections related to a debt amendment discussed in Note 5. Results of operations and cash flows for the interim periods presented herein are not necessarily indicative of the results that would be achieved during a full year of operations or in future periods. These unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes thereto, included in the Company's consolidated financial statements for the year ended December 31, 2023.

Business Combination

On April 27, 2023, the Company entered into an Agreement and Plan of Merger and Reorganization (the "Merger Agreement") with Arrowroot Acquisition Corp. (NASDAQ: ARRW) ("Arrowroot"), a special-purpose acquisition company ("SPAC"), and ARAC Merger Sub, Inc., a Delaware corporation and a direct, wholly owned subsidiary of Arrowroot ("Merger Sub"). Upon closing of the Merger Agreement and upon approval by the shareholders of Arrowroot, the combined company will be renamed to "iLearningEngines, Inc." and will be listed on the NASDAQ under the new ticker symbol "AILE." Arrowroot has agreed to acquire all of the outstanding equity interests of the Company. Completion of the "SPAC Transaction" described herein, is subject to certain customary regulatory consents and approval by stockholders of Arrowroot and the Company.

The merger with Arrowroot closed on April 16, 2024. Refer to Note 14 for additional discussion.

2. Summary of Significant Accounting Policies

Concentration of Credit Risk and Major Sales Channels

Financial investments that potentially subject the Company to credit risk consist of cash. The Company places its cash with certain U.S. financial institutions. At various times, the Company's cash deposits with any one financial institution may exceed the amount insured by the Federal Deposit Insurance Corporation (the "FDIC"). The Company has not experienced any losses of such amounts and management believes it is not exposed to any significant credit risk on its cash.

During the three months ended March 31, 2024, there were four customers, representing 16.7%, 13.5%, 11.3%, and 10.3%, respectively, who individually accounted for 10% or more of the Company's revenue. During the three months ended March 31, 2023, there were four customers, representing 21.5%, 17.7%, 13.0% and 11.8%, respectively, who individually accounted for 10% or more of the Company's revenue.

Fair Value Option ("FVO") Election

The Company has convertible notes (refer to Note 6) and debt (refer to Note 5) which are accounted under the "fair value option election" discussed below.

Under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 815, Derivative and Hedging, ("ASC 815"), a financial instrument containing embedded features and /or options may be required to be bifurcated from the financial instrument host and recognized as separate derivative asset or liability, with the bifurcated derivative asset or liability initially measured at estimated fair value as of the transaction issue date and then subsequently remeasured at estimated fair value as of each reporting period balance sheet date.

Alternatively, FASB ASC Topic 825, Financial Instruments, ("ASC 825") provides for the "fair value option" ("FVO") election. In this regard, ASC 825-10-15-4 provides for the FVO election (to the extent not otherwise prohibited by ASC 825-10-15-5) to be afforded to financial instruments, wherein the financial instrument is initially measured at estimated fair value as of the transaction issue date and then subsequently remeasured at estimated fair value as of each reporting period balance sheet date, with changes in the estimated fair value recognized as other income or expense in the statement of operations.

The estimated fair value adjustment of convertible notes, including the component related to interest expense, is presented in a single line item, "Change in fair value of convertible notes", within the condensed consolidated statement of operations (as provided for by ASC 825-10-50-30(b)). As further discussed in Note 5, there was no change in the fair value of the Amended Term Loans between the date of the amendment on March 27, 2024 and March 31, 2024.

Further, as required by ASC 825-10-45-5, to the extent a portion of the fair value adjustment is attributed to a change in the instrument-specific credit risk, such portion would be recognized as a component of other comprehensive income ("OCI"), however there have been no such adjustments with respect to the convertible notes or debt which are accounted for under the fair value option.

Deferred Transaction Costs

The Company has incurred direct and incremental transaction costs related to the merger with Arrowroot. Transaction costs of $6.9 million and $4.0 million were deferred and capitalized to the "Deferred transaction costs" line item within the condensed consolidated balance sheets as of March 31, 2024 and December 31, 2023, respectively.

After consummation of the merger, these costs will be recorded to shareholders' deficit as a reduction of additional paid-in capital generated as a result of the merger. As of March 31, 2024, and December 31, 2023, $2.8 million and $1.1 million of unpaid transaction costs are included within the "Trade accounts payable" line item, and $0.5 million and $1.6 million are included within the "Accrued expenses" line item, within the condensed consolidated balance sheets, respectively.

Accounts Receivable and Provision for Credit Losses

Accounts receivable are uncollateralized, noninterest bearing customer obligations due under normal trade terms and generally requiring payment within 30 to 90 days of the invoice date. Accounts receivable are stated at the amount billed to the customer, net of provision for credit losses in accordance with ASC 326, Financial Instruments-Credit Losses. Payments of accounts receivable are allocated to the specific invoices identified on the customer's remittance advice, or, if unspecified, are applied to the earliest unpaid invoice.

The estimation of the provision for credit loss is based on an analysis of historical loss experience, current receivables aging, any known or expected changes to the customers' ability to fulfill their payment obligations, and management's assessment of current conditions and estimated future conditions. The general CECL reserve is measured on a collective (pool) basis when similar risk characteristics exist for multiple financial instruments. The Company notes its account receivables do not similar risks, and the Company measures the CECL reserve on an individual customer account basis.

At the end of each reporting period, the provision for credit losses is reviewed relative to management's expected credit loss model and is adjusted as necessary. The expense associated with the provision for expected credit losses is recognized in selling, general, and administrative expenses in the consolidated statements of operations. Accounts receivable write-offs are recorded when management believes it is probable a receivable will not be recovered. The provision for credit losses as of March 31, 2024 and December 31, 2023 were $0.5 million and $0.3 million, respectively.

The following table shows the change in the Company's provision for credit losses recognized for receivables between December 31, 2023 and March 31, 2024 (in thousands):

	Balance
Provision for credit losses as of December 31, 2023	$ 336
Change in provision for credit losses during the three months ended March 31, 2024	174
Provision for credit losses as of March 31, 2024	$ 510

Revenue Recognition

Disaggregation of Revenue

The Company disaggregates revenue into categories that depict the nature, amount, and timing of revenue and cash flows based on differing economic risk profiles for each category. In concluding such disaggregation, the Company evaluated the nature of the products and services, consumer markets, sales terms, and sales channels which have similar characteristics such that the level of disaggregation provides an understanding of the Company's business activities and historical performance. The level of disaggregation is evaluated annually and as appropriate for changes to the Company or its business, either from internal growth, acquisitions, divestitures, or otherwise. Revenue from implementation services and combined software license and maintenance is recognized over the respective performance obligation period. As such, there is no disaggregation of revenue by point in time as all of the Company's revenue is recognized over time.

With respect to the Company's disaggregation of revenue by customer geography, geography is primarily determined based on the location of the customer identified in the contract. Under certain arrangements, the Company enters contracts with the Technology Partner (refer to Note 4 for additional information about the Company's contractual arrangements with the Technology Partner) though which the Technology Partner purchases and integrates the ILE platform into the Technology Partner's own software solution provided to one of the Technology Partner's customers. In this type of contractual arrangement, the Company identifies the Technology Partner as its customer. In contractual arrangements in which the Technology Partner is identified as the customer, the Technology Partner's end customer may or may not be known by the Company In cases in which the Technology Partner's customer is known to the Company, the geography is determined based on the location of the Technology Partner's customer and conversely, in cases in which the Technology Partner's customer is not known, the customer geography is determined based on the geography of the Technology Partner. The following table presents this disaggregation of revenue by customer geography:

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
	(In thousands)	
North America	$ 54,317	$ 45,011
India	51,873	34,795
Other[1]	18,745	14,174
Total Revenues	$ 124,935	$ 93,980

(1) Other includes customers in Middle East and Europe.

The following table presents to disaggregation of revenue by type of revenue:

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
	(In thousands)	
Revenue related to implementation services	$ 5,200	$ 4,660
Combined software license and maintenance revenues	119,735	89,320
Total Revenues	$ 124,935	$ 93,980

Contract asset

Contract asset balances represent amounts for which the Company has recognized revenue, pursuant to its revenue recognition policy, for software licenses already delivered, implementation services, and maintenance services already performed but invoiced in arrears. As of March 31, 2024 and December 31, 2023 contract assets were $0.3 million and $0.5 million, respectively.

Contract liability

Contract liability represents either customer advance payments or billings for which the revenue recognition criteria has not yet been met. Contract liability is primarily unearned revenue related to combined software and maintenance services. As of March 31, 2024 and December 31, 2023, the contract liability balance was $1.4 million and $2.8 million.

Remaining performance obligations

As of March 31, 2024, the total remaining performance obligations under the Company's contracts with customers was $447.0 million, and the Company expects to recognize approximately 86% of the remaining performance obligations as revenue within the next twelve months. As of December 31, 2023, the total remaining performance obligations under the Company's contracts with customers was $409.6 million, and the Company recognized revenues on approximately 90% of these remaining performance obligations over the year ended December 31, 2023.

Recent Accounting Pronouncements Not Yet Adopted

In November 2023, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures, which requires a public entity to disclose significant segment expenses and other segment items on an annual and interim basis and provide in interim periods all disclosures about a reportable segment's profit or loss and assets that are currently required annually. Additionally, it requires a public entity to disclose the title and position of the Chief Operating Decision Maker (CODM). The ASU does not change how a public entity identifies its operating segments, aggregates them, or applies the quantitative thresholds to determine its reportable segments. The new standard is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted. A public entity should apply the amendments in this ASU retrospectively to all prior periods presented in the financial statements. The Company is still evaluating the impact of this standard on its condensed consolidated financial statements.

In December 2023, the FASB issued ASU No. 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures, which focuses on the rate reconciliation and income taxes paid. ASU No. 2023-09 requires a public business entity (PBE) to disclose, on an annual basis, a tabular rate reconciliation using both percentages and currency amounts, broken out into specified categories with certain reconciling items further broken out by nature and jurisdiction to the extent those items exceed a specified threshold. In addition, all entities are required to disclose income taxes paid, net of refunds received disaggregated by federal, state/local, and foreign and by jurisdiction if the amount is at least 5% of total income tax payments, net of refunds received. For PBEs, the new standard is effective for annual periods beginning after December 15, 2024, with early adoption permitted. An entity may apply the amendments in this ASU prospectively by providing the revised disclosures for the period ending December 31, 2025 and continuing to provide the pre-ASU disclosures for the prior periods, or may apply the amendments retrospectively by providing the revised disclosures for all period presented. The Company is still evaluating the impact of this standard on its condensed consolidated financial statements.

3. Accrued Expenses

The following table presents the components of accrued expenses as of March 31, 2024 and December 31, 2023:

	As of	
	March 31, 2024	**December 31, 2023**
	(In thousands)	
Accrued income taxes	$ 2,495	$ 1,742
Other accrued expenses[1]	1,355	1,240
Total	$ 3,850	$ 2,982

(1) Other Accrued Expense includes accrued professional service fees, accrued interest, accrued compensation and benefits, and other current liabilities.

4. Technology Partner

In 2019, the Company entered a Master Agreement ("MA") with the Technology Partner, which allows for quarterly netting of amounts collected by the Technology Partner from end-users, against the cost of the Technology Partner's services rendered and billable to the Company. The MA has an initial term of five years with an automatic renewal for five additional years.

On January 1, 2021, the Company amended the interest rate with the Technology Partner which changed from a 12-month LIBOR rate plus 2.0% to a fixed rate of 3.99% through December 31, 2023. On January 5, 2024, the Company amended the interest rate with the Technology Partner to a fixed rate of 5.99% through December 31, 2024. The Company is not required to repay any outstanding balance or accrued interest until the tenth anniversary of the effective date of termination of the MA. As of the date of these condensed consolidated financial statements, the MA has not been terminated.

The following table summarizes the expenses charged to Company by the Technology Partner that are presented within "Cost of revenue", "Selling, general and administrative expenses", and "Research and development expenses" on the condensed consolidated statements of operations for the three months ended March, 31 2024 and 2023:

	Three Months Ended March 31,	
	2024	2023
	(In thousands)	
Cost of revenue	$ 38,673	$ 31,541
Selling, general and administrative expense	37,063	29,533
Research and development expense	37,048	28,581
	$ 112,784	$ 89,655

Subordinated Payable to the Technology Partner

On December 30, 2020, the Company and the Technology Partner entered into a subordination agreement whereby the payable to the Technology Partner became subordinated to the 2020 and 2021 Term Loans (refer to Note 5).

The following table presents a reconciliation of the change in subordinated payable to the Technology Partner between December 31, 2023 and March 31, 2024 (in thousands):

	Subordinated payable to Technology Partner
Balance as of December 31, 2023	$ 49,163
Accrued interest	626
Balance as of March 31, 2024	$ 49,789

Interest expense related to the subordinated payable to the Technology Partner was $0.6 million for the three months ended March 31, 2024.

Net Receivable from Technology Partner

Subsequent to the execution of the subordination agreement, the Company and the Technology Partner resumed quarterly netting of collections and the cost of services provided with the same interest rate terms defined above.

The following table presents a reconciliation of the changes in the net receivable from Technology Partner between December 31, 2023 and March 31, 2024 (in thousands):

	Net Receivable from Technology Partner
Balance of receivable from Technology Partner as of December 31, 2023	$ 13,602
Collections by Technology Partner	113,732
Cost of services provided by Technology Partner	(112,784)
Net cash transfers between Company and Technology Partner	330
Balance of receivable from Technology Partner as of March 31, 2024	$ 14,880

5. Debt

The following table presents the components of the Company's debt as of March 31, 2024 and December 31, 2023:

	March 31, 2024	December 31, 2023
	(In thousands)	
2020 Term Loans	$ -	$ 2,697
2021 Term Loans	-	12,299
2023 Term Loans	-	10,000
Amended Term Loans	26,026	-
	26,026	24,996
Less: Discount on debt	-	3,800
	26,026	21,196
Less: Current portion	26,026	10,517
Long-term portion of debt	$ -	$ 10,679

Contractual interest expense related to the 2020 Term Loan, 2021 Term Loan, and 2023 Term Loan (collectively, the "Term Loans"), was $0.7 million and $0.7 million for the three months ended March 31, 2024 and March 31, 2023 and the amortization of debt issuance costs was $0.7 million and $0.5 million for the three months ended March 31, 2024 and March 31, 2023, respectively.

Amendment to 2020, 2021 and 2023 Term Loans

On March 27, 2024, ILE entered into an agreement to amend the 2020, 2021 and 2023 Term Loans (the "Amendment"). The amended terms consisted of:

(i) revision to the amortization schedule for the Term Loans in exchange for 1,019,999 shares of "NewCo" (defined in Note 14 - Subsequent Events) common stock to be issued upon completion of the SPAC Transaction (the "Loan Restructuring Shares")

(ii) agreement to terminate the outstanding warrants issued in connection with the Term Loans and the respective put rights associated with each, in exchange for the Company's agreement to provide the respective lenders with an aggregate amount of 3,399,999 shares of NewCo common stock to be issued upon completion of the SPAC Transaction.

Pursuant to the Amendment, if the Company repays the "Amended Term Loans" in full, on or before (i) April 15, 2024, then 90% of the Loan Restructuring Shares will be canceled, (ii) May 1, 2024, then 80% of the Loan Restructuring Shares will be canceled, and (iii) July 1, 2024, then 50% of the Loan Restructuring Shares will be canceled.

In addition, the Amendment provides that, if the Company prepays the Amended Term Loans, then at the Company's option, the Company may prepay 50% of the amount of scheduled but unpaid payments of interest that would have accrued after the prepayment date by issuing a number of shares of NewCo common stock obtained by dividing (A) the product of (x) the unpaid scheduled interest payments and (y) 2.75, by (B) the volume-weighted average price of NewCo common stock over the seven (7) trading days immediately preceding the date of issuance.

The Loan Restructuring Shares were determined to be classified as a liability initially measured at fair value with subsequent changes in fair value recorded in earnings. The initial fair value of the Loan Restructuring Shares was determined to be $2.8 million. The Loan Restructuring Shares are presented within "Loan restructuring share liability" in the accompanying consolidated balance sheet. There was no change in fair value between the date of the initial fair value determined on March 27, 2024 and March 31, 2024.

The Amendment was accounted for as a debt extinguishment under US GAAP, through which the Company recorded a $10.0 million loss on debt extinguishment within the accompanying condensed consolidated statement of operations.

The Company elected to account for the Amended Term Loans under the fair value option. Under the fair value option, the balance is subsequently measured at fair value for each reporting period with changes in fair value, including changes due to instrument specific credit risk, recorded in earnings. The initial fair value of the Amended Term Loans was determined to be $26.0 million and there were no changes in fair value between the date of the Amendment on March 27, 2024 and March 31, 2024:

	Amended Term Loans
	(In thousands)
Fair value on March 27, 2024	$ 26,026
Change in fair value of term loan due to instrument-specific credit risk	-
Remaining changes in fair value	-
Fair value as of March 31, 2024	$ 26,026

On April 18, 2024, the Company prepaid the full amount of the Amended Term Loans using a combination of cash and 159,379 shares of NewCo common stock. Based on the timing of the prepayment, 815,999 Loan Restructuring Shares were canceled.

Debt Covenant Compliance

The Company's 2020, 2021, and 2023 Term Loans were subject to covenant clauses. Covenant breaches related to timely filing of payroll tax returns and failure to maintain $2.0 million of restricted cash were waived by the respective lenders as part of the Amendment. Due to the waivers obtained, as of March 31, 2024, the Company is in compliance with all debt covenants.

Warrants

The following is a schedule of changes in warrants issued and outstanding from December 31, 2023 to March 31, 2024:

	Units
Outstanding as of December 31, 2023	1,094,299
Warrants issued	-
Outstanding as of March 31, 2024	1,094,299

The fair value of the warrant liability was determined using an option pricing model, see Note 11, Fair Value Measurements, for disclosure in assumption of the warrant liability.

6. Convertible Notes

The following is a schedule of the Company's convertible notes at fair value as of March 31, 2024, and December 31, 2023:

	March 31, 2024	December 31, 2023
	(In thousands)	
2023 Convertible Notes	$ 35,936	$ 31,547
2024 Convertible Notes	1,776	-
Total	$ 37,712	$ 31,547

On April 27, 2023, the Company entered into the 2023 convertible note purchase agreement (the "2023 Convertible Note Purchase Agreement") pursuant to which the Company issued and sold 2023 Convertible Notes with an aggregate principal amount of $17.4 million. The 2023 Convertible Notes mature on October 27, 2025, unless converted earlier, redeemed, or repurchased prior to the maturity date.

On March 21, 2024 ("Issuance Date"), the Company entered into the 2024 convertible note purchase agreement (the "2024 Convertible Notes") pursuant to which the Company issued and sold 2024 Convertible Notes with an aggregate principal amount of $0.7 million. The 2024 Convertible Notes mature 30 months after the Issuance Date.

The 2024 Convertible Notes contain a make whole provision, such that for each share of each common stock converted under the 2024 Convertible Notes, a number of additional incentive shares (rounded down to the nearest whole share) equal to (i) $10.00 (the "Conversion Price"), divided by the greater of (i) the volume-weighted average price of the NewCo common shares over the ten trading days immediately preceding November 30, 2024 (the "Reference Date") and (ii) $1.00 (the "Reference Price"), minus (ii) one will be issued. The Conversion Price and Reference Price shall be appropriately adjusted for any stock dividend, stock split, stock combination, recapitalization or other similar transaction during the period beginning on the date the NewCo common shares are issued upon conversion of the 2024 Convertible Notes and ending on the Reference Date.

The 2023 and 2024 Convertible Notes bear simple interest, accrued on a daily basis in arrears, at a rate of 15.0% per annum until aggregate accrued interest is greater than 25.0% of the principal amount, and at a rate of 8.0% per annum thereafter.

The 2023 and 2024 Convertible Notes are convertible to shares including under the following circumstances:

- upon the occurrence of an equity financing, the lender can elect to exchange the convertible notes into the number of shares of equity securities issued in such equity financing equal to the note balance divided by the equity price in such equity financing and

- immediately prior to the consummation of a qualified de-SPAC transaction, the convertible notes shall automatically convert, in whole, into shares of common stock of the Company thereby entitling the lender to receive a number of shares equal to (i) 2.75, multiplied by the outstanding principal under each convertible note, plus all accrued and unpaid interest thereon, divided by (ii) $10.00.

Additionally, pursuant to the respective convertible note purchase agreements, the Company may prepay the 2023 and 2024 Convertible Notes in cash without the consent of the holders, at an amount equal to the balance of the note before maturity.

As of March 31, 2024, the fair value of the 2023 and 2024 Convertible Notes was $35.9 million and $1.8 million, respectively, and the corresponding change in fair value recorded within the accompanying condensed consolidated statements of operations for the three months ended March 31, 2024 was $5.5 million. The fair value of the 2023 Convertible Notes as of December 31, 2023 was $31.5 million.

7. Share-Based Compensation

On August 12, 2021, the Company adopted the 2020 Equity Incentive Plan (the "Plan"). The total restricted stock units ("RSUs") granted under the Plan as of March 31, 2024 and December 31, 2023 was 8,338,438. The awards have a four year service requirement with a one-year cliff vesting starting on the employment date and are subject to the Liquidity Event provision defined below.

As of March 31, 2024 and December 31, 2023, the Company had 39,883,388 shares of restricted stock awards outstanding with the Company's founders with a ten-year service requirements starting on the day of the Liquidity Event (defined below) (the "Founder Restricted Shares") and 360,290 restricted shares outstanding with a former employee, in which the service requirement had been deemed met on the grant date (together with the Founder Restricted Shares, the "Restricted Shares"). The Company's 40,243,678 outstanding Restricted Shares participate on par with common shares in all distributions from the Company, as the holders of these restricted shares are entitled to non-forfeitable dividend rights. Each of the RSUs and Restricted Shares is subject to a change of control provision; an effective registration statement under the Securities Act of 1933, as amended (the "Securities Act"); a direct listing on the Nasdaq Global Select Market or New York Stock Exchange; or the Company's completion of a merger or consolidation with a SPAC whereby the surviving company's common stock are publicly traded in a public offering pursuant to an effective registration statement under the Securities Act (collectively, the "Liquidity Events").

The summary of nonvested RSUs and Restricted Shares whose vesting is subject to the achievement of a Liquidity Event for the period ended March 31, 2024 is disclosed below:

	Shares	Weighted Average Grant Date Fair Value
RSUs		
Nonvested as of January 1, 2024	8,338,438	$ 4.09
Granted	-	-
Nonvested as of March 31, 2024	8,338,438	$ 4.09

	Shares	Weighted Average Grant Date Fair Value
Restricted Shares		
Nonvested as of January 1, 2024	40,243,678	$ 3.53
Granted	-	-
Nonvested as of March 31, 2024	40,243,678	$ 3.53

The aggregate unrecognized compensation expense for these awards whose vesting is subject to the achievement of a Liquidity Event is $176.1 million as of March 31, 2024.

The vesting of these RSUs and Restricted Shares is contingent upon the Liquidity Events that are considered not probable of occurring until it actually occurs, therefore no share-based compensation expense will be recognized until any of the Liquidity Events are achieved.

8. Income Taxes

The Company's income tax provision is computed based on the federal statutory rate and the average state statutory rates, net of the related federal benefit. For the three months ended March 31, 2024 and 2023, the Company recorded an income tax expense of $1.2 million and income tax benefit of $0.2 million, respectively.

The Company's estimate of the realizability of the deferred tax asset is dependent on estimates of projected future levels of taxable income. In analyzing future taxable income levels, the Company considered all evidence currently available, both positive and negative. Accordingly, as of March 31, 2024 and December 31, 2023, the Company no longer maintains a valuation allowance outside of the Australia and India jurisdiction.

9. Net (Loss) Income Per Share

Basic net (loss) income per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net (loss) income per share is computed using the weighted-average number of common shares and, if dilutive, common share equivalents outstanding during the period.

The computation of basic and diluted net (loss) income per share and weighted-average shares of the Company's common stock outstanding during the periods presented is as follows:

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
	(In thousands, except share and per share amounts)	
Basic net (loss) income per share:		
Net (loss) income	$ (25,935)	$ 451
Income allocated to participating securities	-	(133)
Net (loss) income attributable to common stockholders – basic	$ (25,935)	$ 318
Diluted net (loss) income per share:		
Net (loss) income attributable to common stockholders – basic	$ (25,935)	$ 451
Interest expense on the 2019 Convertible Notes	-	(133)
Net (loss) income attributable to common stockholders – diluted	$ (25,935)	$ 318
Shares used in computation:		
Weighted-average common shares outstanding	95,782,605	95,782,605
Weighted-average effect of dilutive securities:		
Diluted weighted-average common shares outstanding	95,782,605	95,782,605
Net (loss) income per share attributable to common stockholders:		
Basic	$ (0.27)	$ 0.00
Diluted	$ (0.27)	$ 0.00

There were no dividends declared or accumulated on the common shares during the three months ended March 31, 2024 and 2023. The Company applies the two-class method to its Restricted Shares, which contains non-forfeitable dividend rights and thereby meets the definition of participating securities, which requires earnings available to common stockholders for the period to be allocated between common stock and participating securities based upon their respective rights to receive dividends as if all earnings for the period had been distributed. Net loss is not allocated to participating securities in accordance with the contractual terms. The Company's weighted average restricted shares outstanding was 40,243,678 for the three months ended March 31, 2024 and 2023. The Company excluded the following securities, presented based on amounts outstanding at each period end, from the computation of diluted net (loss) income per share attributable to common stockholders for the periods indicated, as including them would have had an anti-dilutive effect:

	Three Months Ended March 31,	
	2024	2023
Warrants to purchase common stock(1)	1,094,299	873,618
RSUs(2)	8,338,438	7,138,438
Contingent consideration to In2vate(3)	34,030	34,030
Convertible Notes(4)	5,157,432	-
Restricted Shares(5)	40,243,678	40,243,678
Loan restructuring share liability(5)	1,019,999	-

(1) Warrants of 220,681 are out-of-the-money during the three months ended March 31, 2024. The warrants of 873,618 are in-the-money during the three months ended March 31, 2024, however, are not considered exercised as the Company is in a net loss position.. The warrants of 873,618 are out-of-the money during the three-months ended March 31, 2023. Therefore, all warrants are excluded from the dilutive EPS calculation.

(2) RSUs are subject to the vesting condition under the Liquidity Event, as discussed in Note 7 – Share Based Compensation. As these securities are considered as contingently issuable shares where the contingency has not been met at the end of the reporting period, they are excluded from the dilutive net income (loss) per share calculation for the periods presented.

(3) Contingencies underlying contingent consideration payable to In2vate was not met as of the end of the reporting period. Therefore, these shares have been excluded from the dilutive net (loss) income per share calculation for the periods presented.

(4) If-converted method was applied to the Convertible Notes, in which the impact was anti-dilutive for the three months ended March 31, 2024. Therefore, they are excluded from the dilutive EPS calculation.

(5) Restricted Shares and Loan Restructuring Shares were excluded from dilutive earnings per share calculation for the three months ended March 31, 2024 as the impact of including such shares would be anti-dilutive.

10. Payroll Taxes Payable

The Company has not paid or filed employment payroll tax returns for any period from inception through December 31, 2020. The federal and state withholding tax, employer payroll taxes, penalties, and interest liability from inception of the Company through December 31, 2023 and related penalties and interest were recorded within Payroll Taxes Payable on the condensed consolidated balance sheets. The total liability was $3.0 million each as of March 31, 2024 and December 31, 2023, respectively. The related charge for these accruals is recorded to "Selling, general, and administrative expenses" within the condensed consolidated statements of operations.

11. Fair Value Measurements

The Company's financial instruments consist of warrant liability, 2020 Term Loans, 2021 Term Loans, 2023 Term Loans, Amended Term Loans, 2023 and 2024 Convertible Notes, Loan Restructuring and Subordinated Payable to Technology Partner.

The carrying value and estimated fair value of the Company's 2020 Term Loans, 2021 Term Loans, 2023 Term Loans, Amended Term Loans, 2023 Convertible Notes, 2024 Convertible Notes, Loan Restructuring and Subordinated Payable to Technology Partner as of March 31, 2024 and December 31, 2023, were as follows:

	March, 31, 2024			December, 31, 2023		
	Principal amount	Carrying amount	Fair value	Principal amount	Carrying amount	Fair value
			(In thousands)			
2020 Term Loans	$ -	$ -	$ -	$ 2,697	$ 2,483	$ 2,697
2021 Term Loans	-	-	-	12,299	11,498	12,299
2023 Term Loan	-	-	-	10,000	7,215	10,000
Amended Term Loans	21,967	26,026	26,026	-	-	-
2023 Convertible Notes	17,400	35,936	35,936	17,400	31,547	31,547
2024 Convertible Notes	700	1,776	1,776	-	-	-
Subordinated payable to Technology Partner	49,789	49,789	49,789	49,163	49,163	49,163
Loan restructuring share liability	-	2,813	2,813	-	-	-
	$ 89,856	$ 116,340	$ 116,340	$ 91,559	$ 101,906	$ 105,706

With respect to the 2020 Term Loans, 2021 Term Loans, 2023 Term Loans, the Company concluded the fair values as of December 31, 2023 approximated the principal value. For Subordinated Payable to Technology Partner, the Company determined that the fair value approximated the principal value as of March 31, 2024 and December 31, 2023. The 2023 and 2024 Convertible Notes and the Loan restructuring share liability are presented are carried at fair value for each period presented.

The fair values of the 2023 and 2024 Convertible Notes, Loan restructuring share liability and Amended Term Loans are estimated using a scenario-based approach which considers the conversion feature and related payoffs within each scenario.

The level 3 inputs used in the valuation model for the Amended Term Loans as of March 31, 2024 included the following:

	March 31, 2024				
Redemption Event	Prepay by April 15, 2024	Prepay by May 1, 2024	Prepay by July 1, 2024	Hold-to-Maturity	Private Sale
Discount spread	27.90%	27.90%	27.90%	27.90%	27.90%
Probability	5%	48%	38%	5%	5%
Term matched risk- free rate	5.49%	5.49%	5.46%-5.49%	4.47%-5.49%	4.47%-5.49%

The level 3 inputs used in the valuation model for the 2024 Convertible Notes as of March 31, 2024 included the following:

	March 31, 2024	
Redemption Event	De-SPAC Transaction	Hold-to-Maturity
Probability	95%	5%
Time to event date (years)	0.04	2.48
Discount spread	574.2%	574.2%
Risk-free rate	5.6%	4.6%
Discount yield	579.8%	578.8%

The level 3 inputs used in the valuation model for the 2023 Convertible Notes as of March 31, 2024 and December 31, 2023 included the following:

	March 31, 2024	
Redemption Event	De-SPAC Transaction	Hold-to-Maturity
Probability	95%	5%
Time to event date (years)	0.04	1.58
Discount spread	574.2%	574.2%
Risk-free rate	5.6%	4.8%
Discount yield	579.8%	579.0%

Redemption Event	December 31, 2023 Equity Financing	De-SPAC Transaction	Hold-to-Maturity
Probability	8.0%	90.0%	2.0%
Time to event date (years)	0.13	0.13	1.82
Discount spread	574.2%	574.2%	574.2%
Risk-free rate	5.6%	5.6%	4.4%
Discount yield	579.8%	579.8%	578.6%

The fair value of the warrant liability and Loan restructuring share liability was determined using an option pricing model which utilized the following level 3 inputs:

	March 31, 2024	
	Private Sale Scenario (5% Probability)	SPAC Scenario (95% Probability)
Volatility	65.0%	45.0%
Risk-free interest rate	5.1%	5.42%
Dividend yield	0.0%	0.0%
Exercise price for $6.94 warrants	$ 6.94	$ 6.94
Exercise price for $10.14 warrants	$ 10.14	$ 10.14
Discount for Lack of Marketability	0.0%	2.0%
Term	0.75 Years	0.04 Years
Equity value(1)	$ 588,496,671	$ 1,233,314,103

(1) Equity value was derived from weighted average of discounted cash flow, guideline company method, and transaction methodologies.

	December 31, 2023	
	Private Sale Scenario (10% Probability)	SPAC Scenario (90% Probability)
Volatility	60.0%	50.0%
Risk-free interest rate	4.7%	5.5%
Dividend yield	0.0%	0.0%
Exercise price for $6.94 warrants	$ 6.94	$ 6.94
Exercise price for $10.14 warrants	$ 10.14	$ 10.14
Term	1.0 Years	0.1 Years
Equity value(1)	$ 585,798,557	$ 1,235,675,336

(1) Equity value was derived from weighted average of discounted cash flow, guideline company method, and transaction methodologies.

The Company's liabilities measured at fair value on a recurring basis were categorized as follows within the fair value hierarchy.

	March 31, 2024			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Liabilities				
Warrant liabilities	$ -	$ -	$ 26,988	$ 26,988
Amended Term Loans	-	-	26,026	26,026
2023 Convertible Notes	-	-	35,936	35,936
2024 Convertible Notes	-	-	1,776	1,776
Loan restructuring share liability	-	-	2,813	2,813
Total liabilities	$ -	$ -	$ 93,539	$ 93,539

	December 31, 2023			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Liabilities				
Warrant liability	$ -	$ -	$ 11,870	$ 11,870
2023 Convertible Notes	-	-	31,547	31,547
Total liabilities	$ -	$ -	$ 43,417	$ 43,417

The following table summarizes the activity for the Company's Level 3 liabilities measured at fair value:

	Warrant Liability	Convertible Notes	Loan Restructuring	Amended Term Loans
	(In thousands)			
Balance as of December 31, 2023	$ 11,870	$ 31,547	$ -	$ -
Issuance	-	700	2,813	26,026
Change in fair value	15,118	5,465	-	-
Balance as of March 31, 2024	$ 26,988	$ 37,712	$ 2,813	$ 26,026

During the three months ended March 31, 2024 and 2023, there were no transfers between Level 1 and Level 2, nor into and out of Level 3.

12. Commitments and Contingencies

Contingencies

The Company evaluates for any potential impact of loss contingencies that are probable and reasonably estimable. As of March 31, 2024, there were no loss contingencies recorded.

While the Company does not anticipate that the resolution of any ongoing matters will have a material impact on its results of operations, financial condition, or cash flows, it is important to note that the ultimate outcome of these matters remains uncertain. In the event of an unfavorable resolution of one or more of these contingencies, it could have a material effect on the Company's financial condition, results of operations, or cash flows.

The Company will continue to monitor these matters and disclose any significant developments or changes in future financial statements as necessary.

Purchase Commitments

The Company entered into a long-term software licensing contract with a major customer that commenced in 2018 and is set to expire in June 2024, subject to an additional 5-year renewal. The contract has an annual value of $50.3 million. As part of the agreement, the Company installs its software licenses on the customer's servers, and in exchange, the customer pays an annual fee for access to the software license and related maintenance services. Additionally, the Company has a separate contract with the customer for the purchase of the customer's end-user data. This data is essential for the Company's development and utilization of its next-generation artificial intelligence platform. The annual price for this data acquisition amounts to approximately $30.0 million.

The sale of the software license and the purchase of the customer's end-user data are treated as distinct and independent transactions. Furthermore, the software licensing contract and the data acquisition contract can be canceled individually without affecting the other contract, with the data acquisition contract requiring twelve months notice for cancellation by either party. Due to the distinct nature of the data acquisition from the customer, which is obtained at fair value and used primarily for research and development purposes, the revenue generated from the software licensing contract is recognized on a gross basis. Conversely, the expenses associated with the data acquisition are also recognized on a gross basis and classified as research and development expenses.

Financial Advisor Agreement

The Company has a financial advisory agreement in place with a designated financial advisor to assist with any future equity fundraising activities. According to the terms of the agreement, the financial advisor will receive compensation based on the following structure:

For equity raises comprising less than a majority of the Company's equity capitalization, the financial advisor will be entitled to a fee equal to 5.0% of the gross proceeds generated from the equity raise.

In the event of an equity raise comprising a majority of the Company's equity capitalization, the financial advisor's compensation will be calculated based on the greater of the following:

i) A flat fee of $3.5 million.

ii) 1.0% of the aggregate value of the equity raise up to $1.0 billion, plus an additional 1.5% of the portion of the aggregate value of the equity raise that exceeds $1.0 billion.

These compensation terms outline the financial advisor's entitlement to fees based on the successful completion of equity fundraising activities. For non-equity transactions the specific fee is open to negotiation on a transaction-by-transaction basis to ensure that the financial advisor's compensation aligns with the scale and significance of the equity raise, considering the Company's equity capitalization and the total value of the funds raised.

On March 27, 2024, the Company and the financial advisor amended the financial advisory agreement to provide that, in lieu of payment in cash of the full amount of any advisory fees or other fees or expenses owed under the financial advisor agreement, the Company will pay the financial advisor $7,500,000 in cash or NewCo shares, at the sole discretion of the Company. As of March 31, 2024 and December 31, 2023, the financial advisor's fees were not yet probable of being paid, nor was the amount of the payment determinable. As a result, no amount is accrued within the condensed consolidated balance sheets at either period, for the potential compensation outlined within the financial advisor agreement.

Litigation

The Company is involved in litigation arising in the normal course of business. Such litigation is not expected to have a material effect on the Company's financial condition, results of operations, and cash flows.

13. Related-Party Transactions

Receivable from related party

The Company had outstanding receivables from Directors in the amount of $0.5 million as of December 31, 2023, related to expenses that the Company incurred on behalf of the Directors.

In February 2024, the Company collected the full amount of the related party receivable from each Director. There is no outstanding balance as of March 31, 2024.

14. Subsequent Events

The Company has evaluated all events subsequent to March 31, 2024 and through May 15, 2024, which represents the date these condensed consolidated financial statements were available to be issued. The Company is not aware of any subsequent event that would require recognition or disclosure in the condensed consolidated financial statements other than those described below.

Closing of the Merger and Related Transactions

On April 16, 2024, (the "Closing Date"), the Company consummated the previously announced merger contemplated by the Merger Agreement dated April 27, 2023 (the "SPAC Transaction"). Refer to Note 1 for additional detail.

The business combination is being accounted for as a reverse recapitalization, in accordance with U.S. GAAP. Under this method of accounting, although Arrowroot issued shares for outstanding equity interests of iLearningEngines, Inc. in the business combination, Arrowroot is treated as the "acquired" company for financial reporting purposes. Accordingly, the business combination is treated as the equivalent of the Company issuing stock for the net assets of Arrowroot, accompanied by a recapitalization. The net assets of Arrowroot is stated at historical cost, with no goodwill or other intangible assets recorded. Operations prior to the business combination will be those of the Company.

In connection with the closing of the business combination, Arrowroot Acquisition Corp. (NASDAQ: ARRW) changed its name to "iLearningEngines, Inc." ("NewCo") and is listed on the NASDAQ under the new ticker symbol "AILE".

On the Closing Date, the following transactions occurred pursuant to the terms of the Merger Agreement:

(i) Current ILE stockholders own 109,684,738 shares of NewCo common stock on the Closing Date in exchange for former ILE shares;

(ii) Former Arrowroot public stockholders own 638,977 shares of NewCo common stock on the Closing Date in exchange for former Arrowroot public shares;

(iii) Current and former affiliates of Arrowroot own 8,674,617 shares of NewCo common stock on the Closing Date in exchange for former Arrowroot convertible and promissory notes;

(iv) Convertible note investors (not including affiliates of Arrowroot) own 11,551,784 shares of NewCo common stock on the Closing Date in exchange for former ILE convertible notes (see “Convertible Note Purchase Agreement” below for portion of convertible notes entered into on Closing Date);

(v) The 2020 Lender, 2021 Lender and 2023 Lender own 4,419,998 shares of NewCo common stock on the Closing Date based on amendments to term loans (see “Amendments to 2020, 2021 and 2023 Term Loan” below for further details). Upon repayment of the term loans on April 18, 2024, 815,999 of the shares of NewCo common stock were cancelled.

Convertible Note Purchase Agreement

In connection with the SPAC Transaction, the Company issued and converted $29.4 million of 2024 Convertible Notes. The Company issued $0.7 million of convertible notes on March 21, 2024, and $28.7 million of convertible notes on the Closing Date (collectively, the “2024 Convertible Notes”). The 2024 Convertible Notes were converted to 8,089,532 common shares of NewCo on the Closing Date.

Negotiation of Payables to Third-Party Vendors

The Company negotiated concessions on accounts payable to other third-party vendors in several forms. The form of concessions include: (1) providing a discount to the total amount payable, (2) the option to settle certain payables in common stock, and (3) entering into a deferred payment agreement for certain payables. The concessions became effective on the Closing Date.

Proposed 2024 Equity Incentive Plan

The Company proposed a new equity incentive plan for 2024 and the plan was approved on April 1, 2024.

East West Bank Financing

On April 17, 2024 (the “Loan Closing Date”), Legacy iLearningEngines entered into a Loan and Security Agreement (the “Revolving Loan Agreement”), by and among Legacy iLearningEngines as borrower (“Borrower”), the lenders party thereto (the “Lenders”) and East West Bank, as administrative agent and collateral agent for the Lenders (“Agent”). The Revolving Loan Agreement provides for (i) a revolving credit facility in an aggregate principal amount of up to $40.0 million and (ii) an uncommitted accordion facility allowing the Borrower to increase the revolving commitments by an additional principal amount of $20.0 million at Borrower’s option and upon Agent’s approval (collectively, the “Revolving Loans”). Borrower drew $40.0 million in Revolving Loans on the Loan Closing Date, which was used (x) to repay in full Borrower’s Term Loans and (y) for general corporate purposes.

The obligations under the Revolving Loan Agreement are secured by a perfected security interest in substantially all of the Borrower’s assets except for certain customary excluded property pursuant to the terms of the Revolving Loan Agreement. On the Loan Closing Date, the Company and In2Vate, L.L.C., an Oklahoma limited liability company (the “Guarantors”) and wholly-owned subsidiary of Legacy iLearningEngines entered into a Guaranty and Suretyship Agreement (the “Guaranty”) with the Agent, pursuant to which the Guarantors provided a guaranty of Borrower’s obligations under the Revolving Loan Agreement and provided a security interest in substantially all of the Guarantors’ assets except for certain customary excluded property pursuant to the terms of the Guaranty.

The interest rate applicable to the Revolving Loans is Adjusted Term Secured Overnight Financing Rate (“SOFR”) (with an interest period of 1 or 3 months at the Borrower’s option) plus 3.50% per annum, subject to an Adjusted Term SOFR floor of 4.00%.

The maturity date of the Revolving Loans is April 17, 2027. The Revolving Loan Agreement contains customary representations and warranties and customary affirmative and negative covenants, including, among other things, restrictions on indebtedness, liens, investments, mergers, dispositions, prepayment of other indebtedness and dividends and other distributions. Borrower is also required to comply with the following financial covenants, which are more fully set forth in the Revolving Loan Agreement (i) minimum liquidity, (ii) minimum revenue performance to plan, (iii) minimum fixed charge coverage ratio and (iv) maximum leverage ratio.

The Revolving Loan Agreement also includes customary events of default, including failure to pay principal, interest or certain other amounts when due, material inaccuracy of representations and warranties, violation of covenants, specified cross-default and cross-acceleration to other material indebtedness, certain bankruptcy and insolvency events, certain undischarged judgments, material invalidity of guarantees or grant of security interest, material adverse effect and change of control, in certain cases subject to certain thresholds and grace periods. If one or more events of default occurs and continues beyond any applicable cure period, the Agent may, with the consent of the Lenders holding a majority of the loans and commitments under the facility, or will, at the request of such Lenders, terminate the commitments of the Lenders to make further loans and declare all of the obligations of the Company under the Revolving Loan Agreement to be immediately due and payable.

Exhibit 99.2

ILEARNINGENGINES MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the financial condition and results of operations of iLearningEngines, Inc. (for purposes of this section, the "Company," "iLearningEngines" "we," "us" and "our") should be read together with iLearningEngines' condensed consolidated financial statements and related notes included elsewhere in this filing and with our audited consolidated financial statements as of and for the fiscal year ended December 31, 2023, as filed with the Securities and Exchange Commission. Some of the information contained in this discussion and analysis includes forward-looking statements that involves risks and uncertainties. You should review the sections titled "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors" for a discussion of forward-looking statements and important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Recent Developments

Business Combination

On April 27, 2023, we entered into an Agreement and Plan of Merger and Reorganization (as amended, the "Merger Agreement") with Arrowroot Acquisition Corp. ("ARRW"), a Delaware corporation and ARAC Merger Sub, Inc., a Delaware corporation and wholly-owned subsidiary of ARRW ("Merger Sub"). On April 16, 2024 (the "Closing Date"), we consummated the merger transactions contemplated by the Merger Agreement, following the approval by ARRW's stockholders at a special meeting of stockholders held on April 1, 2024, whereby Merger Sub merged with and into iLearningEngines with the separate corporate existence of Merger Sub ceasing (the "Merger" and, together with the other transactions contemplated by the Merger Agreement, the "Business Combination"). The closing of the Business Combination is herein referred to as "the Closing." In connection with the consummation of the Merger on the Closing Date, ARRW changed its name from Arrowroot Acquisition Corp. to iLearningEngines, Inc. and iLearningEngines changed its name to iLearningEngines Holdings, Inc. (in such post-closing capacity, "Legacy iLearningEngines")

As a result of the Merger and upon the Closing, among other things, (1) each share of Legacy iLearningEngines Common Stock issued and outstanding as of immediately prior to the Closing was exchanged for the right to receive the number of shares of common stock, par value $0.0001 per share, of New iLearningEngines ("New iLearningEngines Common Stock") equal to the exchange ratio of 0.8061480 (the "Exchange Ratio") for an aggregate of 77,242,379 shares of New iLearningEngines Common Stock; (2) each share of Legacy iLearningEngines Common Stock held in the treasury of Legacy iLearningEngines was cancelled without any conversion thereof and no payment or distribution was or will be made with respect thereto; (3) each Vested RSU was cancelled and converted into the right to receive, subject to settlement and delivery in accordance with the Legacy iLearningEngines equity incentive plan, a number of New iLearningEngines Common Stock equal to the Exchange Ratio, for an aggregate of 5,675,890 shares of New iLearningEngines Common Stock; (4) each Unvested RSU was cancelled and converted into the right to receive a number of restricted stock units issued by the New iLearningEngines equal to the Exchange Ratio ("New iLearningEngines Converted RSU Award"), with each New iLearningEngines Converted RSU Award subject to the same terms and conditions as were applicable to the original Legacy iLearningEngines restricted stock unit award, for an aggregate of 78,730 shares of New iLearningEngines Common Stock subject to New iLearningEngines RSU Awards; (5) each share of vested Legacy iLearningEngines restricted stock was converted into the right to receive a number of shares of New iLearningEngines Common Stock equal to the Exchange Ratio, for an aggregate of 290,447 shares of New iLearningEngines Common Stock; (6) each share of unvested Legacy iLearningEngines restricted stock was converted into the right to receive a number of restricted shares of New iLearningEngines Common Stock ("New iLearningEngines Converted Restricted Stock") equal to the Exchange Ratio, with substantially the same terms and conditions as were applicable to such unvested Legacy iLearningEngines restricted stock immediately prior to the Effective Time, which shares will be restricted subject to vesting on the books and records of Legacy iLearningEngines, for an aggregate of 32,151,912 shares of New iLearningEngines Converted Restricted Stock; and (7) each Convertible Note (as defined below) was converted into the right to receive a number of shares of New iLearningEngines Common Stock equal to the Convertible Note Balance, *divided by* $10.00, for an aggregate of 13,060,608 shares of New iLearningEngines Common Stock.

2024 Convertible Note

On March 21, 2024, Legacy iLearningEngines entered into the 2024 convertible note purchase agreement with an investor pursuant to which, among other things, Legacy iLearningEngines issued and sold the Initial 2024 Convertible Note in an aggregate principal amount of $700,000. On the Business Combination date, Legacy iLearningEngines entered into a convertible note purchase agreement (the "2024 Convertible Note Purchase Agreement"), with certain investors (collectively, the "2024 Convertible Note Investors"), pursuant to which, among other things, Legacy iLearningEngines issued and sold to the 2024 Convertible Note Investors convertible notes due in October 2026, ("2024 Convertible Notes") with aggregate principal amount of $29,414,500 (including the initial $700,000 note). Each 2024 convertible note accrued interest at a rate of (i) 15% per annum until the aggregate accrued interest thereunder equals 25% of the principal amount of such note, and (ii) 8% per annum thereafter. Immediately prior to the consummation of the Business Combination, each 2024 convertible note automatically converted into shares of Legacy iLearningEngines thereby entitling the holder thereof to receive, in connection with the consummation of the Business Combination, a number of shares New iLearningEngines Common Stock (rounded down to the nearest whole share) equal to (i) 2.75, multiplied by the outstanding principal under such convertible note, plus all accrued and unpaid interest thereon, divided by (ii) $10.00. The price per share at which the Principal (as defined in the 2024 Convertible Note Purchase Agreement), together with accrued but unpaid interest, on each 2024 convertible note converts into incentive shares (as defined in the 2024 Convertible Note Purchase Agreement) is referred to as the "Conversion Price" herein.

In the event that the VWAP (as defined in the 2024 Convertible Note Purchase Agreement) of the New iLearningEngines Common Stock over the ten (10) trading days immediate preceding November 30, 2024 (the "Reference Date") is below the Conversion Price, then the 2024 convertible note shall be converted into shares of New iLearningEngines Common Stock, together with a make-whole payment equal to a number of additional incentive shares (rounded down to the nearest whole share) equal to (i) the Conversion Price, divided by the Reference Price (as defined below), minus (ii) one (1). "Reference Price" means the greater of (i) the VWAP of the New iLearningEngines Common Stock over the ten (10) trading days immediately preceding the Reference Date and (ii) $1.00. Notwithstanding the foregoing, the maximum number of shares issuable pursuant to the 2024 convertible notes shall not exceed 10,000,000 incentive shares.

In connection with the issuance of the 2024 convertible notes, on March 21, 2024, (i) Legacy iLearningEngines entered into a joinder to the Amended and Restated Registration Rights Agreement with each of the 2024 Convertible Note Investors, and (ii) the 2024 Convertible Note Investors entered into subordination agreements in favor of any holder of senior debt, a form of which is attached hereto as Exhibit 10.31 and incorporated herein by reference.

A description of the 2024 convertible notes is included in Supplement No. 3 under the heading "Recent Developments – 2024 Convertible Notes", which is incorporated herein by reference.

Revolving Loan Agreement

On April 17, 2024 (the "Loan Closing Date"), Legacy iLearningEngines entered into a Loan and Security Agreement (the "Revolving Loan Agreement"), by and among Legacy iLearningEngines as borrower ("Borrower"), the lenders party thereto (the "Lenders") and East West Bank, as administrative agent and collateral agent for the Lenders ("Agent"). The Revolving Loan Agreement provides for (i) a revolving credit facility in an aggregate principal amount of up to $40.0 million and (ii) an uncommitted accordion facility allowing the Borrower to increase the revolving commitments by an additional principal amount of $20.0 million at Borrower's option and upon Agent's approval (collectively, the "Revolving Loans"). Borrower drew $40.0 million in Revolving Loans on the Loan Closing Date, which was used (x) to repay in full Borrower's existing indebtedness under the (i) Loan and Security Agreement, dated as of December 30, 2020, between Legacy iLearningEngines and Venture Lending & Leasing IX, Inc., (ii) Loan and Security Agreement, dated as of October 21, 2021, between Legacy iLearningEngines, and Venture Lending & Leasing IX, Inc. and WTI Fund X, Inc. and (iii) Loan and Security Agreement, dated as of October 31, 2023, between Legacy iLearningEngines and WTI Fund X, Inc. (the "WTI Loan Agreements") and which will be used for (y) for general corporate purposes.

The obligations under the Revolving Loan Agreement are secured by a perfected security interest in substantially all of the Borrower's assets except for certain customary excluded property pursuant to the terms of the Revolving Loan Agreement. On the Loan Closing Date, the Company and In2Vate, L.L.C., an Oklahoma limited liability company and wholly-owned subsidiary of Legacy iLearningEngines (the "Guarantors") entered into a Guaranty and Suretyship Agreement (the "Guaranty") with the Agent, pursuant to which the Guarantors provided a guaranty of Borrower's obligations under the Revolving Loan Agreement and provided a security interest in substantially all of the Guarantors' assets except for certain customary excluded property pursuant to the terms of the Guaranty.

The interest rate applicable to the Revolving Loans is Adjusted Term Secured Overnight Financing Rate ("SOFR") (with an interest period of 1 or 3 months at the Borrower's option) plus 3.50% per annum, subject to an Adjusted Term SOFR floor of 4.00%.

The maturity date of the Revolving Loans is April 17, 2027. The Revolving Loan Agreement contains customary representations and warranties and customary affirmative and negative covenants, including, among other things, restrictions on indebtedness, liens, investments, mergers, dispositions, prepayment of other indebtedness and dividends and other distributions. Borrower is also required to comply with the following financial covenants, which are more fully set forth in the Revolving Loan Agreement (i) minimum liquidity, (ii) minimum revenue performance to plan, (iii) minimum fixed charge coverage ratio and (iv) maximum leverage ratio.

The Revolving Loan Agreement also includes customary events of default, including failure to pay principal, interest or certain other amounts when due, material inaccuracy of representations and warranties, violation of covenants, specified cross-default and cross-acceleration to other material indebtedness, certain bankruptcy and insolvency events, certain undischarged judgments, material invalidity of guarantees or grant of security interest, material adverse effect and change of control, in certain cases subject to certain thresholds and grace periods. If one or more events of default occurs and continues beyond any applicable cure period, the Agent may, with the consent of the Lenders holding a majority of the loans and commitments under the facility, or will, at the request of such Lenders, terminate the commitments of the Lenders to make further loans and declare all of the obligations of the Company under the Revolving Loan Agreement to be immediately due and payable.

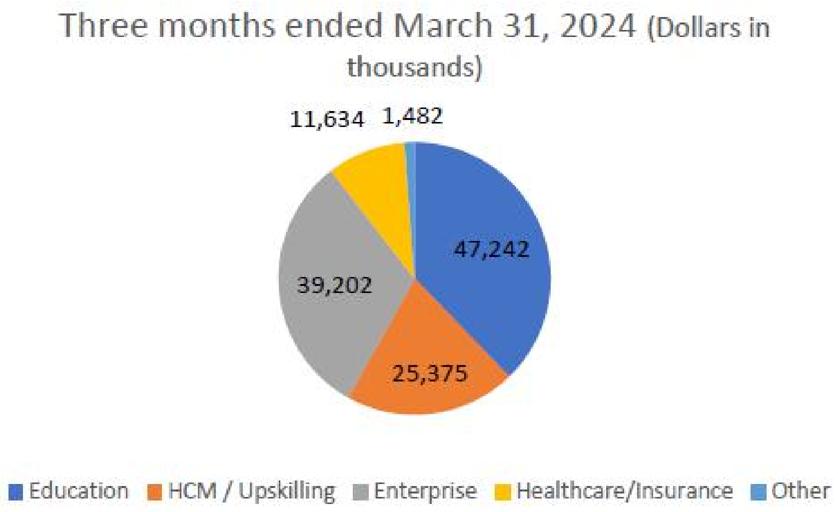
Prepayment of Term Loan

On April 18, 2024, the Company prepaid the full amount of the Amended Term Loan using a combination of $22.4 million cash and 159,379 shares of NewCo common stock. Based on the timing of the prepayment, 815,999 Loan Restructuring Shares were canceled.

Overview

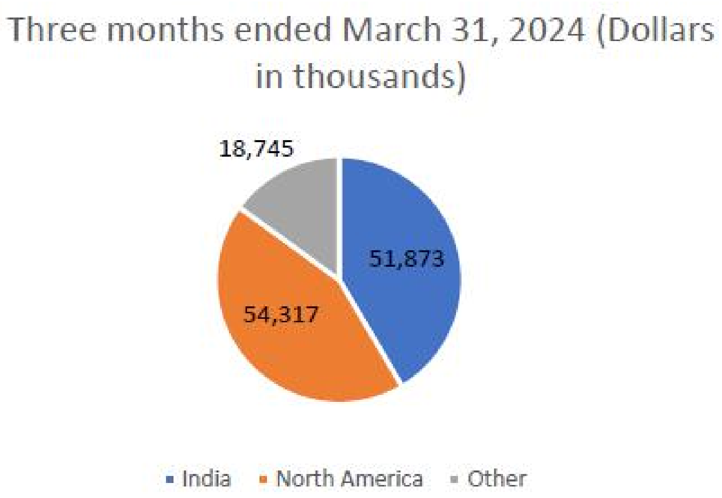
iLearningEngines is an out-of-the-box AI platform that empowers customers to "productize" their institutional knowledge and generate and infuse insights in the flow-of-work to drive mission critical business outcomes. iLearningEngines' customers "productize" their institutional knowledge by transforming it into actionable intellectual property that enhances outcomes for employees, customers and other stakeholders. Our platform enables enterprises to build intelligent "Knowledge Clouds" that incorporate large volumes of structured and unstructured information across disparate internal and external systems, and to automate organizational processes that leverage these Knowledge Clouds to improve performance. Our Learning Experience Platform addresses the corporate learning market and our Information Intelligence Platform addresses the information management, analytics and automation markets. We combine our platforms with vertically focused capabilities and data models to operationalize AI and automation to effectively and efficiently address critical challenges facing our customers. Our customers utilize our platform to analyze and address employee knowledge gaps, provide personalized cognitive assistants or chatbots, and make predictive decisions based on real-time insights.

We serve more than 1,000 enterprise end customers, with over 4.7 million licensed users across 12+ industry verticals. Our revenue by end licensed user industry vertical is set forth below:



Other includes customers in the oil & gas, aviation, retail, automobile, utilities, government, and logistics industries.

Our customers are broadly distributed geographically with a focus on North America and India. Our revenue by customer geography is shown below:



With respect to the Company's disaggregation of revenue by customer geography, geography is primarily determined based on the location of the customer identified in the contract. As described in the Technology Partner policy note in Note 2 of the unaudited financials for the three months ended March 31, 2024, the Company enters contracts with the Technology Partner through which the Technology Partner purchases and integrates the ILE platform into the Technology Partner's own software solution provided to one of the Technology Partner's customers. In this type of contractual arrangement, the Company identifies the Technology Partner as its customer. In contractual arrangements in which the Technology Partner is identified as the customer, the Technology Partner's end customer may or may not be known by the Company. In cases in which the Technology Partner's customer is known to the Company, the geography is determined based on the location of the Technology Partner's customer and conversely, in cases in which the Technology Partner's customer is not known, the customer geography is determined based on the geography of the Technology Partner.

We provide access to our platform through software licenses that grant our customers the right to use our proprietary software and access to our maintenance and support services. Most of the value of our contracts relates to software licenses for the use of our software and related maintenance and support, but we also allocate a portion of the consideration to implementation services. Nearly all of our revenues are generated from long term maintenance and support agreements, which are typically one to three years in length and contain provisions to auto-renew for one-year periods. As a result of our deep integration within the operations of our clients and our multi-period maintenance and support agreements, our business model provides us with significant visibility into our future performance and considerable predictability of our results.

Pricing for our contracts is determined based on scale, use cases, usage patterns of our customers and strategic value to us, as well as the amount of support we expect will be required. Therefore, our pricing is highly variable. We offer user licenses for both Experts and end users ("Learners"). Experts are the designated "gatekeepers" within our customers' organizations that are granted content augmentation capabilities and are provided with the ability to create and distribute content to improve outcomes. Learners utilize the platform for the consumption of learning and other content. Expert licenses are priced higher since they require more consistent ongoing support from us.

The following contracted customers accounted for more than 10% of our revenue in the periods shown below:

	Three Months Ended March 31, 2024 (%)		Three Months Ended March 31, 2023 (%)
Customer A	16.7%	Customer A	21.5%
Customer B	13.5%	Customer B	17.7%
Customer C	11.3%	Customer C	13.0%
Customer D	10.3%	Customer D	11.8%

As of March 31, 2024, we generated $125 million of revenue, representing 33% growth over the prior year, with 69% gross margins. Our near-term profitability will be affected mainly by our ability to grow revenue, the gross margins we can achieve on sales, and our ability to control our selling, general and administrative and research and development ("R&D") expenses while strategically investing in our growth and solution capabilities. We expect that our cost of revenue will increase on an absolute basis over the next few quarters as a result of implementation and dedicated application and content support for newly added customers to ensure that our customers are able to increase engagement and optimizing the value of our products. Our sales strategy includes leveraging channel partners with significant domain expertise to provide us with access to new customers, verticals and markets, and our direct salesforce has proven to be effective in expanding our presence within our customers. Over time, we intend to prioritize our growth within industry verticals and geographies that we believe will provide the greatest profitability prospects for us over the longer term.

Key Performance Metrics

We regularly review the following performance metrics to evaluate our business, identify trends affecting our business, prepare financial projections, and make strategic decisions. The calculation of these metrics may differ from other similarly titled metrics used by other companies, securities analysts or investors.

Annual Recurring Revenue. Annual Recurring Revenue ("ARR") is defined as the annualized recurring value of all active maintenance and support contracts at the end of a reporting period. We believe ARR is useful for assessing the performance of our recurring maintenance and support revenue base and identifying trends affecting our business. ARR mitigates fluctuations due to seasonality, contract term, sales mix, and revenue recognition timing resulting from revenue recognition methodologies under GAAP. ARR should be viewed independently of revenue as it is an operating measure and is not intended to be combined with or to replace GAAP revenue.

	Three Months Ended March 31,	
(dollars in thousands)	**2024**	**2023**
ARR	$ 478,941	$ 357,282

Net Dollar Retention. Net Dollar Retention ("NDR") is an operational performance measure that we use to assess our client retention and its dollar impact on our business. We define Net Dollar Retention ("NDR") as the ARR in dollars generated in the current period by clients that existed in the prior comparable period divided by the ARR in dollars by those same clients in the prior period. NDR illustrates the impact of upgrades, downgrades and cancellations in the current period on the existing client base. Since NDR does not factor in revenue from clients acquired in the current period and includes any churn from existing contracted customers, we believe it is an accurate measure of client retention. For the avoidance of doubt, NDR does not exclude prior year contracted customers that were not retained in the current year. Our NDR has varied between 125% and 132% over the periods presented. We intend to continue to employ a "land and expand" strategy which will help grow our NDR, but NDR may also begin to be affected by the maturation of our existing client base which could stabilize their dollar spend with us.

NDR is calculated as the dollar value of recurring revenue from existing clients at the end of the prior period, plus the current period's dollar impact of upsells or cross-sells from the prior period's existing clients, minus the current period's dollar impact of churn or downgrades from the prior period's existing clients, divided by prior period recurring revenues from existing clients.

The dollar impact of upsells or cross-sells is calculated as the sum of incremental recurring revenue between the end of the prior period and the end of the current period from the prior period's existing clients that expanded usage of our products resulting in incremental recurring revenues earned in the current period.

The dollar impact of churn or downgrades is calculated as the difference in recurring revenue between the end of the prior period and the end of the current period from the prior period's existing clients that have decreased in usage or are no longer revenue contributing customers.

	Three Months Ended March 31,	
	2024	**2023**
Net Dollar Retention	132%	125%

The increase in NDR for the 3-month period ended March 31, 2024 as compared to the 3-month period ended March 31, 2023 was the result of increased spend on learning automation, adoption of integrated school tutoring solution and AI driven work automation by customers who had decreased spending during the pandemic.

Adjusted EBITDA. Adjusted EBITDA is a performance measure that we use to assess our operating performance and the operating leverage within our business. We define Adjusted EBITDA as net (loss) income, before interest, income taxes, depreciation and amortization, non-capitalizable transaction costs, stock-based compensation, change in fair value of warrant liability, change in fair value of convertible notes and loss on debt extinguishment, and other non-operating income and expenses. We monitor Adjusted EBITDA as a non-GAAP financial measure to supplement the financial information we present in accordance with GAAP to provide investors with additional information regarding our financial results. We expect Adjusted EBITDA to fluctuate in future periods as we continue to invest in our business to achieve greater scale and efficiencies.

We report our financial results in accordance with GAAP but management believes that Adjusted EBITDA provides investors with additional useful information in evaluating our performance. Adjusted EBITDA is a financial measure that is not required by or presented in accordance with GAAP. We believe that Adjusted EBITDA, when taken together with our financial results presented in accordance with GAAP, provides meaningful supplemental information regarding our operating performance and facilitates internal comparisons of our historical operating performance on a more consistent basis by excluding certain items that may not be indicative of our business, results of operations or outlook. In particular, we believe that the use of Adjusted EBITDA is helpful to our investors as it is a measure used by management in assessing the health of our business and evaluating our operating performance, as well as for internal planning and forecasting purposes.

Adjusted EBITDA is presented for supplemental informational purposes only, has limitations as an analytical tool and should not be considered in isolation or as a substitute for financial information presented in accordance with GAAP. Some of these limitations include that: (i) it does not properly reflect capital commitments to be paid in the future; (ii) although depreciation and amortization are non-cash charges, the underlying assets may need to be replaced and Adjusted EBITDA does not reflect these capital expenditures; (iii) it does not reflect other non-operating expenses; (iv) it does not reflect tax payments that may represent a reduction in cash available to us; (vii) it does not reflect transaction costs which were capitalized. In addition, our use of Adjusted EBITDA may not be comparable to similarly titled measures of other companies because they may not calculate Adjusted EBITDA in the same manner, limiting its usefulness as a comparative measure. Because of these limitations, when evaluating our performance, you should consider Adjusted EBITDA alongside other financial measures, including our net (loss) income and our other results stated in accordance with GAAP.

The following table presents a reconciliation of Adjusted EBITDA to net (loss) income, the most directly comparable financial measure stated in accordance with GAAP, for the periods presented:

	Three Months Ended March 31,	
	2024	2023
Net (loss) income	$ (25,935)	$ 451
Interest expense	1,986	1,588
Income tax expense (benefit)	1,222	(152)
Depreciation and amortization	54	26
EBITDA	**(22,673)**	**1,913**
Other expense	-	60
Transaction costs (1)	1,060	26
Change in fair value of warrant liability	15,118	280
Change in fair value of convertible notes	5,465	-
Loss on Debt Extinguishment	10,041	-
Adjusted EBITDA	**$ 9,011**	**$ 2,279**

(1) Represents legal, tax, accounting, consulting, and other professional fees related to the Merger with ARRW and previously explored strategic alternatives, all of which are non-recurring in nature.

Key Factors Affecting Our Performance

We believe that our performance and future success depend on several factors that present significant opportunities, risks and challenges for us.

Ability to attract and engage new customers. To grow our business, we must attract additional clients in the industries we currently serve and attract new customers in new industries. We added 301,000 new licensed users in the three months ended March 31, 2024. In some of our newer industry verticals, we will need to further develop tailored solutions to best serve their interests. Engaging with new customers in any industry generally involves longer sales cycles and developing specialized industry solutions will require additional R&D expenses.

Ability to expand within our existing customer relationships. We have significant opportunities to further expand sales to our existing customer base, including expanding into new divisions and adding additional users. Our sales strategy is product-led and focuses on business units within companies, which we believe lends itself to expansion within organizations by demonstrating effective outcomes for our customers. As companies continue to embrace the power of our AI and automation tools, we target additional use cases across their enterprise. We intend to focus on these opportunities to expand our presence within our existing customers over time. Our business and results of operations will depend on our ability to continue to drive higher usage rates and new use cases within our existing customer base.

Ability to expand our geographic footprint. We have demonstrated the value of our solutions across many different use cases in a variety of verticals, and we believe that there are many geographic markets in the U.S. and around the world that are currently underpenetrated that can benefit from our solutions. However, our growth could be affected if we are unable to establish effective channel partner relationships in our target geographies on commercially reasonable terms or at all, if our solutions are not as well received in these new markets, or if competition or cultural norms impede our ability to penetrate these markets.

Adoption rate of AI-driven solutions. Our ability to grow our customer base and drive adoption of our platform is affected by overall demand levels for AI-assisted learning, automation, and information intelligence solutions. As advanced "intelligent" technology becomes increasingly critical to business operations, we believe the need for AI-enhanced development solutions, particularly an integrated platform such as ours, will increase. However, our growth could be affected if AI solutions are not embraced rapidly or are affected by some of the actual or perceived shortcomings of AI.

Potential Merger and Acquisition. We intend to complement our organic growth by pursuing strategic and tuck-in acquisition opportunities. We believe we can acquire attractive established customer bases in new markets and industry subsectors where we can leverage data sets and create new or better curriculums. However, there is no guarantee that these potential transactions can be completed on commercially reasonable terms or at all. Additionally, these acquisitions may divert management's attention and require meaningful integration efforts, which could impact our performance.

Public company costs. Following the consummation of the business combination, iLearningEngines was deemed the accounting acquirer and the business combination was accounted for as a reverse recapitalization. As a result of the business combination, iLearningEngines became the successor to an SEC-registered and Nasdaq-listed company, which will require us to hire additional personnel and implement procedures and processes to address public company regulatory requirements and customary practices. We expect to incur additional annual expenses as a public company for, among other things, directors' and officers' liability insurance, director fees, and additional internal and external accounting, legal and administrative resources.

Key Components of Statement of Operations

Revenue

We generate our revenue primarily from software licenses for use of our proprietary software and related maintenance and support.

Implementation services

All customers require implementation services prior to being able to use the iLearningEngines platform. To date iLearningEngines has outsourced these services to its technology partner ("Technology Partner") who has been trained to provide the implementation services. Implementation services generally take one to three months and consist of the phases we follow as part of our customer onboarding process. We are the principal in the delivery of implementation services.

The implementation services do not involve significant customization or creating new software functionality. Instead, the services mainly focus on configuration and mapping customer data with the required attributes within the software platform to ensure the platform's built-in functionalities can be utilized by the customer. Revenues from implementations are recognized over time as such services are performed using an input method of efforts expended, compared to total estimated efforts to complete the project.

Combined software license and maintenance

The combined software license and maintenance performance obligation relates to the license to our AI platform and related maintenance services (including critical support functions and updates) provided over the license term. The software license to the AI platform is not considered distinct from the maintenance services, because the customer cannot derive the intended value from the software without ongoing critical support services and updates that are provided by the maintenance services. We recognize revenue from the combined software license and maintenance performance obligation ratably over the contract term beginning on the date that the software license is delivered to the customer and related maintenance services are made available, as the customer simultaneously receives and consumes the benefits of the combined software license and maintenance performance obligation. Contracts with customers typically include a fixed amount of consideration and are generally cancellable with 24 months' notice. We typically invoice customers quarterly in advance for our software license and maintenance services upon execution of the initial contract or subsequent renewal.

A contract's transaction price, which is generally a fixed fee in our arrangements, is allocated to each performance obligation and recognized as revenue as the respective performance obligation is satisfied. Our process for determining standalone selling price ("SSP") involves significant management judgment since our performance obligations are not sold separately. In determining the SSP of implementation services, we estimate the cost of providing the services and add a reasonable margin. Our cost estimates are primarily based on historical cost data for similar implementation projects. The SSP of the combined software license and maintenance performance obligation uses the residual approach to estimate SSP as we sell our AI platform and related maintenance services to different customers at a highly variable range of amounts.

Cost of Revenue

Cost of revenue is comprised of expenses related to customer support and fees paid to third parties. We have level 1 support related to helpdesk, application and content support. These are variable costs that are linked to the number of active contracts. Application support in cost of revenue refers to application support and maintenance activities including integration of iLearningEngines into enterprise systems, process workflow configurations, issue triage, quality assurance and upgrade rollout support. Content support includes support provided for business operations on content maintenance, new content onboarding, SME support, ongoing re-training of AI models.

Operating Expenses

Our operating expenses consist of selling, general and administrative expenses and R&D expenses.

Selling, General and Administrative Expenses

Selling, general and administrative expenses primarily consist of employee-related compensation, including stock-based compensation, for management and administrative functions, including our finance and accounting, legal, and people teams. Selling, general and administrative expenses also include certain professional services fees, insurance, our facilities costs, and other general overhead costs that support our operations.

Our sales strategy is comprised of two main constituents: our direct sales team and our channel partners. Our direct sales team is tasked with both acquiring direct clients in established verticals and acquiring new channel partners in expansion markets. We leverage our channel partners to generate leads in new verticals and geographies which we then scale through our direct sales force. Our sales team is supported by engineers with deep technical expertise and responsibility for pre-sales technical support, solutions for engineering for our customers and technical training for our channel partners.

We generate customer leads, accelerate sales opportunities and build brand awareness through our marketing programs and through our channel partner relationships. Our marketing programs target the business units within companies rather than their purchasing, human resources or administrative departments to drive sales by demonstrating the impact of our product capabilities on results. Our principal marketing programs include webinars, roadshows, exhibitions and events that we sponsor, cooperative marketing efforts with channel partners, and use of our website.

Research and Development Expenses

A critical part of our development efforts in AI is the data to train AI. R&D expense primarily consist of compensation costs, for employees in engineering, design and product development and maintenance, outsourced costs related to development partners, external contractors, data purchase cost and the allocation of other R&D costs. To date, our total spend on data purchases is over $160 million. Costs incurred by us between establishment of technological feasibility and the point at which the product is ready for general release are capitalized, subject to their recoverability, and amortized over the economic life of the related products. As of March 31, 2024, no costs have been capitalized.

Interest Expense

Interest expense consists primarily of interest expense, amortization of debt issuance cost incurred under our long-term debt facility.

Change in Fair Value of Warrant Liability

Change in fair value of warrant liability consists of gains or losses from change in fair value of warrant liabilities.

Change in Fair Value of Convertible Notes

The Company elected the fair value option for convertible notes. Change in fair value of convertible notes consists of gains or losses from change in fair value of the convertible notes.

Loss on Debt Extinguishment

The Company entered into an amended debt agreement that caused the current book value of debt to be extinguished and the new debt to be accounted for using the fair value option. The difference between these two amounts resulted in a loss.

Provision (Benefit) for Income Taxes

The provision (benefit) for income taxes represents the tax expense (benefit) associated with our operations based on the tax laws of the jurisdictions in which we operate.

Results of Operations

The following tables set forth our results of operations for the periods presented.

Comparison of the Three Months Ended March 31, 2024, and 2023

	Three months Ended March 31,		Amount Change	% Change
(Dollars in thousands)	**2024**	**2023**	**2024 vs 2023**	**2024 vs 2023**
Revenue	$ 124,935	$ 93,980	$ 30,955	32.9%
Cost of revenue	38,714	31,551	7,163	22.7%
Gross profit	86,221	62,429	23,792	38.1%
Operating expenses:				
Selling, general, and administrative expenses	41,223	31,612	9,611	30.4%
Research and development expenses	37,099	28,582	8,517	29.8%
Total operating expenses	78,322	60,194	18,128	30.1%
Operating income	7,899	2,235	5,664	253.4%
Other expense:				
Interest expense	(1,986)	(1,588)	(398)	25.1%
Change in fair value of warrant liability	(15,118)	(280)	(14,838)	5,299.3%
Change in fair value of convertible notes	(5,465)		(5,465)	NM
Loss on debt extinguishment	(10,041)	-	(10,041)	NM
Other expense	-	(60)	60	NM
Foreign exchange loss	(2)	(8)	6	NM
Total other expense	(32,612)	(1,936)	(30,676)	1,584.5%
Net (loss) income before income tax (expense) benefit	(24,713)	299	(25,012)	NM
Income tax (expense) benefit	(1,222)	152	(1,374)	NM
Net (loss) income	$ (25,935)	$ 451	$ (26,386)	NM

NM – not meaningful

Comparison of the Three Months Ended March 31, 2024 and 2023

Revenue by Geographical Region

(Dollars in thousands)	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023	Change	% Change
India	$ 51,873	$ 34,795	$ 17,078	49.1%
Percentage of revenue	41.5%	37.0%		
North America	$ 54,317	$ 45,011	$ 9,306	20.7%
Percentage of revenue	43.5%	47.9%		
Other	$ 18,745	$ 14,174	$ 4,571	32.2%
Percentage of revenue	15.0%	15.1%		
Total revenue	$ 124,935	$ 93,980	$ 30,955	32.9%

Global Revenue

Global revenue increased by $31.0 million or 32.9% for the three months ended March 31, 2024 compared to the three months ended March 31, 2023, primarily due to 10 new contracts. Please see further discussion of the change by region below.

India

Revenue in India increased by $17.1 million or 49.1% for the three months ended March 31, 2024 compared to the three months ended March 31, 2023, primarily due to four new contracts, through upsell to our existing customers of $13.4 million, one new contract to a new customer of $1.4 million, a reduction of $0.1 million to customer churn and remaining coming from an increase in license revenue as part of renewals.

North America

Revenue in North America increased by $9.3 million or 20.7% for the three months ended March 31, 2024 compared to the three months ended March 31, 2023, primarily due to two new contracts through upsell to our existing customers of $3.4 million, one new contract to a new customer of $5.1 million, and the remaining coming from an increase in license revenue as part of renewals.

Other

Revenue in other region, which includes Middle East and Europe, increased by $4.6 million or 32.2% for the three months ended March 31, 2024 compared to the three months ended March 31, 2023, primarily due to one new contracts, through upsell to our existing customer of $3.0 million, one new contract to a new customer of $1.5 million and remaining coming from an increase in license revenue as part of renewals.

Cost of Revenue and Gross Margin

(Dollars in thousands)	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023	Change	% Change
Cost of revenue	$ 38,714	$ 31,551	$ 7,163	22.7%
Gross margin	69.0%	66.4%	2.6%	

Cost of revenue increased by $7.2 million, or 22.7%, for the three months ended March 31, 2024 compared to the three months ended March 31, 2023, primarily due to 10 new contracts that were added. We had an increase in cost of revenue due to new implementation costs, application & content support costs and operations and support costs related to new accounts.

Gross margin increased to 69.0% for the three months ended March 31, 2024 compared to 66.4% for the three months ended March 31, 2023, primarily due to the higher dedicated support needs and related costs being higher in the first year for newly added contracts, which contributes to higher cost as the new contracts are in implementation stage.

Costs and Expenses

Selling, General and Administrative Expenses

(Dollars in thousands)	Three Months Ended March 31, 2024	2023	Change	% Change
Selling, general and administrative expenses	$ 41,223	$ 31,612	$ 9,611	30.4%
Percentage of revenue	33.0%	33.6%	(0.6)%	

Selling, general and administrative expenses increased by $9.6 million, or 30.4%, for the three months ended March 31, 2024 compared to the three months ended March 31, 2023, primarily due to new business development expense costs, marketing costs, transaction costs, and proof of concept development costs linked to larger pipeline in line with growth projections. Additionally, success-based commissions have also increased related to new direct contract wins.

Research and Development Expenses

(Dollars in thousands)	Three Months Ended March 31, 2024	2023	Change	% Change
Research and development expenses	$ 37,099	$ 28,582	$ 8,517	29.8%
Percentage of revenue	29.7%	30.4%	(0.7)%	

R&D expenses increased by $8.5 million, or 29.8%, for the three months ended March 31, 2024 compared to the three months ended March 31, 2023, primarily due to R&D activities related to new AI digital asset development, existing AI digital asset maintenance including monitoring, machine learning/AI model improvements, enhancement, data validation and testing and quality assurance activities. This is required to maintain our product edge and build competitive barriers and drive future growth.

Other Income and Expenses

Interest Expense

(Dollars in thousands)	Three Months Ended March 31, 2024	2023	Change	% Change
Interest expense	$ 1,986	$ 1,588	$ 398	25.1%
Percentage of revenue	1.6%	1.7%	(0.1)%	

Interest expense increased by $0.4 million, or 25.1%, for the three months ended March 31, 2024 compared to the three months ended March 31, 2023, primarily due to increase in interest expense to the Technology Partner.

Change in Fair Value of Warrant Liability

(Dollars in thousands)	Three Months Ended March 31, 2024	2023	Change	% Change
Change in fair value of warrant liability	$ 15,118	$ 280	$ 14,838	5,299.3%
Percentage of revenue	12.1%	0.3%	11.8%	

Change in fair value of warrant liability increased by $14.8 million, or 5,299.3%, for the three months ended March 31, 2024 compared to the three months ended March 31, 2023. In connection with the 2020 Term Loans, 2022 Term Loans, the 2023 Term Loan and the Amended Term Loan the Company issued the lenders warrants to purchase our stock, which may be exercisable for common or preferred stock in accordance with the terms of the warrants. The warrants were classified as a liability carried at fair value because there are certain put rights that may obligate us to repurchase the warrants in the future, based on events that are outside of our control.

Change in Fair Value of Convertible Notes

(Dollars in thousands)	Three Months Ended March 31, 2024	2023	Change	% Change
Change in fair value of convertible notes	$ 5,465	$ -	$ 5,465	NM
Percentage of revenue	4.4%	-	4.4%	

Change in fair value of convertible debt increased by $5.5 million for the three months ended March 31, 2024 compared to the three months ended March 31, 2023. The Company elected fair value option for the convertible notes. The Company issued convertible notes in April 27, 2023 and March 21, 2024, whereas no convertible notes outstanding as of March 31, 2023.

Loss on Debt Extinguishment

(Dollars in thousands)	Three Months Ended March 31, 2024	2023	Change	% Change
Loss on Debt Extinguishment	$ 10,041	$ -	$ 10,041	NM
Percentage of revenue	8.0%	-	8.0%	

Loss on Debt Extinguishment increased by $10.0 million for the three months ended March 31, 2024 compared to the three months ended March 31, 2023. The Company's Amended Term Loan agreement was accounted for as a debt extinguishment in the current period, no such event occurred in 2023.

Income Tax (Expense) Benefit

(Dollars in thousands)	Three Months Ended March 31, 2024	2023	Change	% Change
Income tax (expense) benefit	$ (1,222)	$ 152	$ (1,374)	NM
Percentage of revenue	(1.0)%	0.2%	(1.2)%	

Income tax expense for the three months ended March 31, 2024 was $1.2 million whereas income tax benefit for the three months ended March 31, 2023 was $0.2 million, primarily due to the negative change in the fair value of the warrant and convertible notes as well as a loss on the debt extinguishment related to the WTI debt amendment, which were classified as permanent difference for tax purposes.

Liquidity and Capital Resources

Our liquidity requirements arise from our working capital needs, our obligations to make scheduled payments of principal and interest on our indebtedness and our need to fund capital expenditures to support our current operations and to facilitate growth and expansion, including future acquisitions. We have financed our operations and expansion with a combination of debt and equity.

On March 31, 2024, we had total shareholders' deficit of $47.1 million, net of an accumulated deficit of $83.5 million. Our primary sources of liquidity consist of cash totaling $0.8 million as of March 31, 2024. As of March 31, 2024, we have issued convertible notes with an aggregate principal amount of $18.1 million. For more information, see "— *Liquidity and Capital Resources — Convertible notes*". On March 27, 2024, the Company entered into an agreement to amend the 2020, 2021 and 2023 term loans ("Term Loan Amendment"). The Company prepaid the full amount of the term loans on April 18, 2024 in a combination of cash and 159,379 shares of common stock. For more information, see "*— Liquidity and Capital Resources — Credit Facilities*". We believe these additional sources of liquidity will be sufficient to provide working capital, make principal and interest payments to support operations and facilitate growth and expansion for the next twelve months.

Our ability to pay dividends on our common stock is limited by restrictions under the terms of the agreements governing our indebtedness. Subject to the full terms and conditions under the agreements governing our indebtedness, we may be permitted to make dividends and distributions under such agreements if there is no event of default.

Our future capital requirements will depend on many factors, including our global growth rates, our ability to expand our operational footprints in the United States, our ability to grow our platform through acquisitions and our decisions around future investments required in R&D. We may, in the future, enter into arrangements to acquire or invest in complementary businesses, products, and technologies. We may be required to seek additional equity or debt financing. In the event that we require additional financing, we may not be able to raise such financing on terms acceptable to us or at all. If we are unable to raise additional capital or generate cash flows necessary to expand our operations and invest in continued innovation, we may not be able to compete successfully, which would harm our business, operations and financial condition.

As of December 31, 2023, the Company maintained a $2.0 million restricted cash balance, and this reserve was not used in the ordinary course of business. As of March 31, 2024, the $2.0 million restricted cash requirement was waived by the respective lenders.

Purchase Commitments

We entered into a long-term software licensing contract with a major customer that commenced in 2018 and is set to expire in June 2024, subject to an additional 5-year renewal. The contract has an annual value of $50.3 million. As part of the agreement, we install our software licenses on the customer's servers, and in exchange, the customer pays an annual fee for access to the software license and related maintenance services. Additionally, we have a separate contract with the customer for the purchase of the customer's end-user data. This data is essential for our development and utilization of its next-generation AI platform. The annual price for this data acquisition amounts to approximately $30.0 million.

Credit Facilities

On March 27, 2024, we entered into the Second Omnibus Amendment to Loan Documents agreement ("Amended Term Loan") with Venture Lending & Leasing IX and WTI Fund X, Inc. (collectively, the "Lenders"), to amend the 2020, 2021 and 2023 term loans (collectively the "Term Loans"). Commencing on April 1, 2024, and continuing on the first day of each consecutive month thereafter through maturity, we shall pay to the Lenders monthly installments scheduled under the Amended Term Loan according to the modified payment schedule noted. In exchange for the amendment to payment schedule, the Lenders will receive 1,019,999 shares of iLearningEngines, Inc. ("NewCo") shares common stock to be issued upon completion of the SPAC Transaction (the "Loan Restructuring Shares"). In addition, the Lenders will terminate the outstanding warrants issued in connection with the Term Loans and the respective put rights associated with each, upon receipt of 3,399,999 shares of NewCo common stock to be issued upon completion of the SPAC Transaction.

If the Company repays the Term Loans on or before (i) April 15, 2024, then 90% of the Loan Restructuring Shares will be canceled, (ii) May 1, 2024, then 80% of the Loan Restructuring Shares will be canceled, and (iii) July 1, 2024, then 50% of the Loan Restructuring Shares will be canceled.

In addition, the Amended Term Loan provides that, if the Company prepays the Term Loans, then at the Company's option, the Company may prepay 50% of the amount of scheduled but unpaid payments of interest that would have accrued after the prepayment date by issuing a number of shares of NewCo common stock obtained by dividing (A) the product of (x) the unpaid scheduled interest payments and (y) 2.75, by (B) the VWAP of NewCo common stock over the seven (7) trading days immediately preceding the date of issuance. On April 18, 2024, the Company prepaid the full amount of the Amended Term Loan using a combination of cash and 159,379 shares of NewCo common stock. Based on the timing of the prepayment, 815,999 Loan Restructuring Shares were canceled.

Convertible Notes

On April 27, 2023, we entered into the 2023 convertible note purchase agreement (the "2023 Convertible Notes"), pursuant to which, among other things, we may issue and sell to the convertible note investors convertible notes due in October 2025 with aggregate principal amount of up to $50.0 million, of which we have issued and sold convertible notes with aggregate principal amount of $17.4 million, including affiliates of our Sponsor.

On March 21, 2024 ("Issuance Date"), the Company entered into the 2024 Convertible Note Purchase Agreement, of which we have issued and sold $0.7 million convertible notes (the "2024 Convertible Notes"), collectively with the 2023 Convertible Notes referred to as "Convertible Notes". The 2024 Convertible Notes mature 30 months after Issuance Date.

The 2024 Convertible Notes include a make-whole payment following the conversion of any 2024 Convertible Notes through a qualified SPAC combination. Under the make whole provision, with respect to each common stock converted for 2024 Convertible Notes, a number of additional incentive shares (rounded down to the nearest whole share) equal to (i) $10.00 (the "Conversion Price"), divided by the greater of (a) the volume-weighted average price (the "VWAP") of the NewCo shares over the ten trading days immediately preceding November 30, 2024 (the "Reference Date") and (b) $1.00 (the "Reference Price"), minus (ii) one will be issued. The Conversion Price and Reference Price shall be appropriately adjusted for any stock dividend, stock split, stock combination, recapitalization or other similar transaction during the period beginning on the date the NewCo shares are issued upon conversion of the 2024 Convertible Notes and ending on the Reference Date. Notwithstanding the foregoing, the maximum number of shares issuable pursuant to the 2024 convertible notes shall not exceed 10,000,000 incentive shares.

Each Convertible Notes accrues interest at a rate of (i) 15% per annum until the aggregate accrued interest thereunder equals 25% of the principal amount of such note, and (ii) 8% per annum thereafter. Immediately prior to the consummation of the business combination, each Convertible Notes will automatically convert into NewCo shares thereby entitling the holder thereof to receive, in connection with the consummation of the business combination, a number of shares Arrowroot Class A Common Stock (rounded down to the nearest whole share) equal to (i) 2.75, multiplied by the convertible note balance, divided by (ii) $10.00.

Cash Flows

The following table summarizes our cash flows for the period indicated:

Dollars in thousands	Three Months Ended March 31, 2024		Three Months Ended March 31, 2023	
Cash used in operating activities	$	(3,610)	$	(2,200)
Cash used in investing activities	$	(9)	$	-
Cash (used in) provided by financing activities	$	(2,329)	$	2,937

Operating Activities

Our largest source of operating cash is payments received from our customers. Our primary uses of cash from operating activities are R&D and sales and marketing expenses. We have historically generated negative cash flows and have supplemented working capital requirements primarily through net proceeds from debt.

Net cash used in operating activities for the three months ended March 31, 2024 of $3.6 million was primarily related to net working capital cash outflows of $10.2 million and net loss of $25.9 million adjusted for non-cash adjustments of $32.6 million. The main drivers of the changes in working capital cash out flows were increases in accounts receivable and receivables from Technology Partner, partially offset by cash inflows due to an increase in trade payables.

Net cash used in operating activities for the three months ended March 31, 2023 of $2.2 million was primarily related to our net income of $0.5 million adjusted for non-cash adjustments of $1.6 million and net cash outflows of $4.2 million provided by changes in our operating assets and liabilities. Non-cash charges primarily consisted of amortization of debt issuance cost. The main drivers of the changes in operating assets and liabilities were the accounts receivables and the receivables from Technology Partner. These amounts were partially offset by change in contract asset.

Investing Activities

For the three months ended March 31, 2024 the cash used in investing activities was $0.01 million approximately and was primarily related to purchase of property and equipment.

There was no change to net cash provided by investing activities for the three months ended March 31, 2023.

Financing Activities

Net cash used in financing activities for the three months ended March 31, 2024 of $2.3 million was primarily related to $3.0 million debt pay down and proceeds from $0.7 million convertible notes.

Net cash provided by financing activities for the three months ended March 31, 2023 of $2.9 million was primarily related to the $5.0 million in venture debt that we took from Western Technology Investments in two different tranches offset by the debt taken in previous tranches that we paid down.

Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk in the ordinary course of our business. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is principally the result of fluctuations in interest rates and foreign currency exchange rates.

Interest Rate Risk

We had cash of $0.8 million as of March 31, 2024, which consisted entirely of bank deposits. We do not enter into investments for trading or speculative purposes and have not used any derivative financial instruments to manage our interest rate risk exposure. As of March 31, 2024, we had $22.0 million principal outstanding in debt. A hypothetical 10% change in interest rates during the period presented would not have had a material impact on our consolidated financial statements. The Company did not have any investments as of March 31, 2024.

We had cash of $1.6 million as of March 31, 2023, which consisted entirely of bank deposits. A hypothetical 10% change in interest rates during the period presented would not have had a material impact on our consolidated financial statements.

Foreign Currency Exchange Risk

We have operations internationally that are denominated in foreign currencies, including India rupee, Emirati dirham, and Australia dollar, which subject us to foreign currency exchange risk. Therefore, we are exposed to foreign exchange rate fluctuations as we convert the financial statements of our foreign subsidiary into U.S. dollars. Our subsidiary remeasures monetary assets and liabilities at period-end exchange rates, while non-monetary items are remeasured at historical rates. If there is a change in foreign currency exchange rates, the conversion of our foreign subsidiary's financial statements into U.S. dollars would result in a realized gain or loss which is recorded in our consolidated statements of operations. We do not currently engage in any hedging activity to reduce our potential exposure to currency fluctuations, although we may choose to do so in the future. A hypothetical 10% change in foreign exchange rates during the period presented would not have had a material impact on our consolidated financial statements.

Inflation Risk

We do not believe that inflation has had a material effect on our business, financial condition, or results of operations, other than its impact on the general economy. Nonetheless, if our costs were to become subject to inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and results of operations.

Critical Accounting Policies and Estimates

Policies determined to be critical are those policies that have the most significant impact on our financial statements and require us to use a greater degree of judgment in forming assumptions or estimates. Judgments are subject to an inherent degree of uncertainty, and therefore actual results could differ from our estimates.

Revenue Recognition

In applying the ASC 606 revenue recognition model, the Company's determination of whether products and services are considered distinct performance obligations that should be accounted for separately versus together, may require significant judgment. The Company's contracts with customers generally include two performance obligations, (i) implementation, and (ii) combined software license and maintenance.

In determining the SSP of implementation services, the Company estimates the cost of providing the services and adds a reasonable margin. The estimates are expected to change over time as the Company accumulates additional cost data for completed implementations.

In determining the SSP of combined software license and maintenance performance obligation, the Company uses the residual approach. It sells an AI platform and related maintenance services to different customers at a highly variable range of amounts. When the Company sells the AI platform and related maintenance services to customers, it presents the price of the license and maintenance to the customer by quoting both a price a per user per month and per expert per month. There are a number of factors that affect the per user and per expert prices charged to different customers including, but not limited to, the customer's bespoke products which the AI platform is replacing, the complexity of the use case for which the AI platform is meant to solve, the number of customer systems into which the platform is integrated, the number of dedicated support personnel required to provide maintenance services, and the outcome of contract negotiations with the customer.

Convertible Notes

The Company's convertible notes are accounted under the fair value option election, in which the convertible notes are reported at fair value as of the end of each reporting period, with changes recognized in the statements of operations.

The fair value of the convertible notes is estimated using a scenario-based approach which considers various events, the conversion feature and related payoffs within each scenario. Unobservable (Level 3) inputs and assumptions used in valuation methodologies include management's probability assumptions for various conversion scenarios, including estimates of the time until the respective conversion scenarios may occur, the risk-free interest rate and a discount spread. The risk-free rate is based on the United States Treasury benchmark yield curves.

Amended Term Loan

The Company's Amended Term Loan is accounted under the fair value option election, in which the Amended Term Loan is reported at fair value as of the end of each reporting period, with changes recognized in the statements of operations.

The fair value of the Amended Term Loan is estimated using a scenario-based approach which considers various events, the conversion feature and related payoffs within each scenario. Unobservable (Level 3) inputs and assumptions used in valuation methodologies include management's probability assumptions for various conversion scenarios, including the term matched risk-free interest rate, credit rating, and a discount spread.

Warrant Liability

The fair value of the warrant liability is estimated using an option pricing model. Unobservable (Level 3) inputs and assumptions used in valuation methodologies include management's probability assumptions associated with various settlement scenarios, selected volatility and discount rates, selected guideline public companies, and the risk-free interest rate. The risk-free rate is based on the United States Treasury benchmark yield curves.

Recent Accounting Pronouncements

As an emerging growth company ("EGC"), the JOBS Act allows us to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are applicable to private companies. We have elected to use this extended transition period under the JOBS Act until such time we are no longer considered to be an EGC.

See Note 2 in the notes to the unaudited consolidated financial statements included elsewhere in this filing for more information about recent accounting pronouncements, the timing of their adoption, and our assessment, to the extent we have made one, of their potential impact on our financial condition and our results of operations.

Emerging Growth Company Status

Section 102(b)(1) of the JOBS Act exempts emerging growth companies from being required to comply with new or revised financial accounting standards. The JOBS Act provides that a company can choose not to take advantage of the extended transition period and comply with the requirements that apply to non-emerging growth companies, and any such election to not take advantage of the extended transition period is irrevocable. Arrowroot previously elected to avail itself of the extended transition period, and following the consummation of the business combination, we will be an emerging growth company and will take advantage of the benefits of the extended transition period that the emerging growth company status permits. During the extended transition period, it may be difficult or impossible to compare our financial results with the financial results of another public company that complies with public company effective dates for accounting standard updates because of the potential differences in accounting standards used.

We will remain an emerging growth company under the JOBS Act until the earlier of: (1) the last day of the fiscal year (a) following the fifth anniversary of the closing of Arrowroot's initial public offering (i.e., December 31, 2026), (b) in which we have total annual gross revenue of at least $1.235 billion, or (c) in which we are deemed to be a "large accelerated filer" under the rules of the SEC, which means the market value of our common equity that is held by non-affiliates exceeds $700.0 million as of the end of the prior fiscal year's second fiscal quarter; and (2) the date on which we have issued more than $1.0 billion in non-convertible debt securities during the prior three-year period.