

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

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2019

OR
☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number: 001-37872

Priority Technology Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

47-4257046
(I.R.S. Employer Identification No.)

2001 Westside Parkway
Suite 155
Alpharetta, GA 30004
(Address of principal executive offices, including zip code)

(800) 935-5964
(Registrant's phone number, including area code)

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common stock, par value \$0.001	PRTH	Nasdaq Global Market

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

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

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

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

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

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

As of November 8, 2019, 67,007,172 shares of common stock, par value \$0.001 per share, were outstanding.

Priority Technology Holdings, Inc.
Quarterly Report on Form 10-Q
September 30, 2019

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

Priority Technology Holdings, Inc.
Condensed Consolidated Balance Sheets
Unaudited

<i>(in thousands)</i>	September 30, 2019	December 31, 2018
ASSETS		
Current Assets:		
Cash	\$ 4,191	\$ 15,631
Restricted cash	22,652	18,200
Accounts receivable, net of allowance for doubtful accounts of \$581 and \$511	47,491	45,651
Prepaid expenses and other current assets	4,317	3,642
Current portion of notes receivable	1,362	979
Settlement assets	756	1,042
Total current assets	80,769	85,145
Notes receivable, less current portion	3,795	852
Property, equipment, and software, net	21,396	17,482
Goodwill	109,515	109,515
Intangible assets, net	188,056	124,637
Deferred income taxes, net	47,206	49,692
Other non-current assets	1,540	1,295
Total assets	\$ 452,277	\$ 388,618
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable and accrued expenses	\$ 22,033	\$ 27,638
Accrued residual commissions	17,852	18,715
Customer deposits and advance payments	3,532	3,282
Borrowings outstanding under revolving credit facility	11,500	—
Current portion of long-term debt	4,007	3,293
Settlement obligations	17,542	11,132
Total current liabilities	76,466	64,060
Long-term debt, net of current portion, discounts and debt issuance costs	473,344	402,095
Other non-current liabilities	7,740	7,936
Total long-term liabilities	481,084	410,031
Total liabilities	557,550	474,091
Commitments and Contingencies (Notes 9 and 10)		
Stockholders' deficit:		
Common stock	67	67
Additional paid-in capital	3,354	—
Treasury stock, at cost	(2,388)	—
Accumulated deficit	(111,960)	(85,540)
Total Priority Technology Holdings, Inc. stockholders' deficit	(110,927)	(85,473)
Non-controlling interest	5,654	—
Total stockholders' deficit	(105,273)	(85,473)
Total liabilities and stockholders' deficit	\$ 452,277	\$ 388,618

See Notes to Unaudited Condensed Consolidated Financial Statements

Priority Technology Holdings, Inc.
Condensed Consolidated Statements of Operations
Unaudited

<i>(in thousands, except per share amounts)</i>	Quarter Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
REVENUE:				
Merchant card fees	\$ 101,720	\$ 94,915	\$ 292,694	\$ 299,661
Outsourced services and other	8,234	8,676	24,662	24,288
Total revenue	109,954	103,591	317,356	323,949
OPERATING EXPENSES:				
Costs of merchant card fees	74,953	71,876	215,433	230,276
Costs of outsourced services and other	4,836	4,475	14,079	13,518
Salary and employee benefits	10,668	9,992	31,923	28,406
Depreciation and amortization	10,077	4,899	28,763	12,679
Selling, general and administrative	6,695	8,789	21,031	24,427
Total operating expenses	107,229	100,031	311,229	309,306
Income from operations	2,725	3,560	6,127	14,643
OTHER INCOME (EXPENSES):				
Interest expense	(10,463)	(7,334)	(30,602)	(21,893)
Other, net	158	221	523	(5,108)
Total other expenses, net	(10,305)	(7,113)	(30,079)	(27,001)
Loss before income taxes	(7,580)	(3,553)	(23,952)	(12,358)
Income tax (benefit) expense	(1,736)	(991)	2,468	(991)
Net loss	<u>\$ (5,844)</u>	<u>\$ (2,562)</u>	<u>\$ (26,420)</u>	<u>\$ (11,367)</u>
Loss per common share:				
Basic and diluted	\$ (0.09)	\$ (0.04)	\$ (0.39)	\$ (0.19)
Weighted-average common shares outstanding:				
Basic	67,007	64,152	67,109	60,339
Diluted	67,007	64,544	67,109	60,339
PRO FORMA (C-corporation basis):				
Pro forma income tax expense (benefit)	\$ 2,350		\$ (1,618)	
Pro forma net loss	\$ (5,903)		\$ (10,740)	
Pro forma loss per common share:				
Basic and diluted	\$ (0.09)		\$ (0.18)	

See Notes to Unaudited Condensed Consolidated Financial Statements

Priority Technology Holdings, Inc.
Condensed Consolidated Statements of Cash Flows
Unaudited

<i>(in thousands)</i>	Nine Months Ended September 30,	
	2019	2018
Cash flows from operating activities:		
Net loss	\$ (26,420)	\$ (11,367)
Adjustment to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization of assets	28,763	12,679
Equity-based compensation	3,354	1,063
Amortization of debt issuance costs and discounts	1,250	1,052
Equity in loss and impairment of unconsolidated entities	17	857
Provision for deferred income tax	(5,376)	(991)
Change in fair value of warrant liability	—	3,458
Provisions for allowance for deferred tax assets	7,844	—
Loss on debt extinguishment	—	541
Payment-in-kind interest	3,807	3,623
Other non-cash	(174)	—
Change in operating assets and liabilities, net of business combinations:		
Accounts receivable	(1,840)	7,357
Settlement assets and obligations, net	6,696	5,764
Prepaid expenses and other current assets	(810)	412
Notes receivable	(376)	3,661
Accounts payable and other accrued liabilities	(6,091)	434
Customer deposits and advance payments	250	(3,055)
Other assets and liabilities	(277)	(652)
Net cash provided by operating activities	10,617	24,836
Cash flows from investing activities:		
Payments for business acquisitions	(184)	(7,508)
Additions to property, equipment and software	(8,662)	(8,406)
Acquisitions of merchant portfolios and assets	(81,777)	(26,431)
Note receivable loan funding	(3,000)	—
Net cash used in investing activities	(93,623)	(42,345)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt, net of issue discount	69,650	67,113
Repayment of long-term debt	(2,827)	(2,011)
Debt issuance costs refunded (paid)	83	(322)
Borrowings under revolving credit facility	14,000	—
Repayments under revolving credit facility	(2,500)	—
Distributions to members prior to July 25, 2018 recapitalization	—	(7,075)
Redemptions of membership interests prior to July 25, 2018 recapitalization	—	(74,093)
Recapitalization proceeds	—	49,389
Repurchases of common stock	(2,388)	—
Founders shares redemptions	—	(2,118)
Redemption of warrants	—	(12,701)
Recapitalization costs	—	(9,355)
Net cash provided by financing activities	76,018	8,827
Net change in cash and restricted cash:		
Net decrease in cash and restricted cash	(6,988)	(8,682)
Cash and restricted cash at beginning of year	33,831	44,159
Cash and restricted cash at September 30	<u>\$ 26,843</u>	<u>\$ 35,477</u>

Supplemental cash flow information:

Cash paid for interest	\$	25,527	\$	16,537
Recognition of initial net deferred income tax asset	\$	—	\$	47,478

Non-cash investing and financing activities:

Purchases of property, equipment and software through accounts payable	\$	34	\$	119
Intangible assets acquired by issuing non-controlling interest in a subsidiary	\$	5,654	\$	—
Notes receivable from sellers used as partial consideration for business acquisitions	\$	—	\$	560
Cash consideration payable for business acquisition	\$	—	\$	184
Recapitalization cost remaining in accounts payable	\$	—	\$	349
Common stock issued as partial consideration in business acquisitions	\$	—	\$	5,000

Reconciliation of cash and restricted cash:

Cash		4,191	\$	17,203
Restricted cash		22,652		18,274
Total cash and restricted cash	\$	26,843	\$	35,477

See Notes to Unaudited Condensed Consolidated Financial Statements

PRIORITY TECHNOLOGY HOLDINGS, INC.
Notes to Condensed Consolidated Financial Statements
For the Quarters and Nine Months Ended September 30, 2019 and 2018
and as of September 30, 2019 and December 31, 2018
Unaudited

1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

Nature of Business

Priority Technology Holdings, Inc. and its subsidiaries (the "Company") are a leading fintech enterprise with strong core payments technology. The Company is headquartered in Alpharetta, Georgia and operates other facilities in Texas, Tennessee, Arizona, and New York. Operations began in 2005 with a mission to build a merchant-inspired payments platform that would advance the goals of its customers and partners. Today, the Company is a leading provider of merchant acquiring and commercial payment solutions, offering unique product capabilities to small and medium size businesses and enterprises and distribution partners in the United States. The Company operates from a purpose-built business platform that includes tailored customer service offerings and bespoke technology development, allowing the Company to provide end-to-end solutions for payment and payment-adjacent needs.

The Company provides:

- Consumer payments processing solutions for business-to-consumer ("B2C") transactions through independent sales organizations ("ISOs"), financial institutions, independent software vendors ("ISVs"), and other referral partners. The Company's proprietary MX platform for B2C payments provides merchants a fully customizable suite of business management solutions.
- Commercial payments solutions such as automated vendor payments and professionally curated managed services to industry leading financial institutions and networks. The Company's proprietary business-to-business ("B2B") Commercial Payment Exchange (CPX) platform was developed to be a best-in-class solution for buyer/supplier payment enablement.
- Institutional services (also known as Managed Services) solutions that provide audience-specific programs for institutional partners and other third parties looking to leverage the Company's professionally trained and managed call center teams for customer onboarding, assistance, and support, including marketing and direct-sales resources.
- Integrated partner solutions for ISVs and other third-parties that allow them to leverage the Company's core payments engine via robust application program interfaces resources and high-utility embeddable code.
- Consulting and development solutions focused on the increasing demand for integrated payments solutions for transitioning to the digital economy.

The Company provides its services through three reportable segments: (1) Consumer Payments, (2) Commercial Payments (which includes institutional and managed services described above), and (3) Integrated Partners. For additional information about our reportable segments, see Note 15, *Segment Information*.

To provide many of its services, the Company enters into agreements with payment processors which in turn have agreements with multiple card associations. These card associations comprise an alliance aligned with insured financial institutions ("member banks") that work in conjunction with various local, state, territory, and federal government agencies to make the rules and guidelines regarding the use and acceptance of credit and debit cards. Card association rules require that vendors and processors be sponsored by a member bank and register with the card associations. The Company has multiple sponsorship bank agreements and is itself a registered ISO with Visa®. The Company is also a registered member service provider with MasterCard®. The Company's sponsorship agreements allow the capture and processing of electronic data in a format to allow such data to flow through networks for clearing and fund settlement of merchant transactions.

Corporate Matters

On July 25, 2018, MI Acquisitions, Inc. ("MI Acquisitions"), which was formed under the laws of the State of Delaware on April 23, 2015, acquired all of the outstanding member equity interests of Priority Holdings, LLC ("Holdings") in exchange for the issuance of MI Acquisitions' common stock. As a result, Holdings which was previously a privately-owned company, became a wholly-owned subsidiary of MI Acquisitions (the "Business Combination"). Simultaneously, MI Acquisitions changed its name to Priority Technology Holdings, Inc. For financial accounting and reporting purposes under generally accepted accounting principles in the United States ("GAAP"), the acquisition was accounted for as a "reverse merger." Under this method of accounting, MI Acquisitions is treated as the acquired entity whereby Holdings was deemed to have issued common stock for the net assets and equity of MI Acquisitions accompanied by a simultaneous equity recapitalization (the "Recapitalization") of Holdings. Net assets of the Company are stated at historical cost and accordingly the equity and net assets of the Company have not been adjusted to fair value. As of July 25, 2018, the consolidated financial statements of the Company include the combined operations, cash flows, and financial positions of both MI Acquisitions and Holdings. Prior to July 25, 2018, the results of operations, cash flows, and financial position are those of Holdings. The units and corresponding capital amounts and earnings per unit of Holdings prior to July 25, 2018 have been retroactively restated as shares reflecting the exchange ratio established in the Recapitalization.

The Company's common stock is traded on The Nasdaq Global Market under the symbol "PRTH." Certain shares of the Company's common stock are restricted shares, meaning that there are certain regulatory restrictions on the holders' abilities to sell, transfer, pledge or otherwise dispose of shares. Common shares of the Company issued to certain non-affiliates may become unrestricted common shares in the future due to the lapse of certain regulatory restrictions on the holders' ability to sell, transfer, pledge, or dispose of the unregistered shares.

The Company's Chairman and Chief Executive Officer controls a majority of the voting power of the Company's outstanding common stock. As a result, the Company is a "controlled company" within the meaning of corporate governance standards of the Nasdaq Stock Market LLC ("Nasdaq").

Basis of Presentation and Consolidation

The accompanying unaudited condensed consolidated financial statements include those of the Company and its consolidated subsidiaries. All material inter-company accounts and transactions have been eliminated in consolidation. The Company operates on a calendar year ending each December 31 and on four calendar quarters ending on March 31, June 30, September 30, and December 31 of each year.

The unaudited condensed consolidated financial statements have been prepared in accordance with GAAP for interim financial information and the rules and regulations of the Securities and Exchange Commission ("SEC").

The accompanying unaudited condensed consolidated financial statements are unaudited; however, in the opinion of management they include all normal and recurring adjustments necessary for a fair presentation of the Company's unaudited condensed consolidated financial statements for the periods presented. The accompanying unaudited condensed consolidated balance sheet and related footnote disclosures as of December 31, 2018 were derived from the Company's audited consolidated financial statements and accompanying footnotes as of and for the year ended December 31, 2018. Results of operations reported for interim periods are not necessarily indicative of results for the entire year.

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ materially from those estimates.

Prior to July 25, 2018, substantially all of the Company's operations were conducted through pass-through entities for income tax purposes, and as such the Company had no material income tax accounting reflected in its financial statements for financial reporting purposes since substantially all taxable income and deductions were "passed through" to unconsolidated owners. Effective July 25, 2018, the Company is a "C Corp" and reports its income and deductions for income tax purposes. Accordingly, effective

July 25, 2018 the consolidated financial statements of the Company now account for income taxes in accordance with Accounting Standards Codification ("ASC") 740, Income Taxes ("ASC 740").

The Company is an "emerging growth company" (EGC), as defined in the Jumpstart Our Business Startups Act of 2012. The Company may remain an EGC until December 31, 2021. However, if the Company's non-convertible debt issued within a rolling three-year period exceeds \$1.0 billion, the Company would cease to be an EGC immediately, or if its revenue for any fiscal year exceed \$1.07 billion, or the market value of its common stock that is held by non-affiliates exceeds \$700.0 million on the last day of the second quarter of any given year, the Company would cease to be an EGC as of the beginning of the following year. As an EGC, the Company is not required to comply with the auditor attestation requirements of section 404 of the Sarbanes-Oxley Act of 2002. Additionally, the Company as an EGC may continue to elect to delay the adoption of any new or revised accounting standards that have different effective dates for public and private companies until those standards apply to private companies. As such, the Company's financial statements may not be comparable to companies that comply with public company effective dates.

Comprehensive Income (Loss)

Comprehensive income (loss) represents the sum of net income (loss) and other amounts that are not included in the unaudited condensed consolidated statement of operations as the amounts have not been realized. For the quarters and nine months ended September 30, 2019 and September 30, 2018, there were no differences between the Company's net loss and comprehensive loss. Therefore, no separate Statement of Comprehensive Income (Loss) is included in the consolidated financial statements for the reporting periods.

Cash and Restricted Cash

Cash includes cash held at financial institutions that is owned by the Company. Restricted cash is held by the Company in financial institutions for the purpose of in-process customer settlements or reserves held per contract terms.

Notes Receivable

Notes receivable are comprised of a \$3.0 million loan to another entity (see Note 10, *Related Party and Other Transactions*) and advances to ISOs. Substantially all of the notes receivable bear interest and are secured. ISO advances are generally repaid via reductions in future commissions paid to the ISO, thus cash flows from these activities are reported as cash flows from operations.

Reclassifications

Certain prior period amounts in these unaudited condensed consolidated financial statements have been reclassified to conform to the current period presentation, with no net effect on the Company's stockholders' deficit or net loss for any period.

Accounting Policies

There have been no material changes to the Company's accounting policies from December 31, 2018 through September 30, 2019, except for the addition of an accounting policy for repurchased stock. Also, see Note 2, *Acquisitions and Contributions of Assets*, for information on the non-controlling interest issued in connection with certain net assets acquired from YapStone, Inc. ("YapStone").

Components of Revenues and Expenses

Revenues

Merchant card fees revenue consists mainly of fees for processing electronic payments, including credit, debit and electronic benefit transaction card processing. The fees are generally based on a variable percentage of the dollar amount of each transaction

and, in some cases, additional fees for each transaction. In addition, merchant customers may also be charged miscellaneous fees, including statement fees, annual fees, monthly minimum fees, fees for handling chargebacks, gateway fees, and fees for other miscellaneous services. Merchant card fees revenue is attributable primarily to our Consumer Payments segment.

Outsourced services and other revenue consist mainly of cost-plus fees related to B2B services, merchant financing and buyer-initiated payment programs sold on behalf of certain enterprise customers, originated through our in-house sales force, including incentives for meeting sales targets. Outsourced services revenue is attributable primarily to our Commercial Payments reportable segment. Other revenue include revenue from the sales of equipment (primarily point of sale terminals) and processing of automated clearing house ("ACH") transactions.

Costs of Services

Costs of Merchant Card Fees

Costs of merchant card fees primarily consist of residual payments to agents and ISOs and other third-party costs directly attributable to payment processing. The residual payments represent commissions paid to agents and ISOs based upon a percentage of the net revenue generated from merchant transactions.

Costs of Outsourced Services and Other Revenue

Costs of outsourced services and other revenue consist of salaries directly related to outsourced services revenue, the cost of equipment (point of sale terminals) sold, and third-party fees and commissions related to the Company's ACH processing activities.

Selling, General and Administrative ("SG&A")

SG&A expenses include mainly professional services, advertising, rent, office supplies, software licenses, utilities, state and local franchise and sales taxes, litigation settlements, executive travel, insurance, and expenses related to the Business Combination.

Interest Expense

Interest expense consists of interest on outstanding debt and amortization of deferred financing costs and original issue discounts.

Other, net

Other, net is composed of interest income, debt modification and extinguishment expenses, changes in fair value of warrant liabilities, and equity in losses and impairment of unconsolidated entities. Interest income consists mainly of interest received pursuant to notes receivable from independent sales agents. Debt modification and extinguishment expenses includes write-offs of unamortized deferred financing costs and original issue discount relating to the extinguished debt. Equity in loss and impairment of unconsolidated entities consists of the Company's share of the income or loss of its equity method investment as well as any impairment charges related to such investments.

New Accounting Standards Adopted

The Company did not adopt any new accounting standards during the quarter or nine months ended September 30, 2019, except for ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities-Subtopic 825-10*, and the policy for repurchased common stock based on existing GAAP.

ASU 2016-01 and ASU 2018-09

Under ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, entities have to measure equity investments (except those accounted for under the equity method, those that result in consolidation of the investee and certain other investments) at fair value and recognize any changes in fair value in net income. However, for equity investments that do

not have readily determinable fair values and do not qualify for the existing practical expedient in ASC 820 to estimate fair value using the net asset value per share (or its equivalent) of the investment, the guidance provides a new measurement alternative. Entities may choose to measure those investments at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The Company early adopted the provisions of ASU 2016-01 on April 1, 2019 and applied them to an acquired warrant to purchase equity of another entity, the same entity that borrowed \$3.0 million from the Company during the second quarter of 2019 under a loan and loan commitment agreement. The carrying value, at cost, and fair value of the warrant were not material. See Note 10, *Related Party and Other Transactions*.

The Company was also required to adopt ASU 2018-09, *Codification Improvements*, at the same time it adopted ASU 2016-01. The adoption of ASU 2018-09 had no material effect on the Company's financial position, operations, or cash flows.

Repurchased Stock

Pursuant to the provisions of ASC 505-30, *Treasury Stock*, the Company has elected to apply the cost method when accounting for treasury stock resulting from the repurchase of its common stock. Under the cost method, the gross cost of the shares reacquired is charged to a contra equity account labeled Treasury Stock. The equity accounts that were originally credited for the original shares issuance, common stock and additional paid-in capital, remain intact. See Note 12, *Equity*.

If the treasury shares are ever reissued in the future, proceeds in excess of repurchased cost will be credited to additional paid-in capital. Any deficiency will be charged to retained earnings (accumulated deficit), unless additional paid-in capital from previous treasury stock transactions exists, in which case the deficiency will be charged to that account, with any excess charged to retained earnings (accumulated deficit). If treasury stock is reissued in the future, a cost flow assumption (e.g., FIFO, LIFO, or specific identification) will be adopted to compute excesses and deficiencies upon subsequent share reissuances.

Recently Issued Standards Not Yet Adopted

Prior to July 25, 2018, the Company was defined as a non-public entity for purposes of applying transition guidance related to new or revised accounting standards under GAAP, and as such was typically required to adopt new or revised accounting standards subsequent to the required adoption dates that applied to public companies. Subsequent to July 25, 2018, the Company retains EGC status until no later than December 31, 2021. The Company will maintain the election available to an EGC to use any extended transition period applicable to non-public companies when complying with a new or revised accounting standards. Therefore, as long as the Company retains EGC status, before December 31, 2021 the Company can continue to elect to adopt any new or revised accounting standards on the adoption date (including early adoption) required for a private company.

The following standards are pending adoption and will likely apply to the Company in future periods based on the Company's current business activities:

Revenue Recognition (ASC 606, ASU 2014-09)

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which since has been codified and amended in ASC 606, *Revenue from Contracts with Customers*, and supplemented with other ASUs. This guidance clarifies the principles for recognizing revenue and will be applicable to all contracts with customers regardless of industry-specific or transaction-specific fact patterns. Further, the guidance will require improved disclosures as well as additional disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. Since its original issuance, the FASB has issued several updates to this guidance. Additionally, ASC 340, *Other Assets and Deferred Costs*, and ASC 705-20, *Cost of Sales and Services — Accounting for Consideration Received from a Vendor*, are also effective upon adoption of ASC 606; ASC 340 addresses costs related to revenue and ASC 705-20 addresses vendor incentives. The new standards could change the amount and timing of revenue and costs for certain significant revenue streams, increase areas of judgment and related internal controls requirements, change the presentation of revenue for certain contract arrangements and possibly require changes to the Company's software systems to assist in both internally capturing accounting differences and externally reporting such differences through enhanced disclosure requirements. As an EGC, the standard is effective for the Company's 2019 annual reporting period and for interim periods after 2019. The standard permits the

use of either the retrospective or modified retrospective transition method. The Company plans to use the modified retrospective transition method and is currently evaluating the effect that the standard may have on its consolidated financial statements and disclosures.

Leases (ASC 842)

In February 2016, the FASB issued new lease accounting guidance in ASU No. 2016-02, *Leases-Topic 842*, which has been codified in ASC 842, *Leases*. Other related ASUs have also been issued that will impact lessors. Under this new guidance, lessees will be required to recognize for all leases (with the exception of short-term leases): 1) a lease liability equal to the lessee's obligation to make lease payments arising from a lease, measured on a discounted basis and 2) a right-of-use asset which will represent the lessee's right to use, or control the use of, a specified asset for the lease term. As an EGC, this standard is effective for the Company's annual reporting period beginning in 2021 and interim reporting periods beginning first quarter of 2022. The adoption of ASC 842 will require the Company to recognize non-current assets and liabilities for right-of-use assets and operating lease liabilities on its consolidated balance sheet, but it is not expected to have a material effect on the Company's results of operations or cash flows. ASC 842 will also require additional footnote disclosures to the Company's consolidated financial statements.

Credit Losses (ASU 2016-13 and ASU 2019-05)

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, later codified as ASC 326, *Financial Instruments-Credit Losses*. This new guidance will change how entities account for credit impairment for trade and other receivables, as well as for certain financial assets and other instruments. ASU 2016-13 will replace the current "incurred loss" model with an "expected loss" model. Under the "incurred loss" model, a loss (or allowance) is recognized only when an event has occurred (such as a payment delinquency) that causes the entity to believe that a loss is probable (i.e., that it has been "incurred"). Under the "expected loss" model, a loss (or allowance) is recognized upon initial recognition of the asset that reflects all future events that leads to a loss being realized, regardless of whether it is probable that the future event will occur. The "incurred loss" model considers past events and current conditions, while the "expected loss" model includes expectations for the future which have yet to occur. ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses*, was issued in November 2018 and excludes operating leases from the new guidance. The standard will require entities to record a cumulative-effect adjustment to the balance sheet as of the beginning of the first reporting period in which the guidance is effective. The Company is currently evaluating the potential impact that ASU 2016-13 may have on the timing of recognizing future provisions for expected losses on the Company's accounts receivable. Based on recent actions by the FASB, this new standard will be effective for the Company at the beginning of 2023 as long as the Company is still a Smaller Reporting Company (as defined by the SEC) on the date that the FASB issues its ASU (expected before the end of 2019) to formally extend the adoption date for this standard.

Statement of Cash Flows (ASU 2016-15)

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230)*. This ASU represents a consensus of the FASB's Emerging Issues Task Force on eight separate issues that each impact classifications on the statement of cash flows. In particular, issue number three addresses the classification of contingent consideration payments made after a business combination. Under ASU 2016-15, cash payments made soon after an acquisition's consummation date (i.e., approximately three months or less) will be classified as cash outflows from investing activities. Payments made thereafter will be classified as cash outflows from financing activities up to the amount of the original contingent consideration liability. Payments made in excess of the amount of the original contingent consideration liability will be classified as cash outflows from operating activities. As an EGC, this ASU is effective for the Company for years beginning in 2019 and interim periods within years beginning in 2020. The Company is evaluating the effect this ASU will have on its consolidated statement of cash flows.

Goodwill Impairment Testing (ASU 2017-04)

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. ASU 2017-04 will eliminate the requirement to calculate the implied fair value of goodwill (i.e., step 2 of the current goodwill impairment test) to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value (i.e., measure the charge based on the current step 1). Any impairment charge will be limited to the amount of goodwill allocated to an impacted reporting unit. ASU 2017-04 will not change the current guidance for completing Step 1 of the goodwill impairment test, and an entity will still be able to perform the current

optional qualitative goodwill impairment assessment before determining whether to proceed to Step 1. Upon adoption, the ASU will be applied prospectively. As an EGC, this ASU will be effective for annual and interim impairment tests performed in periods beginning in 2022. The impact that ASU 2017-04 may have on the Company's financial condition or results of operations will depend on the circumstances of any goodwill impairment event that may occur after adoption.

Share-Based Payments to Non-Employees (ASU 2018-07)

In June 2018, the FASB issued ASU 2018-07, *Share-based Payments to Non-Employees*, to simplify the accounting for share-based payments to non-employees by aligning it with the accounting for share-based payments to employees, with certain exceptions. As an EGC, the ASU is effective for annual reporting periods beginning in 2020 and interim periods within annual periods beginning in the first quarter of 2021, but not before the Company adopts ASC 606, *Revenue Recognition*. The Company is evaluating the impact this ASU will have on its consolidated financial statements.

Disclosures for Fair Value Measurements (ASU 2018-13)

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU eliminates, adds and modifies certain disclosure requirements for fair value measurements as part of the FASB's disclosure framework project. For all entities, this ASU is effective for annual and interim reporting periods beginning in 2020. Certain amendments must be applied prospectively while others are to be applied on a retrospective basis to all periods presented. As disclosure guidance, the adoption of this ASU will not have an effect on the Company's financial position, results of operations or cash flows.

Implementation Costs Incurred in Cloud Computing Arrangements (ASU 2018-15)

In August 2018, the FASB issued ASU 2018-15, *Implementation Costs Incurred in Cloud Computing Arrangements* ("ASU 2018-15"), which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). As an EGC, this ASU is effective for the Company for annual reporting periods beginning in 2021, and interim periods within annual periods beginning in 2022. The amendments should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Company is evaluating the impact this ASU will have on its consolidated financial statements.

Concentration of Risk

The Company's revenue is substantially derived from processing Visa® and MasterCard® bank card transactions. Because the Company is not a member bank, in order to process these bank card transactions, the Company maintains sponsorship agreements with member banks which require, among other things, that the Company abide by the by-laws and regulations of the card associations.

Substantially all of the Company's revenue and receivables are attributable to merchant customer transactions, which are processed by third-party payment processors.

A majority of the Company's cash and restricted cash is held in certain financial institutions, substantially all of which is in excess of federal deposit insurance corporation limits. The Company does not believe it is exposed to any significant credit risk from these transactions.

No one merchant customer accounted for 10% or more of the Company's consolidated revenue for any period presented.

2. ACQUISITIONS AND CONTRIBUTIONS OF ASSETS

YapStone

In March 2019, the Company, through one of its subsidiaries, Priority Real Estate Technology, LLC ("PRET"), acquired certain assets and assumed certain related liabilities (the "YapStone net assets") from YapStone under an asset purchase and contribution agreement. The purchase price for the YapStone net assets was \$65.0 million in cash plus a non-controlling interest in PRET. The fair value of the non-controlling interest was estimated to be approximately \$5.7 million. The total purchase price was assigned to customer relationships, except for \$1.0 million and \$1.2 million which were assigned to a software license agreement and a services agreement, respectively. The \$65.0 million of cash was funded from a draw down of the credit facilities (the "Senior Credit Facility") under a senior credit agreement with a syndicate of lenders (the "Senior Credit Agreement") on a delayed basis as provided for and pursuant to the third amendment thereto executed in December 2018. See Note 7, *Long-Term Debt*.

During the quarter and nine months ended September 30, 2019, no earnings of PRET were allocated to the non-controlling interest pursuant to the profit-sharing agreement between the Company and the non-controlling interest.

eTab and Cumulus (Related Party)

In February 2019, a subsidiary of the Company, Priority Hospitality Technology, LLC ("PHOT"), received a contribution of substantially all of the operating assets of eTab, LLC ("eTab") and CUMULUS POS, LLC ("Cumulus") under asset contribution agreements. No material liabilities were assumed by PHOT. These contributed assets were composed substantially of technology-related assets. Prior to these transactions, eTab was 80% owned by the Company's Chairman and Chief Executive Officer. No cash consideration was paid to the contributors of the eTab or Cumulus assets on the date of the transactions. As consideration for these contributed assets, the contributors were issued redeemable preferred equity interests in PHOT. Under these redeemable preferred equity interests, the contributors are eligible to receive up to \$4.5 million of profits earned by PHOT, plus a preferred yield (6% per annum) on any of the \$4.5 million amount that has not been distributed to them. The Company's Chairman and Chief Executive Officer owns 83.3% of the redeemable preferred equity interests in PHOT. Once a total of \$4.5 million plus the preferred yield has been distributed to the holders of the redeemable preferred equity interests, the redeemable preferred equity interests will cease to exist. The Company determined that the contributor's carrying value of the eTab net assets (as a common control transaction under GAAP) was not material. Under the guidance for a common control transaction, the contribution of the eTab net assets did not result in a change of entity or the receipt of a business, therefore the Company's financial statements for prior periods have not been adjusted to reflect the historical results attributable to the eTab net assets. Additionally, no material amount was estimated for the fair value of the contributed Cumulus net assets.

Pursuant to the limited liability company agreement of PHOT, any material future earnings generated by the eTab and Cumulus assets that are attributable to the holders of the preferred equity interests will be reported by the Company as a form of non-controlling interests ("NCI") classified as mezzanine equity on the Company's consolidated balance sheet until \$4.5 million and the preferred yield have been distributed to the holders of the preferred equity interests. Subsequent changes, if material, in the value of the NCI will be reported as an equity transaction between the Company's consolidated retained earnings (accumulated deficit) and any carrying value of the NCI in mezzanine equity. Such amounts were not material to the Company's results of operations, financial position, or cash flows for the period covering February 1, 2019 (date the assets were contributed to the Company) and September 30, 2019, and therefore no recognition of the NCI has been reflected in the Company's unaudited condensed consolidated financial statements and accompanying footnotes.

Residual Portfolio Acquisition

On March 15, 2019, a subsidiary of the Company paid \$15.2 million cash to acquire certain residual portfolio rights. Of the \$15.2 million, \$5.0 million was funded from a delayed draw down of the Senior Credit Facility as provided for and pursuant to the third amendment thereto executed in December 2018. See Note 7, *Long-Term Debt*. Additionally, a \$10.0 million draw was made against the revolving credit facility under the Senior Credit Facility and cash on hand was used to fund the remaining amount. The purchase price may be subject to an increase of up to \$6.4 million in accordance with the terms of the agreement between the Company and the sellers. Through September 30, 2019, no additional purchase price has been paid. Additional purchase price, if any, will be accounted for when payment to the seller becomes probable and it will be added to the carrying value of the asset.

3. SETTLEMENT ASSETS AND OBLIGATIONS

The standards of the card networks restrict non-members, such as the Company, from performing funds settlement or accessing merchant settlement funds. Instead, these funds must be in the possession of the member bank until the merchant is funded. The Company has relationships with member banks to facilitate payment transactions. These agreements allow the Company to route transactions under a member bank's control to process and clear transactions through card networks. Amounts for payment card settlements included in settlement assets and obligations on the Company's consolidated balance sheets represent intermediary balances arising in the settlement process.

Reserves Held For ACH Customers

For the Company's ACH business component that conducts business as ACH.com, the Company earns revenue by processing ACH transactions for financial institutions and other business customers. Certain customers establish and maintain reserves with the Company to cover potential losses in processing ACH transactions. These reserves are held in bank accounts controlled by the Company. As such, the Company recognizes the cash balances within restricted cash and settlement obligations on its consolidated balance sheets.

Merchant Reserves and Estimated Shortfalls

Under agreements between the Company and merchants, merchants assume liability for obligations such as chargebacks, customer disputes, and unfilled orders. However, under its risk-based underwriting policy, the Company may require certain merchants to establish and maintain reserves designed to protect the Company from anticipated obligations such as chargebacks, customer disputes, and unfilled orders. A merchant reserve account is funded by the merchant and held by a sponsor bank during the term of the merchant agreement. Unused merchant reserves are returned to the merchant after termination of the merchant agreement or in certain instances upon a reassessment of risks during the term of the merchant agreement. Sponsor banks held merchant reserves of approximately \$135.8 million and \$186.2 million at September 30, 2019 and December 31, 2018, respectively. Since these merchant reserves held at sponsor banks are not assets of the Company and the associated risks are not liabilities of the Company, neither is recognized on the Company's consolidated balance sheets.

In the event the amount in a merchant reserve is insufficient to cover expected or incurred losses, the Company may be liable to cover the shortfall. The Company recognized a liability for estimated shortfalls of approximately \$3.2 million and \$2.0 million at September 30, 2019 and December 31, 2018, respectively. The liabilities are included in the Company's consolidated balance sheet as contra balances against settlement assets.

The Company's settlement assets and obligations at September 30, 2019 and December 31, 2018 were as follows:

<i>(in thousands)</i>		As of	
		September 30, 2019	December 31, 2018
Settlement Assets:			
Card settlements due from merchants, net of estimated losses	\$	480	\$ 988
Card settlements due from processors		276	54
Total settlement assets	\$	756	\$ 1,042
Settlement Obligations:			
Card settlements due to merchants	\$	2,915	\$ 777
Due to ACH payees (1)		14,627	10,355
Total Settlement Obligations	\$	17,542	\$ 11,132

(1) Amounts due to ACH payees are held by the Company in restricted cash.

4. GOODWILL AND INTANGIBLE ASSETS

The Company records goodwill when an acquisition is made and the purchase price is greater than the fair value assigned to the underlying tangible and intangible assets acquired and the liabilities assumed. The Company's goodwill was allocated to reportable segments as follows:

<i>(in thousands)</i>	September 30, 2019	December 31, 2018
Consumer Payments	\$ 106,832	\$ 106,832
Commercial Payments	—	—
Integrated Partners	2,683	2,683
	<u>\$ 109,515</u>	<u>\$ 109,515</u>

There were no changes in the carrying amount of goodwill for the quarter and nine months ended September 30, 2019.

The Company's intangible assets primarily include merchant portfolios and other intangible assets such as non-compete agreements, trade names, acquired technology (developed internally by acquired companies prior to acquisition by the Company) and customer relationships. As of September 30, 2019 and December 31, 2018, intangible assets consisted of the following:

<i>(in thousands)</i>	September 30, 2019	December 31, 2018
Other intangible assets:		
Merchant portfolios	\$ 155,287	\$ 137,576
Non-compete agreements	3,390	3,390
Trade names	2,870	2,870
Acquired technology	15,390	14,390
Customer relationships	124,660	55,940
Total gross carrying value	<u>301,597</u>	<u>214,166</u>
Less accumulated amortization:		
Merchant portfolios	(63,991)	(48,492)
Non-compete agreements	(3,390)	(3,390)
Trade names	(1,209)	(1,017)
Acquired technology	(12,116)	(10,222)
Customer relationships	(32,835)	(26,408)
Total accumulated amortization	<u>(113,541)</u>	<u>(89,529)</u>
Net carrying value	<u>\$ 188,056</u>	<u>\$ 124,637</u>

See Note 2, *Acquisitions and Contributions of Assets*, for information about certain additions made during the first nine months of 2019.

Amortization expense for finite-lived intangible assets was approximately \$8.4 million and \$24.0 million for the quarter and nine months ended September 30, 2019, respectively, and \$3.8 million and \$9.3 million for the quarter and nine months ended September 30, 2018, respectively. Amortization expense for future periods could differ due to new intangible asset acquisitions, changes in useful lives of existing intangible assets, and other relevant events or circumstances.

The Company tests goodwill for impairment for each of its reporting units on an annual basis, or when events occur or circumstances indicate the fair value of a reporting unit is below its carrying value. The Company expects to perform its next annual goodwill impairment test as of November 30, 2019 using market data and discounted cash flow analysis. The Company concluded there were no indicators of impairment as of September 30, 2019 or December 31, 2018. As such, there was no accumulated impairment loss as of September 30, 2019 and December 31, 2018.

5. PROPERTY, EQUIPMENT AND SOFTWARE

The Company's property, equipment, and software balance primarily consists of furniture, fixtures, and equipment used in the normal course of business, computer software developed for internal use, and leasehold improvements. Computer software represents purchased software and internally developed back office and merchant interfacing systems used to assist the reporting of merchant processing transactions and other related information.

A summary of property, equipment, and software as of September 30, 2019 and December 31, 2018 follows:

<i>(in thousands)</i>	September 30, 2019	December 31, 2018	Useful Life
Furniture and fixtures	\$ 2,337	\$ 2,254	2-7 years
Equipment	10,287	8,164	3-7 years
Computer software	34,088	27,804	3-5 years
Leasehold improvements	6,105	5,935	5-10 years
	<u>52,817</u>	<u>44,157</u>	
Less accumulated depreciation	(31,421)	(26,675)	
Property, equipment, and software, net	<u>\$ 21,396</u>	<u>\$ 17,482</u>	

Depreciation expense for property, equipment, and software expense totaled \$1.7 million and \$1.1 million for the quarter ended September 30, 2019 and September 30, 2018, respectively, and \$4.7 million and \$3.4 million for the nine months ended September 30, 2019 and September 30, 2018, respectively.

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

The Company accrues for certain expenses that have been incurred and not paid, which are classified within accounts payable and accrued expenses in the accompanying consolidated balance sheets.

The components of accounts payable and accrued expenses that exceeded five percent of total current liabilities at either September 30, 2019 or December 31, 2018 consisted of the following:

<i>(in thousands)</i>	September 30, 2019	December 31, 2018
Accounts payable	\$ 5,531	\$ 8,030
Accrued compensation	\$ 3,423	\$ 6,193
Accrued network fees	\$ 9,301	\$ 6,971

7. LONG-TERM DEBT

Long-term debt, excluding amounts outstanding on the revolving credit facility, as of September 30, 2019 and December 31, 2018 consisted of the following:

<i>(in thousands)</i>	September 30, 2019	December 31, 2018
Term Loan - Senior, matures January 3, 2023 and bears interest at LIBOR plus 5.0% at September 30, 2019 and December 31, 2018 (rate of 7.12% at September 30, 2019 and 7.53% at December 31, 2018)	\$ 389,839	\$ 322,666
Term Loan - Subordinated, matures July 3, 2023 and bears interest at 5.0% plus payment-in-kind interest (rate of 10.5% at September 30, 2019 and December 31, 2018)	93,823	90,016
Total	483,662	412,682
Less: current portion of long-term debt	(4,007)	(3,293)
Less: unamortized debt discounts	(3,060)	(3,300)
Less: deferred financing costs	(3,251)	(3,994)
Total long-term debt	\$ 473,344	\$ 402,095

Substantially all of the Company's assets are pledged as collateral under the Senior Credit Agreement and under a credit and guaranty agreement with Goldman Sachs Specialty Lending Group, L.P. (the "GS Credit Agreement"). However, the Company, as the parent entity, is neither a borrower nor a guarantor of this aforementioned debt. The Company's subsidiaries that are borrowers or guarantors are referred to as the "Borrowers."

The December 2018 modification of the Senior Credit Agreement and the GS Credit Agreement (collectively, the "Third Amendment") included a delayed draw basis amount of \$70.0 million. Until the additional \$70.0 million, net of a \$350,000 discount, was drawn in March 2019, the Borrowers were assessed a fee on the undrawn amounts. This fee amounted to \$0.4 million in the first quarter and first nine months of 2019.

At September 30, 2019, the Senior Credit Agreement has a maximum borrowing amount of \$422.5 million consisting of a \$397.5 million term loan and a \$25.0 million revolving credit facility. The allowed borrowings amount under the GS Credit Agreement is \$80.0 million, excluding payment-in-kind interest.

The Senior Credit Facility mature on January 3, 2023, with the exception of the revolving credit facility which expires on January 2, 2022. Any amounts outstanding under the revolving credit facility must be paid in full before the maturity date of January 2, 2022. The GS Credit Agreement matures on July 3, 2023.

At September 30, 2019, there was \$11.5 million outstanding on the revolving credit facility; no amount was outstanding as of December 31, 2018. As of September 30, 2019, approximately \$13.5 million is available under the revolving credit facility. The variable interest rate on the revolving credit facility was 7.12% at September 30, 2019. Undrawn commitment for a letter of credit under the revolving credit facility was approximately \$0.1 million.

As a result of the Third Amendment, borrowings under the Senior Credit Agreement are subject to an applicable margin, or percentage per annum, equal to: (i) with respect to Initial Term Loans, (a) for LIBOR Rate Loans, 5.00% per annum and (b) for Base Rate Loans, 4.00% per annum; and (ii) with respect to Revolving Loans (a) for LIBOR Rate Loans and Letter of Credit fees, 5.00% per annum, (b) for Base Rate Loans, 4.00% per annum, and (c) for unused commitment fees, 0.50% per annum.

Under the Senior Credit Agreement, the Borrowers are required to make quarterly principal payments of approximately \$1.0 million. Additionally, the Borrowers may be obligated to make certain additional mandatory prepayments based on excess cash flow, as defined in the Senior Credit Agreement. No such prepayment was due for the year ended December 31, 2018.

Contractual principal payments for long-term debt, excluding amounts outstanding on the revolving credit agreement, due after September 30, 2019 are as follows:

<i>(in thousands)</i>	
Twelve-month period ending September 30,	Principal Due
2020	\$ 4,007
2021	4,007
2022	4,007
2023	471,641
Total	<u>\$ 483,662</u>

For the nine months ended September 30, 2019 and September 30, 2018, payment-in-kind (PIK) interest under the GS Credit Agreement added \$3.8 million and \$3.6 million, respectively, to the principal amount of the subordinated debt.

For the quarters ended September 30, 2019 and September 30, 2018, interest expense, including amortization of deferred financing costs and debt discounts, was \$10.5 million and \$7.3 million, respectively, and these amounts for the nine months ended September 30, 2019 and September 30, 2018, were \$30.6 million and \$21.9 million, respectively.

Deferred financing costs and debt discounts are being amortized using the effective interest method over the remaining term of the respective debt and are recorded as a component of interest expense. Interest expense related to amortization of deferred finance costs and debt discounts was approximately \$0.4 million and \$0.4 million for the quarters ended September 30, 2019 and September 30, 2018, respectively, and \$1.3 million and \$1.1 million for the nine months ended September 30, 2019 and September 30, 2018, respectively.

Covenants

The Senior Credit Agreement and the GS Credit Agreement, as amended, contain representations and warranties, financial and collateral requirements, mandatory payment events, events of default, and affirmative and negative covenants, including without limitation, covenants that restrict among other things, the ability to create liens, pay dividends or distribute assets from the Company's subsidiaries to the Company, merge or consolidate, dispose of assets, incur additional indebtedness, make certain investments or acquisitions, enter into certain transactions (including with affiliates), and to enter into certain leases. Substantially all of the Borrowers' assets are pledged as collateral under the Senior Credit Agreement and GS Credit Agreement. The Borrowers are also required to comply with certain restrictions on their Total Net Leverage Ratio (as defined in the Senior Credit Agreement and GS Credit Agreement). As of September 30, 2019 and December 31, 2018, the Borrowers were in compliance with the covenants.

The Borrowers are currently pursuing a refinancing of the Senior Credit Agreement and the GS Credit Agreement, which the Company expects to be completed during the fourth quarter of 2019. Based upon the current financial forecast for the fourth quarter of 2019, without a refinancing or modification of existing terms within the credit agreements, it is probable that compliance will not be achieved for the required Total Net Leverage Ratio covenant of no more than 5.25:1.00 at December 31, 2019. Noncompliance could have materially adverse impacts on the Company's financial condition, including giving the lenders the right to accelerate the debt repayment schedule and restricting access to the revolving credit facility. Based upon the progress of the refinancing efforts, the credit agreements are expected to be refinanced, and the Company expects to be in compliance with the debt covenants included therein at December 31, 2019.

8. INCOME TAXES

Prior to July 25, 2018, substantially all of the Company's operations were conducted through pass-through entities for income tax purposes, and as such the Company had no material income tax accounting reflected in its financial statements for financial reporting purposes since substantially all taxable income and deductions were "passed through" to unconsolidated owners. Effective July 25, 2018, the Company is a "C Corp" and reports its income and deductions for income tax purposes. Accordingly, effective July 25, 2018, the consolidated financial statements of the Company reflect the accounting for income taxes in accordance with

ASC 740, Income Taxes. The Company's unaudited condensed consolidated financial statements for the quarter and nine months ended September 30, 2018 reflect unaudited pro-forma income tax disclosure amounts to illustrate the income tax effects had the Company been subject to federal and state income taxes.

Income Tax Expense (Benefit)

The components of the Company's provision (benefit) for federal and state income taxes were as follows:

<i>(in thousands)</i>	Quarter Ended		Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Deferred tax benefit	\$ (1,667)	\$ (991)	\$ (5,376)	\$ (991)
Provision (adjustment) for DTA valuation allowance	(78)	—	5,197	—
Provision for DTA valuation allowance - discrete item	9	—	2,647	—
Total income tax (benefit) provision	<u>\$ (1,736)</u>	<u>\$ (991)</u>	<u>\$ 2,468</u>	<u>\$ (991)</u>

DTA = Deferred income tax asset

Valuation Allowance for Deferred Income Tax Assets

The Company considers all available positive and negative evidence to determine whether sufficient taxable income will be generated in the future to permit realization of the existing deferred tax assets. In accordance with the provisions of ASC 740, *Income Taxes* ("ASC 740"), the Company is required to provide a valuation allowance against deferred tax assets when it is "more likely than not" that some portion or all of the deferred tax assets will not be realized.

Among other provisions, the Tax Cuts and Jobs Act of 2017 amended Internal Revenue Code Section 163(j) to create limitations on the deductibility of business interest expense. Section 163(j) limits the business interest deduction to 30% of adjusted taxable income (ATI). For taxable years through 2021, the calculation of ATI closely aligns with earnings before interest, taxes, depreciation and amortization (EBITDA). Commencing in 2022, the ATI limitation more closely aligns with earnings before interest and taxes (EBIT), without adjusting for depreciation and amortization. Any business interest in excess of the annual limitation is carried forward indefinitely.

With respect to recording a deferred tax benefit for the carryforward of business interest, the Company is required to apply the "more likely than not" threshold for assessing recoverability. Based on management's assessment, the Company recorded a valuation allowance in the first nine months of 2019 of \$7.8 million for the business interest carryover comprised of (i) a discrete provision of \$2.6 million associated with the 2018 business interest deferred tax asset and (ii) a provision of \$5.2 million associated with the 2019 excess business interest.

The provisions for and adjustments to the valuation allowance are a component of income tax expense (benefit) in the Company's unaudited condensed consolidated statements of operations.

The Company will continue to evaluate the realizability of the deferred tax assets on a quarterly basis and, as a result, the valuation allowance may change in future periods.

Uncertain Tax Positions

The Company recognizes the tax effects of uncertain tax positions only if such positions are more likely than not to be sustained based solely upon its technical merits at the reporting date. The Company refers to the difference between the tax benefit recognized

in its financial statements and the tax benefit claimed in the income tax return as an "unrecognized tax benefit." As of September 30, 2019, the net amount of our unrecognized tax benefits was not material.

The Company is subject to U.S. federal income tax and income tax in multiple state jurisdictions. Tax periods for 2015 and all years thereafter remain open to examination by the federal and state taxing jurisdictions and tax periods for 2014 and all years thereafter remain open for certain state taxing jurisdictions to which the Company is subject.

9. COMMITMENTS AND CONTINGENCIES

Legal Matters

The Company is involved in certain legal proceedings and claims, which arise in the ordinary course of business. In the opinion of the Company, based on consultations with inside and outside counsel, the results of any of these ordinary course matters, individually and in the aggregate, are not expected to have a material effect on its results of operations, financial condition, or cash flows.

Contingent Consideration for Acquisitions

For information on recognized contingent consideration related to prior business acquisitions, see Note 14, *Fair Value*.

Under GAAP that applies to asset acquisitions that do not meet the definition of a business, the portion of the unpaid purchase price that is contingent on future activities is not initially recorded by the acquirer on the date of acquisition. Rather, the acquirer generally recognizes contingent consideration when it becomes probable and estimable. For the Company's acquisition of certain merchant portfolio assets from Direct Connect Merchant Services, LLC in December 2018, the purchase price includes cash contingent consideration of up to approximately \$7.3 million, determinable over a period that ends on December 31, 2019. For a separate asset acquisition from another entity that occurred in March 2019 for certain merchant portfolio residual rights (Note 2, *Acquisitions and Contributions of Assets*), the purchase price includes cash contingent consideration of up to \$6.4 million covering a period of time that extends three years from the date of acquisition. Additional purchase price, if any, will be accounted for when payment to the seller becomes probable and it will be added to the carrying value of the asset.

Commitment to Lend

See Note 10, *Related Party and Other Transactions*, for information on a loan commitment extended by the Company to another entity.

10. RELATED PARTY AND OTHER TRANSACTIONS

See Note 2, *Acquisitions and Contributions of Assets*, for information about the acquisitions of certain assets and liabilities of eTab and Cumulus.

On May 22, 2019, the Company, through one of its wholly-owned subsidiaries, executed an interest-bearing loan and commitment agreement with another entity. The Company loaned the entity \$3.0 million, with a commitment to loan up to \$10.0 million based on certain growth metrics of the entity and continued compliance by the entity with the terms and covenants of the agreement. The Company's commitment to make additional advances under the loan agreement is dependent upon such advances not conflicting with covenants or restrictions under any of the Company's debt or other applicable agreements. Amounts loaned to this entity by the Company are secured by substantially all of the assets of the entity and by a personal guarantee. The note receivable has an interest rate of 12.0% per annum and is repayable in full in May 2024. The Company also received a warrant to purchase a non-controlling interest in this entity's equity at a fixed amount. The loan agreement also gives the Company certain rights to purchase some or all of this entity's equity in the future, at the entity's then-current fair value. The fair values of the warrant, loan commitment, and purchase right were not material at inception or at September 30, 2019.

11. RECONCILIATION OF STOCKHOLDERS' EQUITY (DEFICIT) AND NON-CONTROLLING INTEREST

The Company is authorized to issue 100,000,000 shares of preferred stock with such designations, voting and other rights and preferences as may be determined from time to time by the board of directors. As of September 30, 2019 and December 31, 2018, the Company has not issued any shares of preferred stock.

The following tables provide a reconciliation of the beginning and ending carrying amounts of equity (deficit) attributable to stockholders of the Company, and equity attributable to non-controlling interest for the periods presented:

<i>(in thousands)</i>									Total Priority Technology Holdings, Inc. Stockholders'	Non- Controlling Interest
	Preferred Stock		Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated (Deficit)	(Deficit)	
	Shares	Amount	Shares	Amount	Shares	Amount				
January 1, 2019	—	\$ —	67,038	\$ 67	—	\$ —	\$ —	\$ (85,540)	\$ (85,473)	\$ —
Equity-based compensation	—	—	—	—	—	—	1,160	—	1,160	—
Warrant redemptions	—	—	420	(a)	—	—	(a)	—	—	—
Net loss	—	—	—	—	—	—	—	(6,446)	(6,446)	—
Issuance of non-controlling interest	—	—	—	—	—	—	—	—	—	5,654
March 31, 2019	—	—	67,458	67	—	—	1,160	(91,986)	(90,759)	5,654
Equity-based compensation	—	—	—	—	—	—	1,023	—	1,023	—
Repurchases of common stock	—	—	(451)	—	451	(2,388)	—	—	(2,388)	—
Net loss	—	—	—	—	—	—	—	(14,130)	(14,130)	—
June 30, 2019	—	—	67,007	67	451	(2,388)	2,183	(106,116)	(106,254)	5,654
Equity-based compensation	—	—	—	—	—	—	1,171	—	1,171	—
Net loss	—	—	—	—	—	—	—	(5,844)	(5,844)	—
September 30, 2019	—	\$ —	67,007	\$ 67	451	\$(2,388)	\$ 3,354	\$ (111,960)	\$ (110,927)	\$ 5,654

(a) Par value of the common shares issued in connection with the warrant exchange rounds to less than one thousand dollars (see Note 12, *Equity*).

(in thousands)							Total Priority Technology Holdings, Inc. Stockholders' (Deficit)	Non-Controlling Interest
	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated (Deficit)		
	Shares	Amount	Shares	Amount				
January 1, 2018	—	\$ —	73,110	\$ 73	\$ —	\$ (90,228)	\$ (90,155)	\$ —
Distribution to members (b)	—	—	—	—	(188)	(3,836)	(4,024)	—
Member redemption (b)	—	—	(12,565)	(13)	—	(64,890)	(64,903)	—
Pro-rata adjustment for redemption (b)	—	—	(724)	—	—	—	—	—
Equity-based compensation	—	—	—	—	188	—	188	—
Net loss	—	—	—	—	—	(3,177)	(3,177)	—
March 31, 2018	—	—	59,821	60	—	(162,131)	(162,071)	—
Distribution to members (b)	—	—	—	—	(607)	(1,707)	(2,314)	—
Equity-based compensation	—	—	250	—	607	—	607	—
Net loss	—	—	—	—	—	(5,628)	(5,628)	—
June 30, 2018	—	—	60,071	60	—	(169,466)	(169,406)	—
Distribution to members (b)	—	—	—	—	(737)	—	(737)	—
Equity-based compensation	—	—	—	—	268	—	268	—
Conversion of MI Acquisitions shares (c)	—	—	6,676	7	7,291	42,091	49,389	—
Effects of Founders' Share Agreement (c)	—	—	(175)	—	(2,118)	—	(2,118)	—
Recapitalization costs (c)	—	—	—	—	(9,704)	—	(9,704)	—
Net deferred income tax asset (c)	—	—	—	—	—	47,478	47,478	—
Common stock issued (d)	—	—	475	(e)	5,000	—	5,000	—
Net loss	—	—	—	—	—	(2,562)	(2,562)	—
September 30, 2018	—	\$ —	67,047	\$ 67	\$ —	\$ (82,459)	\$ (82,392)	\$ —

(b) Before reverse acquisition and recapitalization on July 25, 2018. See "Corporate Matters" in Note 1, *Nature of Business and Basis of Presentation*.

(c) Related to loss of partnership status on July 25, 2018.

(d) As partial consideration for two business acquisitions during the third quarter of 2018.

(e) Par value of 475,195 common shares issued rounds to less than one thousand thousand dollars.

12. EQUITY

Repurchases of the Company's Common Stock

During the second quarter of 2019, the Company repurchased a total of 451,224 shares of its common stock at an average price of \$5.29 per share. Total cash paid by the Company was approximately \$2.4 million. The repurchases were authorized under a December 2018 resolution by the Company's board of directors, which expired during the second quarter of 2019.

Warrants for the Company's Common Stock

In August 2018, the Company was informed by Nasdaq that it intended to delist the Company's outstanding warrants and units due to an insufficient number of round lot holders for the public warrants. The Company subsequently filed a Registration Statement on Form S-4 with the SEC for the purpose of offering holders of the Company's outstanding 5,310,109 public warrants and 421,107 private warrants the opportunity to exchange each warrant for 0.192 shares of the Company's common stock. The exchange offer expired in February 2019 resulting in a portion of the warrants being tendered in exchange for approximately 420,000 shares of the Company's common stock plus cash in lieu of fractional shares. Nasdaq proceeded to delist the remaining outstanding warrants and units, which were comprised of one share of common stock and one warrant, from The Nasdaq Global Market at the open of business on March 6, 2019. The delisting of the remaining outstanding warrants and units had no impact on the Company's financial statements.

Earn-Out Consideration

An additional 9.8 million common shares may be issued under the Company's Earn-Out Incentive Plan. For the first earn-out of up to 4.9 million common shares, consolidated adjusted EBITDA (as defined in the Earn-Out Incentive Plan) of the Company must have been no less than \$82.5 million for the year ended December 31, 2018 and the Company's stock price must trade in excess of \$12.00 for any 20 trading days within any consecutive 30-day trading period at any time on or before December 31, 2019. For the second earn-out of up to 4.9 million common shares, consolidated adjusted EBITDA of the Company must be no less than \$91.5 million for the year ending December 31, 2019 and the Company's stock price must trade in excess of \$14.00 for any 20 trading days within any consecutive 30-day trading period at any time between January 1, 2019 and December 31, 2020. In the event that the first earn-out targets are not met, the entire 9.8 million shares may be issued if the second earn-out targets are met. As of September 30, 2019 and December 31 2018, none of the 9.8 million shares have been earned. Any unvested shares issued to management or directors under compensation plans will be expensed under the provisions of ASC 718, *Stock Compensation*.

13. EQUITY-BASED COMPENSATION PLANS

The Company has three equity-based compensation plans: 2018 Equity Incentive Plan; Earnout Incentive Plan; and 2014 Management Incentive Plan. Total equity-based compensation expense for the quarters ended September 30, 2019 and September 30, 2018 was approximately \$1.2 million and \$0.3 million, respectively, and was \$3.4 million and \$1.1 million for the nine months ended September 30, 2019 and September 30, 2018, respectively. This expense is included in Salary and employee benefits in the accompanying unaudited condensed consolidated statements of operations. Expense recognized by plan was as follows:

(in thousands)	Quarter Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
2018 Equity Incentive Plan	\$ 322	\$ —	\$ 2,087	\$ —
2014 Management Incentive Plan	849	268	1,267	1,063
Earnout Incentive Plan	—	—	—	—
Total	<u>\$ 1,171</u>	<u>\$ 268</u>	<u>\$ 3,354</u>	<u>\$ 1,063</u>

All unforfeited grants under the 2014 Management Incentive Plan were fully vested and expensed at September 30, 2019.

During the quarter ended September 30, 2019, half of the unforfeited stock options issued in December 2018 under the 2018 Equity Incentive Plan vested. However, no stock options have been exercised because the market price of the Company's common stock has remained below the exercise price for all vested stock options.

Beginning in 2018, the Company elected to recognize the effects of forfeitures on compensation expense as the forfeitures occur for all plans.

14. FAIR VALUE

The following is a description of the valuation methodology used for the warrants issued to Goldman Sachs Specialty Lending Group, L.P. ("GS") and contingent consideration issued in business combinations, which were recorded and remeasured at fair value at the end of each reporting period.

GS Warrants

In connection with the GS Credit Agreement, warrants issued by Holdings to GS for the purchase of Holdings' Class A common units (each, a "GS Warrant" and collectively, the "GS Warrants") were issued, canceled, and replaced at various times in 2018 and prior years. During the first quarter of 2018, a GS Warrant for the purchase of 1.8% of Holdings' outstanding Class A common units was replaced by a GS Warrant to purchase of 2.2% of Holdings' Class A common units. This new GS Warrant had a term of 7 years, an exercise price of \$0, and could be exercised at any time prior to expiration date. Since the obligation was based solely on the fact that the 2.2% interest in the equity of Holdings was fixed and known at inception as well as the fact that GS could exercise the GS Warrant with a settlement in cash any time prior to the expiration date of December 31, 2023, the outstanding GS Warrant was required to be recorded as a liability. A \$0.1 million decrease and a net \$3.5 million increase in the fair value of the GS Warrant for the quarter and nine months ended September 30, 2018, respectively, is included in Other, net in the accompanying unaudited condensed consolidated statements of operations. The GS Warrant was redeemed in full on July 25, 2018 for \$12.7 million in cash.

The GS Warrants were classified as level 3 in the fair value hierarchy. The fair value of the GS warrants was estimated based on the fair value of Holdings using a weighted-average of values derived from generally accepted valuation techniques, including market approaches, which consider the guideline public company method, the guideline transaction method, the recent funding method, and an income approach, which considered discounted cash flows.

Contingent Consideration Issued in 2018 Business Combinations

The estimated fair values of contingent consideration related to the Priority Payment Systems Tech Partners and Priority Payment Systems Northeast business acquisitions are based on a weighted payout probability at the measurement date, which falls within Level 3 on the fair value hierarchy. Both of these acquisitions occurred during the third quarter of 2018. At September 30, 2019

and December 31, 2018, the total fair value of the contingent consideration for both acquisitions was approximately \$1.0 million, which was not materially different than the fair values on their original measurement dates.

The following table shows a reconciliation of the beginning and ending balances for liabilities measured at fair value on a recurring basis using significant unobservable inputs that were classified as Level 3 in the fair value hierarchy for the periods indicated:

<i>(in thousands)</i>		
	Contingent Consideration	Warrant Liability
Balance at January 1, 2018	\$ —	\$ 8,701
Extinguishment of GS 1.8% warrant liability	—	(8,701)
GS 2.2% warrant liability	—	12,182
Balance at March 31, 2018	—	12,182
Adjustment to fair value included in earnings	—	591
Balance at June 30, 2018	—	12,773
Adjustment to fair value included in earnings	—	(72)
Extinguishment of GS 2.2% warrant liability	—	(12,701)
Estimated contingent consideration for business acquisitions	980	
Balance at September 30, 2018	\$ 980	\$ —
Balance at January 1, 2019	\$ 980	\$ —
Fair value adjustments	—	—
Balance at March 31, 2019	980	—
Fair value adjustments	—	—
Balance at June 30, 2019	980	—
Fair value adjustments	—	—
Balance at September 30, 2019	\$ 980	\$ —

There were no transfers among the fair value levels during the quarters or nine months ended September 30, 2019 and September 30, 2018.

Fair Value Disclosures (Level 3 in the fair value hierarchy)

Notes Receivable

Notes receivable are carried at amortized cost. Substantially all of the Company's notes receivable are secured, and the Company believes that all of its notes receivable are collectible. The fair value of the Company's notes receivable at September 30, 2019 and December 31, 2018 was approximately \$5.2 million and \$1.8 million, respectively.

Debt Obligations

The Borrower's outstanding debt obligations (see Note 7, *Long-Term Debt*) are reflected in the Company's consolidated balance sheets at carrying value since the Company did not elect to remeasure debt obligations to fair value at the end of each reporting period. The carrying values of the long-term debt approximate fair value due to mechanisms in the credit agreements that adjust the applicable interest rates.

15. SEGMENT INFORMATION

The Company has three reportable segments that are reviewed by the Company's chief operating decision maker ("CODM"), who is the Company's Chief Executive Officer and Chairman. The Consumer Payments operating segment and the Integrated Partners operating segments are each reported as separate reportable segments. The Commercial Payments and Institutional Services (sometimes referred to as Managed Services) operating segments are aggregated into one reportable segment, Commercial Payments.

- *Consumer Payments* – represents consumer-related services and offerings including merchant acquiring and transaction processing services including the proprietary MX enterprise suite. Either through acquisition of merchant portfolios or through resellers, the Company becomes a party or enters into contracts with a merchant and a sponsor bank. Pursuant to the contracts, for each card transaction, the sponsor bank collects payment from the credit, debit or other payment card issuing bank, net of interchange fees due to the issuing bank, pays credit card association (e.g., Visa, MasterCard) assessments and pays the transaction fee due to the Company for the suite of processing and related services it provides to merchants, with the remainder going to the merchant.
- *Commercial Payments* – represents services provided to certain enterprise customers, including outsourced sales force to those customers and accounts payable automation services to commercial customers.
- *Integrated Partners* – represents payment adjacent services that are provided primarily to the health care and residential real estate industries.

Corporate includes costs of corporate functions and shared services not allocated to our reportable segments. During the fourth quarter of 2018, the Company adjusted its methodology of allocating certain corporate overhead costs to its reportable segments. All prior periods presented have been adjusted to reflect the current allocation methodology.

Prior to second quarter of 2019, the Integrated Partners operating segment was aggregated with the Commercial Payments and Institutional Services operating segments and reported as one aggregated reportable segment. In the second quarter of 2019, the Integrated Partners operating segment was no longer aggregated with the Commercial Payments and Institutional Services operating segments. All comparative periods have been adjusted to reflect the current three reportable segments.

Information on reportable segments and reconciliations to consolidated revenue, consolidated income from operations, and consolidated depreciation and amortization are as follows for the periods presented:

	Quarter Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2019	2018	2019	2018
Revenue:				
Consumer Payments	\$ 94,058	\$ 95,801	\$ 276,129	\$ 302,514
Commercial Payments	6,957	6,975	21,032	20,473
Integrated Partners	8,939	815	20,195	962
Consolidated Revenue	<u>\$ 109,954</u>	<u>\$ 103,591</u>	<u>\$ 317,356</u>	<u>\$ 323,949</u>
Income (loss) from operations:				
Consumer Payments	\$ 7,221	\$ 11,905	\$ 22,303	\$ 37,466
Commercial Payments	(383)	(41)	(1,116)	(745)
Integrated Partners	1,003	(426)	1,342	(628)
Corporate	(5,116)	(7,878)	(16,402)	(21,450)
Consolidated income from operations	<u>\$ 2,725</u>	<u>\$ 3,560</u>	<u>\$ 6,127</u>	<u>\$ 14,643</u>
Depreciation and amortization:				
Consumer Payments	\$ 8,302	\$ 4,415	\$ 24,215	\$ 11,497
Commercial Payments	70	109	249	393
Integrated Partners	1,299	91	3,086	91
Corporate	406	284	1,213	698
Consolidated depreciation and amortization	<u>\$ 10,077</u>	<u>\$ 4,899</u>	<u>\$ 28,763</u>	<u>\$ 12,679</u>

A reconciliation of total income from operations of reportable segments to the Company's net loss is provided in the following table:

(in thousands)	Quarter Ended		Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Total income from operations of reportable segments	\$ 7,841	\$ 11,438	\$ 22,529	\$ 36,093
Corporate	(5,116)	(7,878)	(16,402)	(21,450)
Interest expense	(10,463)	(7,334)	(30,602)	(21,893)
Plus (less) other, net	158	221	523	(5,108)
Income tax benefit (expense)	1,736	991	(2,468)	991
Net loss	<u>\$ (5,844)</u>	<u>\$ (2,562)</u>	<u>\$ (26,420)</u>	<u>\$ (11,367)</u>

The Company was not significantly reliant upon any single customer for the quarter and nine months ended September 30, 2019 and September 30, 2018. Substantially all revenue is generated in the United States.

16. LOSS PER SHARE

The following tables set forth the computation of the Company's basic and diluted loss per common share:

<i>(in thousands except per share amounts)</i>	Quarter Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Basic Loss Per Common Share:				
Numerator:				
Net loss	\$ (5,844)	\$ (2,562)	\$ (26,420)	\$ (11,367)
Less: Distributions to participating securities	—	—	—	(45)
Net loss attributable to common stockholders	<u>\$ (5,844)</u>	<u>\$ (2,562)</u>	<u>\$ (26,420)</u>	<u>\$ (11,412)</u>
Denominator:				
Weighted-average shares outstanding	67,007	64,152	67,109	60,339
Basic loss per common share	<u>\$ (0.09)</u>	<u>(0.04)</u>	<u>(0.39)</u>	<u>(0.19)</u>
Diluted Loss Per Common Share:				
Numerator:				
Net loss	\$ (5,844)	\$ (2,562)	\$ (26,420)	\$ (11,367)
Less: Gain on warrant liability	—	(72)	—	—
Less: Distributions to participating securities	—	—	—	(45)
Net loss attributable to common shareholders	<u>\$ (5,844)</u>	<u>\$ (2,634)</u>	<u>\$ (26,420)</u>	<u>\$ (11,412)</u>
Denominator:				
Weighted-average shares outstanding	67,007	64,152	67,109	60,339
Dilutive common share equivalents	—	392	—	—
Weighted-average dilutive shares outstanding	<u>67,007</u>	<u>64,544</u>	<u>67,109</u>	<u>60,339</u>
Diluted loss per common share	<u>\$ (0.09)</u>	<u>\$ (0.04)</u>	<u>\$ (0.39)</u>	<u>\$ (0.19)</u>

Potentially anti-dilutive securities that were excluded from earnings per share at September 30, 2019 that could be dilutive in future periods are as follows:

<i>(in thousands)</i>	
Outstanding warrants on common stock	3,557
Restricted stock awards issued under 2018 Equity Incentive Plan	202
Outstanding stock option awards issued under 2018 Equity Incentive Plan	1,794
Earnout incentive awards issued and subject to vesting	95
Earnout incentive awards subject to future issuance	9,705

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements and related notes for the years ended December 31, 2018, 2017 and 2016 and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in the Company's Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission on March 29, 2019 (the "Annual Report").

Cautionary Note Regarding Forward-Looking Statements

Some of the statements made in this Quarterly Report on Form 10-Q constitute forward-looking statements within the meaning of the federal securities laws. Such forward-looking statements include, but are not limited to, statements regarding our or our management's expectations, hopes, beliefs, intentions or strategies regarding the future. In addition, any statements that refer to projections, forecasts or other characterizations of future events or circumstances, such as statements about our future financial performance, including any underlying assumptions, are forward-looking statements. The words "anticipate," "believe," "continue," "could," "estimate," "expect," "future," "goal," "intend," "likely," "may," "might," "plan," "possible," "potential," "predict," "project," "seek," "should," "would," "will," "approximately," "shall" and similar expressions may identify forward-looking statements, but the absence of these words does not mean that a statement is not forward-looking. Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements about:

- competition in the payment processing industry;
- the use of distribution partners;
- any unauthorized disclosures of merchant or cardholder data, whether through breach of our computer systems, computer viruses, or otherwise;
- any breakdowns in our processing systems;
- government regulation, including regulation of consumer information;
- the use of third-party vendors;
- any changes in card association and debit network fees or products;
- any failure to comply with the rules established by payment networks or standards established by third-party processor;
- any proposed acquisitions or any risks associated with completed acquisitions; and
- other risks and uncertainties set forth in the "Item 1A - Risk Factors" included in the Annual Report.

We caution you that the foregoing list may not contain all of the forward-looking statements made in this Quarterly Report on Form 10-Q.

The forward-looking statements contained in this Quarterly Report on Form 10-Q are based on our current expectations and beliefs concerning future developments and their potential effects on us. You should not place undue reliance on these forward-looking statements in deciding whether to invest in our securities. We cannot assure you that future developments affecting us will be those that we have anticipated. These forward-looking statements involve a number of risks, uncertainties (some of which are beyond our control) or other assumptions that may cause our actual results or performance to be materially different from those expressed or implied by these forward-looking statements. Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove incorrect, actual results may vary in material respects from those projected in these forward-looking statements.

In addition, statements that "we believe" and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based upon information available to us as of the date of this Quarterly Report on Form 10-Q, and while we believe such information forms a reasonable basis for such statements, such information may be limited or incomplete, and our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially available relevant information. These statements are inherently uncertain, and investors are cautioned not to unduly rely upon these statements.

You should read this Quarterly Report on Form 10-Q with the understanding that our actual future results, levels of activity, performance and achievements may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements.

Forward-looking statements speak only as of the date they were made. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.

Terms Used in this Quarterly Report on Form 10-Q

As used in this Quarterly Report on Form 10-Q, unless the context otherwise requires, references to the terms "Company," "we," "us" and "our" refer to Priority Technology Holdings, Inc. and its consolidated subsidiaries.

Results of Operations

This section includes a summary of our results of operations for the periods presented followed by a detailed discussion of our results for the quarter ended September 30, 2019 (or third quarter of 2019) compared to the quarter ended September 30, 2018 (or third quarter of 2018), and the nine months ended September 30, 2019 (or first nine months of 2019) compared to the nine months ended September 30, 2018 (or first nine months of 2018). We have derived this data, except key indicators for merchant bankcard processing dollar values and transaction volumes, from our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q and our audited consolidated financial statements included in the Annual Report.

Our revenue for the quarter and nine months ended September 30, 2019 has been negatively affected by the closure of high-margin accounts with certain subscription-billing e-commerce merchants. The closure of merchants in this channel was due to industry-wide changes for enhanced card association compliance. This revenue, which is entirely within our Consumer Payments reportable segment, was \$1.2 million and \$11.7 million for the quarters ended September 30, 2019 and September 30, 2018, respectively, and \$6.8 million and \$57.8 million for the first nine months of 2019 and 2018, respectively. Our income from operations associated with these merchants was \$0.5 million and \$4.1 million for the quarters ended September 30, 2019 and September 30, 2018, respectively, and \$2.8 million and \$18.3 million for the first nine months of 2019 and 2018, respectively.

In addition to the impact of the closures of certain merchants described above, our income from operations for the quarter and nine months ended September 30, 2019 has been negatively affected by certain expenses largely associated with our July 25, 2018 business combination (the "Business Combination"), conversion to a public company, certain legal matters, and in the second and third quarters of 2019, expenses associated with temporary transition services from YapStone related to the March 2019 asset acquisition. These expenses were approximately \$1.2 million and \$3.5 million for the quarters ended September 30, 2019 and September 30, 2018, respectively, and \$4.0 million and \$10.3 million for the first nine months of 2019 and 2018, respectively.

Quarter Ended September 30, 2019 compared to Quarter Ended September 30, 2018

	Quarter Ended September 30,			
	2019	2018	Change	% Change
	(dollars in thousands)			
REVENUE:				
Merchant card fees	\$ 101,720	\$ 94,915	\$ 6,805	7.2 %
Outsourced services and other	8,234	8,676	(442)	(5.1)%
Total revenue	109,954	103,591	6,363	6.1 %
OPERATING EXPENSES:				
Costs of merchant card fees	74,953	71,876	3,077	4.3 %
Costs of outsourced services and other	4,836	4,475	361	8.1 %
Salary and employee benefits	10,668	9,992	676	6.8 %
Depreciation and amortization	10,077	4,899	5,178	105.7 %
Selling, general and administrative	6,695	8,789	(2,094)	(23.8)%
Total operating expenses	107,229	100,031	7,198	7.2 %
Income from operations	2,725	3,560	(835)	(23.5)%
OTHER INCOME (EXPENSES):				
Interest expense	(10,463)	(7,334)	(3,129)	42.7 %
Other, net	158	221	(63)	(28.5)%
Total other expenses, net	(10,305)	(7,113)	(3,192)	44.9 %
Loss before income taxes	(7,580)	(3,553)	(4,027)	113.3 %
Income tax benefit	(1,736)	(991)	(745)	nm
Net loss	\$ (5,844)	\$ (2,562)	\$ (3,282)	128.1 %

Nine Months Ended September 30, 2019 compared to Nine Months Ended September 30, 2018

	Nine Months Ended September 30,			
	2019	2018	Change	% Change
	(dollars in thousands)			
REVENUE:				
Merchant card fees	\$ 292,694	\$ 299,661	\$ (6,967)	(2.3)%
Outsourced services and other	24,662	24,288	374	1.5 %
Total revenue	317,356	323,949	(6,593)	(2.0)%
OPERATING EXPENSES:				
Costs of merchant card fees	215,433	230,276	(14,843)	(6.4)%
Costs of outsourced services and other	14,079	13,518	561	4.2 %
Salary and employee benefits	31,923	28,406	3,517	12.4 %
Depreciation and amortization	28,763	12,679	16,084	126.9 %
Selling, general and administrative	21,031	24,427	(3,396)	(13.9)%
Total operating expenses	311,229	309,306	1,923	0.6 %
Income from operations	6,127	14,643	(8,516)	(58.2)%
OTHER INCOME (EXPENSES):				
Interest expense	(30,602)	(21,893)	(8,709)	39.8 %
Other, net	523	(5,108)	5,631	nm
Total other expenses, net	(30,079)	(27,001)	(3,078)	11.4 %
Loss before income taxes	(23,952)	(12,358)	(11,594)	93.8 %
Income tax expense (benefit)	2,468	(991)	3,459	nm
Net loss	\$ (26,420)	\$ (11,367)	\$ (15,053)	132.4 %

The following table shows our reportable segments' financial performance data and selected performance measures for the third quarter of 2019 compared to the third quarter of 2018:

(in thousands)	Quarter Ended September 30,			
	2019	2018	Change	% Change
Consumer Payments:				
Revenue	\$ 94,058	\$ 95,801	\$ (1,743)	(1.8)%
Operating expenses	86,837	83,896	2,941	3.5 %
Income from operations	<u>\$ 7,221</u>	<u>\$ 11,905</u>	<u>\$ (4,684)</u>	(39.3)%
Operating margin	7.7 %	12.4 %		
Depreciation and amortization	\$ 8,302	\$ 4,415	\$ 3,887	88.0 %
Key Indicators:				
Merchant bankcard processing dollar value	\$ 10,566,500	\$ 9,643,512	\$ 922,988	9.6 %
Merchant bankcard transaction volume	131,646	120,879	10,767	8.9 %
Commercial Payments:				
Revenue	\$ 6,957	\$ 6,975	\$ (18)	(0.3)%
Operating expenses	7,340	7,016	324	4.6 %
Loss from operations	<u>\$ (383)</u>	<u>\$ (41)</u>	<u>\$ (342)</u>	834.1 %
Operating margin	(5.5)%	(0.6)%		
Depreciation and amortization	\$ 70	\$ 109	\$ (39)	(35.8)%
Key Indicators:				
Merchant bankcard processing dollar value	\$ 92,290	\$ 63,361	\$ 28,929	45.7 %
Merchant bankcard transaction volume	25	29	(4)	(13.8)%
Integrated Partners:				
Revenues	\$ 8,939	\$ 815	\$ 8,124	nm
Operating expenses	7,936	1,241	6,695	nm
Income (loss) from operations	<u>\$ 1,003</u>	<u>\$ (426)</u>	<u>\$ 1,429</u>	nm
Operating margin	11.2 %	(52.3)%		
Depreciation and amortization	\$ 1,299	\$ 91	\$ 1,208	nm
Key Indicators:				
Merchant bankcard processing dollar value	\$ 119,747	\$ 2,351	\$ 117,396	nm
Merchant bankcard transaction volume	421	27	\$ 394	nm
Income from operations of reportable segments				
Less: Corporate expenses	(5,116)	(7,878)	2,762	(35.1)%
Consolidated income from operations	<u>\$ 2,725</u>	<u>\$ 3,560</u>	<u>\$ (835)</u>	(23.5)%
Corporate depreciation and amortization	\$ 406	\$ 284	\$ 122	43.0 %
Key indicators:				
Merchant bankcard processing dollar value	\$ 10,778,537	\$ 9,709,224	\$ 1,069,313	11.0 %
Merchant bankcard transaction volume	132,092	120,935	11,157	9.2 %

The following table shows our reportable segments' financial performance data and selected performance measures for the first nine months of 2019 compared to the first nine months of 2018:

(in thousands)	Nine Months Ended September 30,			
	2019	2018	Change	% Change
Consumer Payments:				
Revenue	\$ 276,129	\$ 302,514	\$ (26,385)	(8.7)%
Operating expenses	253,826	265,048	(11,222)	(4.2)%
Income from operations	<u>\$ 22,303</u>	<u>\$ 37,466</u>	<u>\$ (15,163)</u>	<u>(40.5)%</u>
Operating margin	8.1 %	12.4 %		
Depreciation and amortization	\$ 24,215	\$ 11,497	\$ 12,718	110.6 %
Key Indicators:				
Merchant bankcard processing dollar value	\$ 31,551,404	\$ 28,548,235	\$ 3,003,169	10.5 %
Merchant bankcard transaction volume	382,676	351,304	31,372	8.9 %
Commercial Payments:				
Revenue	\$ 21,032	\$ 20,473	\$ 559	2.7 %
Operating expenses	22,148	21,218	930	4.4 %
Loss from operations	<u>\$ (1,116)</u>	<u>\$ (745)</u>	<u>\$ (371)</u>	<u>49.8 %</u>
Operating margin	(5.3)%	(3.6)%		
Depreciation and amortization	\$ 249	\$ 393	\$ (144)	(36.6)%
Key Indicators:				
Merchant bankcard processing dollar value	\$ 236,716	\$ 180,764	\$ 55,952	31.0 %
Merchant bankcard transaction volume	83	85	(2)	(2.4)%
Integrated Partners:				
Revenues	\$ 20,195	\$ 962	\$ 19,233	nm
Operating expenses	18,853	1,590	17,263	nm
Income (loss) from operations	<u>\$ 1,342</u>	<u>\$ (628)</u>	<u>\$ 1,970</u>	<u>nm</u>
Operating margin	6.6 %	(65.3)%		
Depreciation and amortization	\$ 3,086	\$ 91	\$ 2,995	nm
Key Indicators:				
Merchant bankcard processing dollar value	\$ 259,894	\$ 2,351	\$ 257,543	nm
Merchant bankcard transaction volume	913	27	886	nm
Income from operations of reportable segments				
Less: Corporate expenses	(16,402)	(21,450)	5,048	(23.5)%
Consolidated income from operations	<u>\$ 6,127</u>	<u>\$ 14,643</u>	<u>\$ (8,516)</u>	<u>(58.2)%</u>
Corporate depreciation and amortization	\$ 1,213	\$ 698	\$ 515	73.8 %
Key indicators:				
Merchant bankcard processing dollar value	\$ 32,048,014	\$ 28,731,350	\$ 3,316,664	11.5 %
Merchant bankcard transaction volume	383,672	351,416	32,256	9.2 %

Revenue

Third Quarter of 2019 compared to Third Quarter of 2018

For the third quarter of 2019, our consolidated revenue increased by \$6.4 million, or 6.1%, from the third quarter of 2018 to \$110.0 million. This increase was driven by a \$8.1 million increase in revenue from our Integrated Partners reportable segment, driven by the YapStone, Inc. ("YapStone") asset acquisition that occurred in March 2019. This increase in revenue for Integrated Partners was partially offset by a \$1.7 million decrease, or 1.8%, in revenue in our Consumer Payments segment. Revenue in our Commercial Payments segment did not change materially. Consolidated merchant bankcard processing dollar value and merchant bankcard transactions increased 11.0% and 9.2%, respectively.

The decrease in third quarter of 2019 revenue in our Consumer Payments segment was due to a decrease of \$10.5 million from certain subscription-billing e-commerce merchants. Excluding this impact, revenue grew \$8.8 million, or 10.4%, driven by growth in bankcard processing dollar value and merchant bankcard transactions of 9.6% and 8.9%, respectively. The higher merchant bankcard processing dollar value and transaction volume for the third quarter of 2019 were mainly due to the continuation of strong consumer spending trends in 2019 and positive net onboarding of new merchants. Additionally, the average dollar amount per bankcard transaction (calculated by dividing bankcard processing volume by the associated number of transactions processed) of \$80.26 increased 0.6% for the third quarter of 2019 from \$79.78 for the third quarter of 2018.

Commercial Payments revenue for the third quarter of 2019 did not change materially. Revenue from CPX accounts payable automated solutions of \$2.0 million in the third quarter of 2019 increased 82.9% compared to the 2018 third quarter. Revenue from curated managed services programs of \$5.0 million in the third quarter of 2019 declined by \$0.9 million compared with the 2018 third quarter. The managed services decline was largely driven by lower incentive revenue in the third quarter of 2019.

Revenue in our Integrated Partners reportable segment, previously aggregated with our Commercial Payments reportable segment, was \$8.9 million for the third quarter of 2019. A substantial portion of this segment's activities started after third quarter of 2018 through the YapStone asset acquisition. Priority Real Estate Technology ("PRET") comprised \$8.4 million of this reportable segment's revenue in the third quarter of 2019. PRET is comprised primarily of the assets acquired from YapStone in March 2019 and the net assets acquired from RadPad Holdings, Inc. in July 2018. Revenue from Priority PayRight Health Solutions and Priority Hospitality Technology, whose assets the Company acquired in April 2018 and February 2019, respectively, comprised the remainder of this reportable segment's revenue.

First Nine Months of 2019 compared to First Nine Months of 2018

For the first nine months of 2019, our consolidated revenue declined by \$6.6 million, or 2.0%, from \$323.9 million to \$317.4 million. This decline reflects a decrease of \$26.4 million in our Consumer Payments segment, partially offset by increases in our Integrated Partners segment and Commercial Payments segment of \$19.2 million and \$0.6 million, respectively. Consolidated merchant bankcard processing dollar value and merchant bankcard transactions increased 11.5% and 9.2%, respectively.

The decrease in the first nine months of 2019 revenue in our Consumer Payments segment was due to a decrease of \$51.0 million from certain subscription-billing e-commerce merchants. Excluding this impact, revenue grew by \$24.6 million, or 10.0%, driven by growth in bankcard processing dollar value and merchant bankcard transactions of 10.5% and 8.9%, respectively. The higher merchant bankcard processing dollar value and transaction volume for the first nine months of 2019 were mainly due to the continuation of strong consumer spending trends in 2019 and positive net onboarding of new merchants. Additionally, the average dollar amount per bankcard transaction (calculated by dividing bankcard processing volume by the associated number of transactions processed) of \$82.45 increased 1.5% for the first nine months of 2019 from \$81.26 for the first nine months of 2018.

Commercial Payments segment revenue for the first nine months of 2019 increased by \$0.6 million, or 2.7%, compared to the first nine months of 2018. This growth was driven by our CPX accounts payable automated solutions services, which grew \$2.1 million, or 66.0%. Revenue from our curated managed services programs declined by \$1.6 million compared to the first nine months of 2018, driven by lower incentive revenue in the first nine months of 2019.

Revenue in our Integrated Partners reportable segment, previously aggregated with our Commercial Payments reportable segment, was \$20.2 million for the first nine months of 2019. A substantial portion of this segment's activities started after the third quarter

of 2018 through several business and asset acquisitions. Priority Real Estate Technology comprised \$18.7 million of this reportable segment's revenue in the first nine months of 2019. PRET is comprised primarily of the assets acquired from YapStone in March 2019 and the net assets acquired from RadPad Holdings, Inc. in July 2018. Revenue from Priority PayRight Health Solutions and Priority Hospitality Technology, whose assets we acquired in April 2018 and February 2019, respectively, comprised the remainder of this reportable segment's revenue.

Operating expenses

Third Quarter of 2019 compared to Third Quarter of 2018

Our consolidated operating expenses increased \$7.2 million, or 7.2%, from \$100.0 million for the third quarter of 2018 to \$107.2 million for the third quarter of 2019. This overall increase was driven by a \$5.2 million increase in depreciation and amortization expense related primarily to acquired merchant portfolios and intangible assets related to business combinations and asset acquisitions made after the third quarter of 2018, and internally developed software related to the MX Connect and CPX platforms. This increase also included a \$3.1 million, or 4.3%, increase in the cost of merchant fees. This increase in cost of merchant fees was related to the growth in merchant card revenue and processing volume. Costs of merchant card fees, as a percentage of merchant card fee revenue, dropped by 204 basis points for third quarter of 2019 compared to the third quarter of 2018.

Our consolidated selling, general, and administrative ("SG&A") expenses decreased overall by \$2.1 million, or 23.8%, for the third quarter of 2019 compared to the third quarter of 2018, driven by a \$2.7 million decrease in certain expenses in Corporate largely associated with our 2018 Business Combination, conversion to a public company, and certain legal matters. This decrease was partially offset by \$0.4 million of expenses for temporary transition services related to integration of the March 2019 acquisition of the YapStone assets.

Consolidated salary and employee benefits increased \$0.7 million, or 6.8%, for the third quarter of 2019 compared to the third quarter of 2018. This increase was related to additional headcount in corporate and operations functions and from business acquisitions made after the third quarter of 2018, plus an increase of \$0.9 million in non-cash equity-based compensation for the third quarter of 2019.

First Nine Months of 2019 compared to First Nine Months of 2018

Our consolidated operating expenses increased \$1.9 million, or 0.6%, from \$309.3 million for the first nine months of 2018 to \$311.2 million for the first nine months of 2019. This overall increase was primarily due to higher amortization expense of \$16.1 million for acquired merchant portfolios and intangible assets related to business combinations and asset acquisitions made after the first nine months of 2018, and by internally developed software related to the MX Connect and CPX platforms. This increase was partially offset by a \$14.8 million, or 6.4%, decrease in the cost of merchant fees related to the corresponding decrease in merchant card fees revenue and by lower costs attributable to the acquisitions of residual portfolio commission rights. Costs of merchant card fees, as a percentage of merchant card fee revenue, dropped by 324 basis points for first nine months of 2019 compared to the first nine months of 2018.

Our consolidated SG&A expenses decreased by \$3.4 million, or 13.9%, for the first nine months of 2019 compared to the first nine months of 2018, driven by a \$7.5 million decrease in certain expenses in Corporate largely associated with our 2018 Business Combination, conversion to a public company, and certain legal matters. This decrease was partially offset by \$1.2 million of expenses for temporary transition services related to integration of the March 2019 acquisition of the YapStone assets and other increases in certain SG&A costs primarily within our Consumer Payments segment and Corporate.

Consolidated salary and employee benefits increased by \$3.5 million, or 12.4%, for the first nine months of 2019 compared to the first nine months of 2018. This increase was related to additional headcount in corporate and operations functions and from business acquisitions made after the first nine months of 2018, plus an increase of \$2.3 million in non-cash equity-based compensation for the first nine months of 2019.

Income from operations

Third Quarter of 2019 compared to Third Quarter of 2018

Consolidated income from operations decreased \$0.8 million, or 23.5%, for the third quarter of 2019 compared to the third quarter of 2018. Our consolidated operating margin for the third quarter of 2019 was 2.5% compared to 3.4% for the third quarter of 2018. This margin decrease was driven by the loss of certain subscription-billing e-commerce merchants and the increases in operating expenses as previously discussed.

Our Consumer Payments reportable segment contributed \$7.2 million in income from operations for the third quarter of 2019, a decrease of \$4.7 million, or 39.3%, from \$11.9 million for the third quarter of 2018. This decrease largely reflected the loss of certain subscription-billing e-commerce merchants, which contributed \$0.5 million and \$4.1 million of income from operations in third quarters of 2019 and 2018, respectively, partially offset by income resulting from the growth in merchant bankcard processing dollar value and transaction volume. The decrease in this segment's income from operations was also impacted by an increase of \$3.9 million in depreciation and amortization expense for merchant portfolios acquired primarily after the third quarter of 2018.

Our Commercial Payments reportable segment incurred a \$0.4 million loss from operations for the third quarter of 2019 compared to a \$0.1 million loss from operations for the third quarter of 2018. This decrease was largely driven by lower incentive revenue in the third quarter of 2019.

Our Integrated Partners reportable segment, previously aggregated with our Commercial Payments reportable segment, contributed \$1.0 million in income from operations for the third quarter of 2019 compared to a loss from operations of \$0.4 million in the third quarter of 2018. The growth in 2019 is largely attributable to the YapStone assets acquired in late first quarter of 2019. Operating results for third quarter included depreciation and amortization expense of \$1.3 million primarily related to the YapStone assets acquired. Other operating expenses in the third quarter of 2019 included \$0.4 million for transition services related to the acquired YapStone assets.

Corporate expenses were \$5.1 million for the third quarter of 2019, a decrease of \$2.8 million from expenses of \$7.9 million for the third quarter of 2018. Included in these amounts are certain expenses largely related to the Business Combination, conversion to a public company, and certain legal matters of \$0.8 million and \$3.5 million for the third quarters of 2019 and 2018, respectively, which drove the decrease in Corporate expenses.

First Nine Months of 2019 compared to First Nine Months of 2018

Consolidated income from operations decreased by \$8.5 million, or 58.2%, from \$14.6 million for the first nine months of 2018 to \$6.1 million for the first nine months of 2019. Our consolidated operating margin for the first nine months of 2019 was 1.9% compared to 4.5% for the first nine months of 2018. This overall margin decrease was driven by the loss of certain subscription-billing e-commerce merchant and the overall increase in consolidated operating expenses due primarily to additional amortization expense, as previously discussed.

Our Consumer Payments reportable segment contributed \$22.3 million in income from operations for the first nine months of 2019, a decrease of \$15.2 million, or 40.5%, from the \$37.5 million for the first nine months of 2018. This decrease largely reflected the loss of certain subscription-billing e-commerce merchants, which contributed \$2.8 million and \$18.3 million of income from operations in first nine months of 2019 and 2018, respectively, partially offset by income resulting from the growth in merchant bankcard processing dollar value and transaction volume. The decrease in this segment's income from operations was also impacted by an increase of \$12.7 million in depreciation and amortization expense for merchant portfolios acquired primarily after the first nine months of 2018.

Our Commercial Payments reportable segment incurred a loss from operations of approximately \$1.1 million for the first nine months of 2019 compared to a loss from operations of approximately \$0.7 million for the first nine months of 2018. This decrease was largely driven by lower incentive revenue in the first nine months of 2019.

Our Integrated Partners reportable segment, previously aggregated with our Commercial Payments reportable segment, contributed \$1.3 million in income from operations for the first nine months of 2019 compared to a loss from operations of \$0.6 million in the first nine months of 2018. The growth in 2019 is largely attributable to the YapStone assets acquired in late first quarter of 2019. Operating results for first nine months of 2019 included depreciation and amortization expense of \$3.1 million primarily related to the YapStone assets acquired. Other operating expenses in the third quarter of 2019 included \$1.2 million for transition services related to the acquired YapStone assets.

Corporate expenses were \$16.4 million for the first nine months of 2019, a decrease of \$5.0 million from expenses of \$21.5 million for the first nine months of 2018. Included in these amounts are certain expenses largely related to the Business Combination, conversion to a public company, and certain legal matters of \$2.8 million and \$10.3 million for the first nine months of 2019 and 2018, respectively. The decrease in these expenses was partially offset by increases in non-cash equity compensation expense.

Interest expense

Interest expense, which includes the amortization of deferred debt issuance costs and discount, increased by \$3.1 million, or 42.7%, to \$10.5 million in the third quarter of 2019 from \$7.3 million in the third quarter of 2018. For the first nine months of 2019, interest expense increased by \$8.7 million, or 39.8%, to \$30.6 million from \$21.9 million from the first nine months of 2018. These increases in 2019 were primarily due to higher outstanding borrowings in 2019 driven by acquisition financing. The amortization of deferred financing costs and debt discounts increases our reported interest expense, and such amortization resulted in an effective interest rate of 7.86% for our senior term loan and 11.5% for our subordinated term loan at September 30, 2019.

Other, net

Other, net resulted in income of approximately \$0.2 million in both the third quarter of 2019 and 2018.

Other, net resulted in income of \$0.5 million in the first nine months of 2019 compared to an expense of \$5.1 million for the first nine months of 2018. The first nine months of 2018 included a charge of \$3.5 million related to the change in fair value of the former Goldman Sachs warrant, a \$0.9 million charge related to the Company's share of loss and impairment in a former equity-method investee, and a \$0.5 million expense to write off loan costs related to extinguished debt.

Income taxes

We assess all available positive and negative evidence to estimate whether sufficient taxable income will be generated in the future to permit use of the existing deferred tax assets. ASC 740, *Income Taxes* ("ASC 740"), requires that all sources of future taxable income be considered in making this determination. The Tax Cuts and Jobs Act of 2017 amended section 163(j) of the Internal Revenue Code. Section 163(j), as amended, limits the business interest deduction to 30% of adjusted taxable income (ATI). For taxable years through 2021, the calculation of ATI closely aligns with earnings before interest, taxes, depreciation and amortization (EBITDA). Commencing in 2022, the ATI limitation more closely aligns with earnings before interest and taxes (EBIT), without adjusting for depreciation and amortization. Any business interest in excess of the annual limitation is carried forward indefinitely.

With respect to recording a deferred tax benefit for the carryforward of business interest, GAAP applies a "more likely than not" threshold for assessing recoverability. On the basis of our assessment, during the first nine months of 2019 we recorded a valuation allowance of \$7.8 million for our business interest carryover comprised of (i) a discrete provision of \$2.6 million associated with our 2018 business interest deferred tax asset and (ii) a provision of \$5.2 million associated with our 2019 excess business interest. These provisions are a component of our income tax expense (benefit) reported on our consolidated statement of operations.

We will continue to evaluate the realizability of the net deferred tax asset on a quarterly basis and, as a result, the valuation allowance may change in future periods.

We compute our interim period income tax expense (benefit) by using a forecasted estimated annual effective tax rate ("EAETR") and adjust for any discrete items arising during the interim period and any changes in our projected full-year business interest

expense and taxable income. The EAETR for 2019 of 1.2% includes income tax benefit on pre-tax losses, offset by a tax provision related to establishment of a valuation allowance for deferred income tax on the 2019 portion of the Section 163(j) limitation.

Prior to July 25, 2018, substantially all of our operations were conducted through pass-through entities for income tax purposes, and as such we had no material income tax accounting reflected in our financial statements for financial reporting purposes since substantially all taxable income and deductions were "passed through" to our unconsolidated owners. Effective July 25, 2018, we became a "C Corp" in connection with our Business Combination and recapitalization events. Accordingly, effective July 25, 2018, our financial statements reflect the accounting for income taxes. Our financial statements for the quarter and nine months ended September 30, 2018 reflect unaudited pro-forma income tax disclosure amounts to illustrate the income tax effects had we been subject to federal and state income taxes then.

Certain Non-GAAP Measures

We periodically review the following key non-GAAP measures to evaluate our business and trends, measure our performance, prepare financial projections and make strategic decisions.

Consolidated EBITDA, which represents consolidated earnings (loss) before interest, income tax, and depreciation and amortization, is reconciled to net loss calculated under GAAP.

Consolidated Adjusted EBITDA starts with Consolidated EBITDA and further adjusts for certain non-cash, non-recurring or non-core expenses including: 1) non-cash equity-based compensation; 2) debt modification and extinguishment costs and warrant fair value changes; 3) certain legal expenses; 4) certain professional, accounting and consulting fees; and 5) temporary transition services related to acquisitions.

In addition, the financial covenants under the debt agreements of the Company's subsidiaries (the "Borrowers") and our Earnout Incentive Plan pursuant to the Business Combination are based on a non-GAAP measure referred to as Consolidated Earnout Adjusted EBITDA. The calculation of Consolidated Earnout Adjusted EBITDA starts with Consolidated Adjusted EBITDA and further adjusts for the pro-forma impact of acquisitions and residual streams and run rate adjustments for certain contracted savings on an annualized basis, other consulting and professional fees, and other tax expenses and other adjustments, which are not included as adjustments to Consolidated Adjusted EBITDA.

We believe these non-GAAP measures illustrate the underlying financial and business trends relating to our results of operations and comparability between current and prior periods. We also use these non-GAAP measures to establish and monitor operational goals.

These non-GAAP measures are not in accordance with, or an alternative to, GAAP and should be considered in addition to, and not as a substitute or superior to, the other measures of financial performance prepared in accordance with GAAP. Using only the non-GAAP financial measures, particularly Consolidated Adjusted EBITDA, to analyze our performance would have material limitations because their calculations are based on subjective determination regarding the nature and classification of events and circumstances that investors may find significant. We compensate for these limitations by presenting both the GAAP and non-GAAP measures of our operating results. Although other companies may report measures entitled "Adjusted EBITDA" or similar in nature, numerous methods may exist for calculating a company's Adjusted EBITDA or similar measures. As a result, the methods we use to calculate Consolidated Adjusted EBITDA may differ from the methods used by other companies to calculate their non-GAAP measures.

The non-GAAP reconciliations of Consolidated EBITDA, Consolidated Adjusted EBITDA, and Consolidated Earnout Adjusted EBITDA to consolidated net loss, the most directly comparable financial measures calculated and presented in accordance with GAAP, are shown in the table below:

(in thousands)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Consolidated net loss (GAAP)	\$ (5,844)	\$ (2,562)	\$ (26,420)	\$ (11,367)
Add: Interest expense (1)	10,463	7,334	30,602	21,893
Add: Depreciation and amortization	10,077	4,899	28,763	12,679
Add: Income tax (benefit) expense	(1,736)	(991)	2,468	(991)
Consolidated EBITDA (non-GAAP)	12,960	8,680	35,413	22,214
Further adjusted by:				
Add: Non-cash equity-based compensation	1,171	268	3,354	1,063
Add: Debt modification/extinguishment costs and warrant fair value changes	—	(71)	—	4,782
Add: Certain legal expenses (2)	379	2,314	1,264	5,496
Add: Professional, accounting and consulting fees (3)	374	1,204	1,504	4,785
Add: Transition services for acquisition (4)	441	—	1,188	—
Consolidated Adjusted EBITDA (non-GAAP)	15,325	12,395	\$ 42,723	\$ 38,340
Further adjusted by:				
Add: Pro-forma impact of acquisitions (5)	1,112	820	6,801	7,633
Add: Contracted revenue and savings	275	273	823	2,924
Add: Other professional and consulting fees	360	249	1,112	872
Add: Other tax expenses and other adjustments	245	81	301	1,310
Consolidated Earnout Adjusted EBITDA (non-GAAP) (6)	\$ 17,317	\$ 13,818	\$ 51,760	\$ 51,079

(1) Interest expense includes amortization of debt issuance costs and issue discounts.

(2) Legal expenses related to business and asset acquisition activity and settlement negotiation and other litigation expenses, as well as legal settlements.

(3) Primarily transaction-related, capital markets and accounting advisory services.

(4) Temporary transition services from YapStone related to the integration of the March 2019 asset acquisition.

(5) Each reporting period's year-to-date amounts are updated to reflect the pro forma impact of acquisitions as though they had taken place on January 1 of the year in which the acquisition occurred.

(6) Reflects definition in debt agreements entered into in connection with the January 2017 debt financing. Subsequent to the Business Combination, the Earnout Adjusted EBITDA of the Borrowers under the credit agreements excludes expenses of the Company's consolidated parent entity, which is neither a borrower nor a guarantor under the credit agreements. Earnout Adjusted EBITDA of the Borrowers was approximately \$20.7 million and \$62.4 million for the quarter and nine months ended September 30, 2019, respectively.

Financial Condition

Compared to our consolidated balance sheet as of December 31, 2018, the following key changes have occurred as of September 30, 2019.

Cash

Cash decreased by \$11.4 million. For an explanation of the key drivers of this change, see the subsequent section, *Liquidity and Capital Resources*.

Intangible Assets

Intangible assets increased during the first nine months of 2019 by a net of \$63.4 million due to asset acquisitions, partially offset by amortization. For additional information, see Note 2, *Acquisitions and Contributions of Assets*, to the unaudited condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Long-Term Debt

Long-term debt, excluding amounts outstanding under the revolving credit facility, increased by a net \$71.0 million during the first nine months of 2019. This increase was driven by borrowings to acquire certain intangible assets. See Note 7, *Long-Term Debt*, to the unaudited condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for information on credit facilities, available credit, and covenants.

Stockholders' Deficit

The deficit equity position attributable to the stockholders of the Company increased by \$25.5 million, from a deficit of \$85.5 million at December 31, 2018 to a deficit of \$110.9 million at September 30, 2019. The primary driver of this change was the net loss of \$26.4 million for the first nine months of 2019 and repurchased common stock at cost of \$2.4 million, partially offset by a \$3.4 million credit to additional paid-in capital for equity-based compensation. See Note 11, *Reconciliation of Stockholders' Equity (Deficit) and Non-Controlling Interest*, to the unaudited condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Liquidity and Capital Resources

Liquidity and capital resource management is a process focused on providing the funding we need to meet our short-term and long-term cash and working capital needs. We have used our funding sources to build our merchant portfolio, technology solutions, and to make acquisitions with the expectation that such investments will generate cash flows sufficient to cover our working capital needs and other anticipated needs, including for our acquisition strategy. We anticipate that cash on hand, funds generated from operations and available borrowings under our revolving credit agreement are sufficient to meet our working capital requirements for at least the next twelve months.

As disclosed in Note 7, *Long-Term Debt*, our subsidiaries that are borrowers under the Senior Credit Agreement and GS Credit Agreement agreements are currently pursuing a refinancing of the credit agreements, which is expected to be completed during the fourth quarter of 2019. Based upon current financial forecast for the fourth quarter of 2019, without a refinancing or modification of existing terms within the credit agreements, it is probable that compliance will not be achieved for the required Total Net Leverage Ratio covenant of no more than 5.25:1.00 at December 31, 2019. Noncompliance could have materially adverse impacts on our financial condition, including giving the lenders the right to accelerate the debt repayment schedule and restricting access to the revolving credit facility. Based upon the progress of the refinancing efforts, the credit agreements are expected to be refinanced, and we expect to be in compliance with the debt covenants included therein at December 31, 2019.

Our principal uses of cash are to fund business operations, administrative costs, and debt service.

Our working capital, defined as current assets less current liabilities, was \$4.3 million at September 30, 2019 and \$21.1 million at December 31, 2018. As of September 30, 2019, we had cash totaling \$4.2 million compared to \$15.6 million at December 31, 2018. These balances do not include restricted cash, which reflects cash accounts holding customer settlement funds of \$22.7 million at September 30, 2019 and \$18.2 million at December 31, 2018.

At September 30, 2019, approximately \$13.5 million was available under the revolving credit facility.

The following tables and narrative reflect our changes in cash flows for the comparative periods.

<i>(dollars in thousands)</i>	Nine Months Ended September 30,	
	2019	2018
Net cash provided by (used in):		
Operating activities	\$ 10,617	\$ 24,836
Investing activities	(93,623)	(42,345)
Financing activities	76,018	8,827
Net decrease in cash and restricted cash	<u>\$ (6,988)</u>	<u>\$ (8,682)</u>

Cash Provided By Operating Activities

Net cash provided by operating activities in the first nine months of 2019 was \$10.6 million compared to net cash provided of \$24.8 million for the first nine months of 2018. The \$14.2 million decrease for the first nine months of 2019 was principally the result of higher operating losses during 2019 and an increase in cash interest payments of \$9.0 million.

Cash Used In Investing Activities

Net cash used in investing activities was \$93.6 million and \$42.3 million for the first nine months of 2019 and 2018, respectively. Cash used in investing activities for the first nine months of 2019 included \$18.0 million used to acquire merchant portfolios and \$63.8 million used to acquire certain assets from YapStone. Cash used to acquire property, equipment, and software amounted to \$8.7 million and \$8.4 million for the first nine months of 2019 and 2018, respectively.

Cash Provided By Financing Activities

Net cash provided by financing activities was \$76.0 million for the first nine months of 2019 compared to \$8.8 million in the first nine months of 2018. The amount for the first nine months of 2019 included a \$69.7 million, net of issue discount, delayed draw under the credit facility under the senior credit agreement with a syndicate of lenders (the "Senior Credit Agreement") that was used to acquire certain assets from YapStone. Additionally, net draws of \$11.5 million draw under the revolving credit feature of our Senior Credit Agreement was used to partially fund a portfolio acquisition. Cash flows provided by financing activities for the first nine months of 2018 included \$67.1 million of borrowings under our Senior Credit Agreement and \$49.4 million of cash proceeds from our reverse acquisition and recapitalization events, partially offset by equity redemptions and distributions totaling \$81.2 million. The equity redemptions and distributions involved Priority Holdings, LLC before the Company's recapitalization on July 25, 2018.

Off-Balance Sheet Arrangements

We have not entered into any other transactions with third parties or unconsolidated entities whereby we have financial guarantees, subordinated retained interest, derivative instruments, or other contingent arrangements that expose us to material continuing risks, contingent liabilities or other obligations.

Commitments and Contractual Obligations

Commitments

See Note 9, *Commitments and Contingencies*, to our unaudited condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for disclosure information about potential contingent payments that we may be required to make in future periods that are not required to be recognized in our consolidated balance sheet as of September 30, 2019.

Contractual Obligations

There have been no significant changes to our contractual obligations and commitments compared to those disclosed in "Management's Discussion and Analysis of Financial Condition and Results of Operations of Priority" included in the Annual Report, except for additional borrowings under our existing Senior Credit Agreement consisting of \$70.0 million of term debt and \$11.5 million net under our revolving credit facility. For an updated schedule of debt repayments, see Note 7, *Long-Term Debt*, to the unaudited condensed consolidated financial statements contained in Part 1, Item 1 of this Quarterly Report on Form 10-Q.

Related Party Transactions

See Note 2, *Acquisitions and Contributions of Assets*, to the unaudited condensed consolidated financial statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Critical Accounting Policies and Estimates

Our unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim periods, which often require the judgment of management in the selection and application of certain accounting principles and methods. Our critical accounting policies and estimates are discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report. There have been no material changes to these critical accounting policies and estimates as of September 30, 2019.

Effect of New Accounting Pronouncements and Recently Issued Accounting Pronouncements Not Yet Adopted

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board or other standards setting bodies that may affect our current and/or future financial statements. See Note 1, *Nature of Business and Basis of Presentation*, to our unaudited condensed consolidated financial statements included in Part 1, Item 1 of this Quarterly Report on Form 10-Q for a discussion of recently issued accounting pronouncements not yet adopted.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate risk

The credit facility under the Senior Credit Agreement bears interest at a rate based on LIBOR plus a fixed margin that changes periodically. As of September 30, 2019, the Company's subsidiaries that are borrowers or guarantors had \$389.8 million in outstanding borrowings under the senior credit facility. The applicable LIBOR rate stood at 2.12% at September 30, 2019 and the fixed margin stood at 5%, for an interest rate of 7.12%.

A hypothetical 1.0% increase or decrease in the applicable LIBOR rate on the outstanding indebtedness under the senior secured credit facility for the first nine months of 2019 would have increased or decreased interest expense by approximately \$2.9 million. Per annum, a 1.0% hypothetical increase or decrease in the applicable LIBOR on this debt rate would increase annual interest expense by approximately \$3.9 million.

We currently do not hedge against interest rate risk.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The term "disclosure controls and procedures" is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Our management, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures were not effective at a reasonable assurance level because of the material weaknesses in internal control over financial reporting described below, which are in the process of being remediated.

Management necessarily applies its judgment in assessing the costs and benefits of such controls and procedures, which, by their nature, can provide only reasonable assurance regarding management's control objectives. The Company's management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures can prevent all possible errors or fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. There are inherent limitations in all control systems, including the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Additionally, controls can be circumvented by the individual acts of one or more persons. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and, while our disclosure controls and procedures are designed to be effective under circumstances where they should reasonably be expected to operate effectively, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of the inherent limitations in any control system, misstatements due to possible errors or fraud may occur and not be detected.

Changes in Internal Control over Financial Reporting

As disclosed in Item 9A in the Annual Report, we previously identified material weaknesses in internal control over financial reporting related to (1) lack of sufficient accounting and financial reporting resources and (2) deficiencies in certain aspects of our financial statement review and close processes. In order to continue to remediate the material weaknesses described above, during the quarter ended September 30, 2019, we undertook or were engaged in the following measures or activities to address the material weaknesses in internal control over financial reporting:

- recruiting and hiring additional qualified financial reporting personnel;
- utilizing outside consultants to assist us with certain financial accounting and reporting matters; and
- implementing additional policies and procedures to enhance internal control and provide timely reconciliation and review of the Company's accounting policies and procedures.

As we continue to evaluate and improve our internal control over financial reporting, additional measures to remediate the material weaknesses or modifications to certain of the remediation procedures described above may be necessary.

Management is committed to improving our internal control processes and meets with the Audit Committee on a regular basis to monitor the status of remediation activities. Management believes that the measures described above should remediate the material weakness identified and strengthen our internal control over financial reporting.

Except as set forth above, we have identified no changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are involved in certain legal proceedings and claims which occur in the normal course of our business. We are not currently a party to any legal proceedings that we believe would have a material adverse effect on our financial position, results of operations, or cash flows.

ITEM 1A. RISK FACTORS

As of September 30, 2019, there have been no material changes to the risk factors previously disclosed in the Annual Report.

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

N/A

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

N/A

ITEM 4. MINE SAFETY DISCLOSURES

N/A

ITEM 5. OTHER INFORMATION

N/A

ITEM 6. EXHIBITS

<u>Exhibit</u>		<u>Description</u>
31.1	*	Certification of Chief Executive Officer pursuant to Rule 13a-14 and Rule 15d-14(a), promulgated under the Securities and Exchange Act of 1934, as amended.
31.2	*	Certification of Chief Financial Officer pursuant to Rule 13a-14 and Rule 15d-14(a), promulgated under the Securities and Exchange Act of 1934, as amended.
32	**	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	*	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	*	XBRL Taxonomy Extension Schema Document
101.CAL	*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	*	XBRL Taxonomy Extension Presentation Linkbase Document
104	*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith

** Furnished herewith

SIGNATURES

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

PRIORITY TECHNOLOGY HOLDINGS, INC.

November 14, 2019

/s/ THOMAS C. PRIORE

Thomas C. Priore

Chief Executive Officer and Chairman

(Principal Executive Officer)

November 14, 2019

/s/ MICHAEL T. VOLLKOMMER

Michael T. Vollkommer

Chief Financial Officer

(Principal Financial and Accounting Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO
EXCHANGE ACT RULE 13a-14(a) AS ADOPTED PURSUANT TO
SECTION 303 OF THE SARBANES-OXLEY ACT OF 2002**

I, Thomas C. Priore, certify that:

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

November 14, 2019

/s/ THOMAS C. PRIORE

Thomas C. Priore
Chief Executive Officer and Chairman
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO
EXCHANGE ACT RULE 13a-14(a) AS ADOPTED PURSUANT TO
SECTION 303 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael T. Vollkommer, certify that:

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

November 14, 2019

/s/ MICHAEL T. VOLLKOMMER

Michael T. Vollkommer
Chief Financial Officer
(Principal Financial and Accounting Officer)

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

In connection with the Quarterly Report on Form 10-Q of Priority Technology Holdings, Inc. (the "Company") for the quarter ended September 30, 2019 as filed with the Securities and Exchange Commission (the "Report"), each of the undersigned, on the dates indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

November 14, 2019

/s/ THOMAS C. PRIORE

Thomas C. Priore

Chief Executive Officer and Chairman

(Principal Executive Officer)

November 14, 2019

/s/ MICHAEL T. VOLLKOMMER

Michael T. Vollkommer

Chief Financial Officer

(Principal Financial and Accounting Officer)

The foregoing certifications are being furnished solely pursuant to 18 U.S.C. § 1350 and are not being filed as part of the Report on Form 10-Q or as a separate disclosure document.