

United States  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 8-K

Current Report  
Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

May 13, 2019  
Date of Report (Date of earliest event reported)

**Priority Technology Holdings, Inc.**  
(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or other jurisdiction of incorporation)

001-37872

(Commission File Number)

47-4257046

(I.R.S. Employer Identification No.)

2001 Westside Parkway  
Suite 155  
Alpharetta, Georgia

(Address of Principal Executive Offices)

30004

(Zip Code)

Registrant's telephone number, including area code: **(800) 935-5961**

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2).  
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. ☐

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, \$0.001 par value | PRTH           | Nasdaq Global Market                      |

**Item 2.02. Results of Operations and Financial Condition.**

On May 13, 2019, Priority Technology Holdings, Inc. issued a press release announcing its financial results for the quarter ended March 31, 2019. A copy of that press release is attached as Exhibit 99.1 to this Current Report on Form 8-K.

The information in this Current Report on Form 8-K, including Exhibit 99.1, is being furnished and shall not be deemed “filed” for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that Section. The information in this Current Report on Form 8-K shall not be incorporated by reference into any registration statement or other document filed pursuant to the Securities Act of 1933, as amended.

**Item 9.01. Financial Statements and Exhibits.**

(d) Exhibits – The following exhibit is furnished as part of this Current Report on Form 8-K.

| <b>Exhibit<br/>Number</b>   | <b>Description</b>                                                                            |
|-----------------------------|-----------------------------------------------------------------------------------------------|
| <a href="#"><u>99.1</u></a> | <a href="#"><u>Press Release of Priority Technology Holdings, Inc. dated May 13, 2019</u></a> |

**SIGNATURE**

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

Dated: May 13, 2019

PRIORITY TECHNOLOGY HOLDINGS, INC.

By: /s/ Michael Vollkommer

Name: Michael Vollkommer

Title: Chief Financial Officer



Investor and Media Inquiries:  
 Chris Kettmann  
 773-497-7575  
[ckettmann@lincolinchurchilladvisors.com](mailto:ckettmann@lincolinchurchilladvisors.com)

## **Priority Technology Holdings, Inc. Announces First Quarter 2019 Financial Results**

ALPHARETTA, GA - May 13, 2019 -- Priority Technology Holdings, Inc. (NASDAQ: PRTN) ("Priority" or the "Company"), a leading fintech enterprise with strong core payments technology, today announced its first quarter 2019 financial results.

### **Highlights**

Highlights of the first quarter 2019 financial results as compared with the first quarter of 2018 include:

- Consolidated revenue of \$100.0 million declined 13.5%. Adjusted consolidated revenue<sup>(1)</sup>, a non-GAAP measure, which excludes the impact of subscription-billing e-commerce merchants, of \$96.1 million increased 14.5%.
- Total merchant bankcard processing dollar value grew 8.8% to \$9.9 billion from \$9.1 billion.
- Gross profit margin increased 290 basis points from 24.6% to 27.5%. The Company's non-GAAP gross profit metric represents consolidated revenue less costs of merchant card fees and other costs of services. Adjusted gross profit margin<sup>(1)</sup>, excluding the impact of subscription-billing e-commerce merchants, increased 510 basis points from 21.9% to 27.0%.
- Consolidated adjusted EBITDA of \$12.5 million decreased \$2.8 million. The Company's non-GAAP Consolidated adjusted EBITDA measure is earnings before interest, taxes, depreciation and amortization (EBITDA), further adjusted for non-cash compensation and certain other expenses considered non-recurring. Consolidated adjusted EBITDA<sup>(1)</sup>, excluding the impact of subscription-billing e-commerce merchants, of \$10.8 million increased \$5.6 million.
- In March 2019, the Company entered into a real estate payments operating partnership with Yapstone, Inc. and acquired assets from them that enables Priority to provide a single platform to meet the needs of all landlord constituents - from integrated enterprise property managers, middle market partners and small/local landlords for rent, dues and storage.

<sup>(1)</sup> See "Reconciliation of Non-GAAP Financial Measures" at the end of this earnings release for details regarding these measures.

"Priority's first quarter results continued to reflect positive fundamentals and solid underlying growth, despite the previously discussed suspension in the boarding of subscription-billing e-commerce merchants. Core acquiring remains consistent, with strong merchant boarding trends throughout the quarter, and market adoption of our Commercial Payments platform is accelerating. Our Integrated Partners business group is also gaining significant traction across all verticals, including Hospitality, Healthcare and Real Estate - and most recently fueled by our operating partnership with Yapstone. As we strive to distinguish Priority from traditional merchant service providers by extending our success into software-based transaction technology," said Tom Priore, Executive Chairman and CEO of Priority.

## **Discussion of First Quarter Results**

The comparative revenue and gross profit for the first quarter was negatively affected by the wind-down of high-margin accounts with certain subscription-billing e-commerce merchants. The wind-down of merchants in this channel was due to industry-wide changes for enhanced card association compliance. This revenue, which is included entirely within the Consumer Payments reportable segment, was \$3.9 million and \$31.7 million in the first quarters of 2019 and 2018, respectively. The corresponding gross profit and income from operations associated with this revenue was \$1.6 million and \$10.0 million in the first quarters of 2019 and 2018, respectively.

Income from operations includes certain expenses that the Company considers non-recurring in nature, largely associated with conversion to a public company, such as legal, accounting, advisory and consulting expenses plus certain litigation costs. Non-recurring expenses, which are contained within Corporate, were \$1.2 million and \$3.3 million in the first quarters of 2019 and 2018, respectively.

### **Revenue:**

#### ***Consolidated***

Consolidated revenue in the first quarter of 2019 amounted to \$100.0 million, a decline of \$15.6 million compared with the 2018 first quarter. This decline was driven by the previously discussed wind-down of the subscription-billing e-commerce merchants. Adjusted consolidated revenue of \$96.1 million, which excludes the impact of subscription-billing e-commerce merchants, increased \$12.1 million, or 14.5%.

Total merchant bankcard volume processed in the first quarter of 2019 of \$9.9 billion grew by 8.8%, as compared with \$9.1 billion in the first quarter of 2018. Merchant bankcard transaction volume of 117.9 million in the first quarter of 2019 grew by 6.7%, as compared with 110.4 million in the 2018 first quarter. Average ticket (calculated by dividing bankcard volume processed by the associated number of transactions processed) of \$84.40 grew 2.0% in the first quarter of 2019, as compared with \$82.76 in the comparable 2018 quarter.

#### ***Consumer Payments Reportable Segment***

Consumer Payments revenue in the first quarter of 2019 was \$89.8 million, a decline of \$19.2 million compared with the 2018 first quarter. Excluding the subscription-billing e-commerce business, adjusted Consumer Payments reportable segment revenue increased \$8.6 million, or 11.1%, from \$77.3 million in the first quarter of 2018 to \$85.9 million in the first quarter of 2019.

Merchant bankcard volume processed in the first quarter of 2019 of \$9.9 billion grew by 8.7%, as compared with \$9.1 billion in the first quarter of 2018. Merchant bankcard transaction volume of 117.8 million in the first quarter of 2019 grew by 6.7%, as compared with 110.4 million in the 2018 first quarter. Average ticket of \$83.82 grew 1.9% in the first quarter of 2019, as compared with \$82.28 in the comparable 2018 quarter.

#### ***Commercial Payments and Managed Services Reportable Segment***

Commercial Payments and Managed Services revenue in the first quarter of 2019 amounted to \$10.2 million, a 53.5% increase over \$6.6 million in the 2018 first quarter. Revenue in the first quarter of 2019 included \$3.2 million from the recently established Integrated Partners business group within this reportable segment. Commercial Payments revenue of \$1.5 million in the first quarter of 2019 increased 54.2% compared with the 2018 first quarter. Managed Services revenue of \$5.5 million in the first quarter of 2019 was in line with the 2018 first quarter.

## **Income from Operations:**

### ***Consolidated***

Consolidated income from operations was \$1.0 million in the first quarter of 2019, compared with \$7.9 million in the 2018 first quarter. This decline of \$6.9 million was due to a decrease in gross profit of \$0.9 million, an increase in depreciation and amortization of \$5.2 million and an increase in salaries and employee benefits of \$1.9 million, partially offset by a \$1.0 million decrease in selling, general and administrative expenses. Included in selling, general and administrative expenses in the first quarters of 2019 and 2018 were \$1.2 million and \$3.3 million, respectively, of certain expenses the Company considers non-recurring in nature. Non-cash equity-based compensation of \$1.2 million, included in salaries and employee benefits, increased \$1.0 million.

### ***Consumer Payments Reportable Segment***

Consumer Payments income from operations in the first quarter of 2019 was \$7.7 million, a decline of \$7.5 million compared with the 2018 first quarter. Income from operations from the subscription-billing e-commerce merchants declined \$8.4 million. Depreciation and amortization of \$7.8 million in the first quarter of 2019 increased \$4.4 million compared with \$3.4 million in the first quarter of 2018, due largely to amortization related to merchant portfolio acquisitions subsequent to the first quarter of 2018. Adjusted Consumer Payments reportable segment income from operations, which excludes the impact of subscription-billing e-commerce merchants, grew 17.7% to \$6.1 million.

### ***Commercial Payments and Managed Services Reportable Segment***

Commercial Payments and Managed Services reflected a loss from operations of \$0.7 million in the first quarter of 2019 due to \$0.8 million of depreciation and amortization. This compares with a loss from operations of \$0.3 million in the first quarter of 2018, which included depreciation and amortization of \$0.1 million. The increased depreciation and amortization is attributable to amortization of intangible assets acquired within the Integrated Partners business group.

### ***Corporate***

Corporate expense in the first quarter of 2019 amounted to \$6.1 million, compared with \$7.0 million in the first quarter of 2018. Non-recurring expenses amounted to \$1.2 million and \$3.3 million in the first quarters of 2019 and 2018, respectively.

## **Interest Expense:**

Interest expense of \$9.4 million in the first quarter of 2019 increased by \$2.4 million from \$6.9 million in the 2018 first quarter. The increase is due to higher outstanding borrowings driven by acquisition financing.

## **Other Income (Expense), Net:**

Other income, net of \$0.2 million in the first quarter of 2019, compares with other expense, net of \$4.1 million in the first quarter of 2018. The 2018 first quarter includes \$3.5 million of expense related to the change in fair value of the Goldman Sachs warrant and \$0.8 million of debt modification costs.

## **Acquisition / Partnership Updates**

Priority's acquisition strategy continues to identify and purchase integrated product channels and existing reselling partners. The Company continued purchases of merchant portfolios in the first quarter of 2019 with the execution of a handful of tuck-in acquisitions. In addition, Priority Real Estate Technology ("PRET"), an operating subsidiary of the Company, acquired assets from and entered into a real estate payments operating partnership with Yapstone, Inc., a leading provider of online and mobile payment solutions. Priority is the majority owner in the partnership with a preferred equity position and has assumed responsibility for the management and daily operation of the newly combined assets. PRET will provide critical operating

infrastructure, marketing and sales support and real estate technology assets, including products and services derived from the previous acquisitions of RadPad and Landlord Station. Together, the Company believes that the new entity will provide a single platform that meets the needs of all landlord constituents - from integrated enterprise property managers, middle market partners and small/local landlords for rent, dues and storage.

Priority funded these transactions through a \$70.0 million delayed draw under its December 24, 2018 amended Senior Secured Credit Facility, \$10.0 million borrowing from a revolving credit agreement and cash on hand.

### **Liquidity**

Working capital (defined as current assets less current liabilities) was \$11.7 million at March 31, 2019, compared with \$21.1 million at December 31, 2018. Unrestricted cash amounted to \$9.1 million at March 31, 2019, compared with \$15.6 million at December 31, 2018. These unrestricted balances do not include cash of \$20.1 million at March 31, 2019 and \$18.2 million at December 31, 2018 related to customer settlement funds. At March 31, 2019, the Company had availability of \$15.0 million under a revolving credit facility.

### **Debt**

As of March 31, 2019, total term debt amounted to \$483.1 million, compared to \$412.7 million at December 31, 2018. The debt balance consisted of outstanding term debt of \$391.8 million under the Senior Credit Facility and \$91.2 million in term debt under the subordinated Goldman Sachs Credit Agreement (including accrued payment-in-kind ("PIK") interest through March 31, 2019).

### **2019 Outlook**

Priore concluded, "Priority's future remains bright as we look to build on strong underlying growth throughout our business. Our industry-leading technology and service offering, combined with our recent partnership with Yapstone and acquisition of Direct Connect's portfolio assets, have positioned the Company well for long-term growth and profitability. We remain confident in our ability to deliver modest revenue growth over 2018, despite a forecasted \$50 million revenue decline from the subscription e-commerce business year over year, while continuing to target Earn-out Adjusted EBITDA (a non-GAAP measure) of \$75 million for the full year 2019."

### **Conference Call**

Priority Technology Holdings Inc.'s leadership will host a conference call on Monday, May 13, 2019 at 8:30 a.m. ET to discuss its first quarter 2019 financial results. Participants can access the call by Phone: US/Canada: (877) 501-3161 or International: (786) 815-8443.

Internet webcast link and accompanying slide presentation can be accessed at <https://edge.media-server.com/m6/p/myfikjd7> and will also be posted in the "Investor Relations" section of the Company's website at [www.PRTH.com](http://www.PRTH.com).

An audio replay of the call will be available shortly after the conference call until May 16, 2019 at 11:30 am Eastern Time. To listen to the audio replay, dial (855) 859-2056 or (404) 537-3406 and enter conference ID number 9081924. Alternatively, you may access the webcast replay in the "Investor Relations" section of the Company's website at [www.PRTH.com](http://www.PRTH.com).

## **Non-GAAP Financial Measures**

We regularly review the following key non-GAAP measures to evaluate our business and trends, measure our performance, prepare financial projections, allocate resources, and make strategic decisions. We believe these non-GAAP measures help 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. However, these non-GAAP measures are not superior to or a substitute for prominent measurements calculated in accordance with GAAP. Rather, the non-GAAP measures are meant to be a complement to understanding measures prepared in accordance with GAAP.

### ***Adjusted Revenue***

Revenue for the quarter ended March 31, 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. We refer to adjusted revenue, which excludes these revenue amounts from the periods presented. We review this non-GAAP measure to evaluate our underlying revenue and trends.

### ***Gross Profit and Adjusted Gross Profit***

The Company's non-GAAP gross profit metric represents revenue less costs of merchant card fees and other costs of services. Gross profit margin is gross profit divided by revenue. We also refer to adjusted gross profit and adjusted gross profit margin, which excludes gross profit from certain subscription-billing e-commerce merchants. We review these non-GAAP measures to evaluate our underlying profit trends.

### ***Adjusted Income from Operations***

Income from operations for the quarter ended March 31, 2019 has also been negatively affected by the closure of the high-margin accounts with certain subscription-billing e-commerce merchants, as well as the incurrence of non-recurring expenses largely associated with our July 2018 Business Combination and conversion to a public company, such as legal, accounting, advisory and consulting expenses plus certain litigation costs. We refer to adjusted income from operations, which excludes this income from operations and non-recurring operating expenses for the periods presented. We review this non-GAAP measure to evaluate our underlying profitability performance and trends.

### ***EBITDA, Adjusted EBITDA and Earnout Adjusted EBITDA***

EBITDA is earnings before interest, income tax, depreciation and amortization expenses ("EBITDA"). Adjusted EBITDA begins with EBITDA but further excludes certain non-cash expenses such as equity-based compensation and fair value adjustments, debt modification costs and non-recurring expenses such as Business Combination costs, litigation settlement costs, certain legal services costs, and professional, accounting and consulting fees. The calculation of Earnout Adjusted EBITDA includes adjustments for the pro-forma impact of acquisitions, as well as adjustments to exclude other professional and consulting fees and certain tax expenses and other adjustments. We review these non-GAAP EBITDA measures to evaluate our business and trends, measure our performance, prepare financial projections, allocate resources, and make strategic decisions.

The reconciliations of Adjusted Revenue, Gross Profit, Adjusted Gross Profit, Adjusted Income from Operations, EBITDA, Adjusted EBITDA and Earnout Adjusted EBITDA to the most directly comparable financial measure calculated and presented in accordance with GAAP, are shown in the attached schedules to this press release.

Priority does not provide a reconciliation of forward-looking non-GAAP financial measures to their comparable GAAP financial measures because it could not do so without unreasonable effort due to the unavailability of the information needed to calculate reconciling items and due to the variability, complexity and limited visibility of the adjusting items that would be excluded from the non-GAAP financial measures in future periods. When planning, forecasting and analyzing future periods, the Company does so primarily on a non-GAAP basis without preparing a GAAP analysis as that would require estimates for various cash

and non-cash reconciling items that would be difficult to predict with reasonable accuracy. For example, equity compensation expense would be difficult to estimate because it depends on the Company's future hiring and retention needs, as well as the future fair market value of the Company's common stock, all of which are difficult to predict and subject to constant change. As a result, the Company does not believe that a GAAP reconciliation would provide meaningful supplemental information about the Company's outlook.

### **About Priority Technology Holdings, Inc.**

Priority is a fintech enterprise with a leading core payments technology, offering unique product and service capabilities to its merchant network and distribution partners. Priority's enterprise 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 opportunities. Additional information can be found at [www.PRTH.com](http://www.PRTH.com).

### **Forward-Looking Statements**

This press release contains forward-looking statements that are subject to certain risks, trends and uncertainties that could cause actual results to differ materially from those projected, expressed, or implied by such forward-looking statements. In some cases, you can identify forward-looking statements by use of words such as "may," "will," "should," "anticipates," "believes," "expects," "plans," "future," "intends," "could," "estimate," "predict," "projects," "targeting," "potential" or "contingent," the negative of these terms or other similar expressions. Our actual results could differ materially from those discussed or implied herein.

We caution that it is very difficult to predict the impact of known factors, and it is impossible for us to anticipate all factors that could affect our actual results. All forward-looking statements are expressly qualified in their entirety by these cautionary statements. You should evaluate all forward-looking statements made in this press release in the context of the risks and uncertainties disclosed in our SEC filings, including our most recent Annual Report on Form 10-K for 2018 filed with the SEC on March 29, 2019. These filings are available online at [www.sec.gov](http://www.sec.gov) or [www.PRTH.com](http://www.PRTH.com).

We caution you that the important factors referenced above may not contain all of the factors that are important to you. In addition, we cannot assure you that we will realize the results or developments we expect or anticipate or, even if substantially realized, that they will result in the consequences we anticipate or affect us or our operations in the way we expect. The forward-looking statements included in this press release are made only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law. If we do update one or more forward-looking statements, no inference should be made that we will make additional updates with respect to those or other forward-looking statements. We qualify all of our forward-looking statements by these cautionary statements.

**PRIORITY TECHNOLOGY HOLDINGS, INC.**  
**Condensed Consolidated Statements of Operations**  
**For the Quarters ended March 31, 2019 and 2018**  
*Unaudited*

| <i>(in thousands, except per share amounts)</i> |    | <b>Quarter Ended March 31,</b> |                   |
|-------------------------------------------------|----|--------------------------------|-------------------|
|                                                 |    | <b>2019</b>                    | <b>2018</b>       |
| <b>REVENUE:</b>                                 |    |                                |                   |
| Merchant card fees                              | \$ | 91,829                         | \$ 108,010        |
| Outsourced services and other                   |    | 8,148                          | 7,586             |
| <b>Total revenue</b>                            |    | <b>99,977</b>                  | <b>115,596</b>    |
| <b>OPERATING EXPENSES:</b>                      |    |                                |                   |
| Costs of merchant card fees                     |    | 67,871                         | 82,813            |
| Costs of outsourced services and other          |    | 4,566                          | 4,376             |
| Salary and employee benefits                    |    | 10,899                         | 8,972             |
| Depreciation and amortization                   |    | 8,925                          | 3,767             |
| Selling, general and administrative             |    | 6,750                          | 7,790             |
| Total operating expenses                        |    | 99,011                         | 107,718           |
| <b>Income from operations</b>                   |    | <b>966</b>                     | <b>7,878</b>      |
| <b>OTHER INCOME (EXPENSES):</b>                 |    |                                |                   |
| Interest expense                                |    | (9,363)                        | (6,929)           |
| Other, net                                      |    | 227                            | (4,126)           |
| Total other expenses, net                       |    | (9,136)                        | (11,055)          |
| Loss before income taxes                        |    | (8,170)                        | (3,177)           |
| Income tax benefit                              |    | (1,724)                        | —                 |
| Net loss                                        | \$ | <u>(6,446)</u>                 | <u>\$ (3,177)</u> |
| <b>Loss per common share:</b>                   |    |                                |                   |
| Basic and diluted                               | \$ | (0.10)                         | \$ (0.06)         |
| <b>PRO FORMA (C-corporation basis):</b>         |    |                                |                   |
| Income tax benefit                              |    | \$                             | (665)             |
| Net loss                                        |    | \$                             | (2,512)           |
| <b>Loss per common share:</b>                   |    |                                |                   |
| Basic and diluted                               |    | \$                             | (0.04)            |

**PRIORITY TECHNOLOGY HOLDINGS, INC.**  
**Segment Results**  
**Quarter Ended March 31, 2019 Compared to Quarter Ended March 31, 2018**  
*Unaudited*

| <i>(dollars and volume amounts in thousands)</i> | Quarter Ended March 31, |                  |                   |          |
|--------------------------------------------------|-------------------------|------------------|-------------------|----------|
|                                                  | 2019                    | 2018             | Change            | % Change |
|                                                  |                         |                  |                   |          |
| Consumer Payments:                               |                         |                  |                   |          |
| Revenue                                          | \$ 89,822               | \$ 108,981       | \$ (19,159)       | (17.6)%  |
| Operating expenses                               | 82,103                  | 93,766           | (11,663)          | (12.4)%  |
| Income from operations                           | <u>\$ 7,719</u>         | <u>\$ 15,215</u> | <u>\$ (7,496)</u> |          |
| Operating margin                                 | 8.6 %                   | 14.0 %           |                   |          |
| Depreciation and amortization                    | \$ 7,808                | \$ 3,436         | \$ 4,372          |          |
|                                                  |                         |                  |                   |          |
| Key indicators:                                  |                         |                  |                   |          |
| Merchant bankcard processing dollar value        | \$ 9,872,377            | \$ 9,084,227     | 788,150           | 8.7 %    |
| Merchant bankcard transaction volume             | 117,781                 | 110,405          | 7,376             | 6.7 %    |
|                                                  |                         |                  |                   |          |
| Commercial Payments and Managed Services:        |                         |                  |                   |          |
| Revenue                                          | \$ 10,155               | \$ 6,615         | \$ 3,540          | 53.5 %   |
| Operating expenses                               | 10,839                  | 6,942            | 3,897             | 56.1 %   |
| Loss from operations                             | <u>\$ (684)</u>         | <u>\$ (327)</u>  | <u>\$ (357)</u>   |          |
| Operating margin                                 | (6.7)%                  | (4.9)%           |                   |          |
| Depreciation and amortization                    | \$ 789                  | \$ 140           | 649               |          |
|                                                  |                         |                  |                   |          |
| Key indicators:                                  |                         |                  |                   |          |
| Merchant bankcard processing dollar value        | \$ 73,854               | \$ 55,536        | \$ 18,318         | 33.0 %   |
| Merchant bankcard transaction volume             | 70                      | 26               | 44                | 169.2 %  |
|                                                  |                         |                  |                   |          |
| Income from operations of segments               | \$ 7,035                | \$ 14,888        | \$ (7,853)        | (52.7)%  |
| Less: Corporate expenses                         | (6,069)                 | (7,010)          | 941               | (13.4)%  |
| Consolidated income from operations              | <u>\$ 966</u>           | <u>\$ 7,878</u>  | <u>\$ (6,912)</u> |          |
| Corporate depreciation and amortization          | \$ 328                  | \$ 191           | \$ 137            |          |
|                                                  |                         |                  |                   |          |
| Key indicators:                                  |                         |                  |                   |          |
| Merchant bankcard processing dollar value        | \$ 9,946,231            | \$ 9,139,763     | \$ 806,468        | 8.8 %    |
| Merchant bankcard transaction volume             | 117,851                 | 110,431          | 7,420             | 6.7 %    |

**PRIORITY TECHNOLOGY HOLDINGS, INC.**  
**Condensed Consolidated Balance Sheets**  
**As of March 31, 2019 and December 31, 2018**  
*Unaudited*

| <i>(in thousands)</i>                                         | <b>March 31, 2019</b> | <b>December 31, 2018</b> |
|---------------------------------------------------------------|-----------------------|--------------------------|
| <b>ASSETS</b>                                                 |                       |                          |
| Current Assets:                                               |                       |                          |
| Cash                                                          | \$ 9,091              | \$ 15,631                |
| Restricted cash                                               | 20,149                | 18,200                   |
| Accounts receivable, net of allowance for doubtful accounts   | 47,902                | 45,651                   |
| Prepaid expenses and other current assets                     | 4,394                 | 3,642                    |
| Current portion of notes receivable                           | 1,438                 | 979                      |
| Settlement assets                                             | 1,006                 | 1,042                    |
| Total current assets                                          | 83,980                | 85,145                   |
| Notes receivable, less current portion                        | 717                   | 852                      |
| Property, equipment, and software, net                        | 18,381                | 17,482                   |
| Goodwill                                                      | 109,515               | 109,515                  |
| Intangible assets, net                                        | 206,921               | 124,637                  |
| Deferred income taxes, net                                    | 51,313                | 49,692                   |
| Other non-current assets                                      | 1,288                 | 1,295                    |
| <b>Total assets</b>                                           | <b>\$ 472,115</b>     | <b>\$ 388,618</b>        |
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>                  |                       |                          |
| Current liabilities:                                          |                       |                          |
| Accounts payable and accrued expenses                         | \$ 23,568             | \$ 27,638                |
| Accrued residual commissions                                  | 18,293                | 18,715                   |
| Customer deposits and advance payments                        | 3,737                 | 3,282                    |
| Borrowings outstanding on revolving credit facility           | 10,000                | —                        |
| Current portion of long-term debt                             | 3,293                 | 3,293                    |
| Settlement obligations                                        | 13,381                | 11,132                   |
| Total current liabilities                                     | 72,272                | 64,060                   |
| Long-term debt, net of discounts and deferred financing costs | 472,537               | 402,095                  |
| Other non-current liabilities                                 | 12,411                | 7,936                    |
| Total long-term liabilities                                   | 484,948               | 410,031                  |
| <b>Total liabilities</b>                                      | <b>557,220</b>        | <b>474,091</b>           |
| Stockholders' deficit:                                        |                       |                          |
| Common stock issued and outstanding                           | 67                    | 67                       |
| Additional paid-in capital                                    | 1,160                 | —                        |
| Accumulated deficit                                           | (91,986)              | (85,540)                 |
|                                                               | (90,759)              | (85,473)                 |
| Non-controlling interest in a subsidiary                      | 5,654                 | —                        |
| <b>Total stockholders' deficit</b>                            | <b>(85,105)</b>       | <b>(85,473)</b>          |
| <b>Total liabilities and stockholders' deficit</b>            | <b>\$ 472,115</b>     | <b>\$ 388,618</b>        |

**PRIORITY TECHNOLOGY HOLDINGS, INC.**  
**Condensed Consolidated Statements of Cash Flows**  
**For the Quarters ended March 31, 2019 and 2018**  
*Unaudited*

| <i>(in thousands)</i>                                                                    | Quarter Ended March 31, |                  |
|------------------------------------------------------------------------------------------|-------------------------|------------------|
|                                                                                          | 2019                    | 2018             |
| <b>Cash flows from operating activities:</b>                                             |                         |                  |
| Net loss                                                                                 | \$ (6,446)              | \$ (3,177)       |
| Adjustment to reconcile net loss to net cash (used in) provided by operating activities: |                         |                  |
| Depreciation and amortization                                                            | 8,925                   | 3,767            |
| Equity-based compensation                                                                | 1,160                   | 188              |
| Amortization of debt issuance costs and discounts                                        | 405                     | 308              |
| Equity in losses and impairment of unconsolidated entities                               | 6                       | 54               |
| Provision for deferred tax benefit                                                       | (1,621)                 | —                |
| Change in fair value of warrant liability                                                | —                       | 3,481            |
| Payment-in-kind interest                                                                 | 1,210                   | 1,193            |
| Other non-cash                                                                           | (174)                   | —                |
| Change in operating assets and liabilities:                                              |                         |                  |
| Accounts receivable                                                                      | (2,252)                 | 4,797            |
| Settlement assets                                                                        | 36                      | 2,879            |
| Prepaid expenses and other current assets                                                | (752)                   | (766)            |
| Notes receivable                                                                         | (324)                   | 831              |
| Accounts payable and other accrued liabilities                                           | (3,634)                 | (4,270)          |
| Settlement obligations                                                                   | 2,249                   | 3,230            |
| Other assets and liabilities                                                             | (28)                    | 99               |
| <b>Net cash (used in) provided by operating activities</b>                               | <b>(1,240)</b>          | <b>12,614</b>    |
| <b>Cash flows from investing activities:</b>                                             |                         |                  |
| Payment for prior year business acquisition                                              | (184)                   | —                |
| Additions to property, equipment and software                                            | (2,382)                 | (2,624)          |
| Acquisitions of merchant portfolios and assets                                           | (79,612)                | (3,700)          |
| <b>Net cash used in investing activities</b>                                             | <b>(82,178)</b>         | <b>(6,324)</b>   |
| <b>Cash flows from financing activities:</b>                                             |                         |                  |
| Proceeds from issuance of long-term debt, net of issue discount                          | 69,650                  | 67,113           |
| Repayment of long-term debt                                                              | (823)                   | (670)            |
| Debt issuance costs                                                                      | —                       | (646)            |
| Borrowings under revolving credit facility                                               | 10,000                  | —                |
| Distributions to members prior to July 25, 2018 recapitalization                         | —                       | (4,024)          |
| Redemption of membership interest prior to July 25, 2018 recapitalization                | —                       | (74,093)         |
| <b>Net cash provided by (used in) financing activities</b>                               | <b>78,827</b>           | <b>(12,320)</b>  |
| <b>Net change in cash and restricted cash:</b>                                           |                         |                  |
| Net decrease in cash and restricted cash                                                 | (4,591)                 | (6,030)          |
| Cash and restricted cash at beginning of year                                            | 33,831                  | 44,159           |
| Cash and restricted cash at March 31                                                     | <u>\$ 29,240</u>        | <u>\$ 38,129</u> |
| <b>Supplemental cash flow information:</b>                                               |                         |                  |
| Cash paid for interest                                                                   | \$ 7,126                | \$ 5,355         |

**PRIORITY TECHNOLOGY HOLDINGS, INC.**  
**Reconciliations of Non-GAAP Financial Measures**  
*Unaudited*

The reconciliations of Adjusted Consolidated Revenue, Consolidated Gross Profit and Gross Profit Margin, Adjusted Consolidated Gross Profit and Gross Profit Margin, Adjusted Consolidated Income from Operations, Adjusted Consolidated Net Loss, Adjusted Consumer Payments Revenue, Adjusted Consumer Payments Income from Operations, Consolidated EBITDA, Consolidated Adjusted EBITDA, and Consolidated Earnout Adjusted EBITDA to the most directly comparable financial measures calculated and presented in accordance with GAAP, are shown in the following tables:

| <i>(in thousands)</i>                                                        | <b>Quarter Ended March 31,</b> |                   |
|------------------------------------------------------------------------------|--------------------------------|-------------------|
|                                                                              | <b>2019</b>                    | <b>2018</b>       |
| <b>Consolidated revenue (GAAP)</b>                                           | <b>\$ 99,977</b>               | <b>\$ 115,596</b> |
| Less: Revenue from certain subscription-billing e-commerce merchants         | (3,906)                        | (31,664)          |
| <b>Adjusted consolidated revenue (non-GAAP)</b>                              | <b>\$ 96,071</b>               | <b>\$ 83,932</b>  |
| <b>Consolidated costs of services</b>                                        |                                |                   |
| Consolidated costs of merchant card fees                                     | \$ 67,871                      | \$ 82,813         |
| Consolidated costs of outsourced services and other                          | 4,566                          | 4,376             |
|                                                                              | <b>\$ 72,437</b>               | <b>\$ 87,189</b>  |
| <b>Consolidated gross profit (non-GAAP)</b>                                  | <b>\$ 27,540</b>               | <b>28,407</b>     |
| Less: Gross profit of certain subscription-billing e-commerce merchants      | (1,622)                        | (10,035)          |
| <b>Adjusted consolidated gross profit (non-GAAP)</b>                         | <b>\$ 25,918</b>               | <b>\$ 18,372</b>  |
| <b>Consolidated gross profit margin (non-GAAP)</b>                           | <b>27.5%</b>                   | <b>24.6%</b>      |
| <b>Adjusted consolidated gross profit margin (non-GAAP)</b>                  | <b>27.0%</b>                   | <b>21.9%</b>      |
| <b>Consolidated income from operations (GAAP)</b>                            | <b>\$ 966</b>                  | <b>\$ 7,878</b>   |
| Less: Revenue from certain subscription-billing e-commerce merchants         | (3,906)                        | (31,664)          |
| Add: operating expenses of certain subscription-billing e-commerce merchants | 2,284                          | 21,629            |
| Add: non-recurring expenses                                                  | 1,185                          | 3,330             |
| <b>Adjusted consolidated income from operations (non-GAAP)</b>               | <b>\$ 529</b>                  | <b>\$ 1,173</b>   |
| <b>Consolidated net loss (GAAP)</b>                                          | <b>\$ (6,446)</b>              | <b>\$ (3,177)</b> |
| Less: Revenue from certain subscription-billing e-commerce merchants         | (3,906)                        | (31,664)          |
| Add: operating expenses of certain subscription-billing e-commerce merchants | 2,284                          | 21,629            |
| Add: non-recurring expenses                                                  | 1,185                          | 3,330             |
| Add: income tax benefit of non-GAAP adjustments                              | 92                             | —                 |
| <b>Adjusted consolidated net loss (non-GAAP)</b>                             | <b>\$ (6,791)</b>              | <b>\$ (9,882)</b> |
| <b>Consumer Payments revenue (GAAP)</b>                                      | <b>\$ 89,822</b>               | <b>\$ 108,981</b> |
| Less: Revenue from certain subscription-billing e-commerce merchants         | (3,906)                        | (31,664)          |
| <b>Adjusted Consumer Payments revenue (non-GAAP)</b>                         | <b>\$ 85,916</b>               | <b>\$ 77,317</b>  |
| <b>Consumer Payments income from operations (GAAP)</b>                       | <b>\$ 7,719</b>                | <b>\$ 15,215</b>  |
| Less: Revenue from certain subscription-billing e-commerce merchants         | (3,906)                        | (31,664)          |
| Add: operating expenses of certain subscription-billing e-commerce merchants | 2,284                          | 21,629            |
| <b>Adjusted Consumer Payments income from operations (non-GAAP)</b>          | <b>\$ 6,097</b>                | <b>\$ 5,180</b>   |

**PRIORITY TECHNOLOGY HOLDINGS, INC.**  
**Reconciliation of Non-GAAP EBITDA Measures**  
*Unaudited*

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

| <i>(in thousands)</i>                                                                                      | <b>Quarter Ended March 31,</b> |                   |
|------------------------------------------------------------------------------------------------------------|--------------------------------|-------------------|
|                                                                                                            | <b>2019</b>                    | <b>2018</b>       |
| <b>Consolidated net loss (GAAP)</b>                                                                        | <b>\$ (6,446)</b>              | <b>\$ (3,177)</b> |
| Add: Interest expense (1)                                                                                  | 9,363                          | 6,929             |
| Add: Depreciation and amortization                                                                         | 8,925                          | 3,767             |
| Less: Income tax benefit                                                                                   | (1,724)                        | —                 |
| <b>Consolidated EBITDA (non-GAAP)</b>                                                                      | <b>10,118</b>                  | <b>7,519</b>      |
| Further adjusted by:                                                                                       |                                |                   |
| Add: Non-cash equity-based compensation                                                                    | 1,160                          | 188               |
| Add: Debt modification costs and warrant fair value changes                                                | —                              | 4,263             |
| Add: Certain legal expenses (2)                                                                            | 514                            | 1,176             |
| Add: Professional, accounting and consulting fees (3)                                                      | 671                            | 2,154             |
| <b>Consolidated Adjusted EBITDA (non-GAAP)</b>                                                             | <b>12,463</b>                  | <b>15,300</b>     |
| Further adjusted by:                                                                                       |                                |                   |
| Add: Pro-forma impacts for acquisitions                                                                    | 2,995                          | 375               |
| Add: Other professional and consulting fees                                                                | 395                            | 399               |
| Add: Other tax expenses and other adjustments                                                              | (169)                          | 203               |
| <b>Consolidated Earnout Adjusted EBITDA (non-GAAP) (4)</b>                                                 | <b>\$ 15,684</b>               | <b>\$ 16,277</b>  |
| <b>Consolidated Adjusted EBITDA (non-GAAP)</b>                                                             | <b>\$ 12,463</b>               | <b>\$ 15,300</b>  |
| Less: Gross profit from certain subscription-billing e-commerce merchants                                  | (1,622)                        | (10,035)          |
| <b>Consolidated Adjusted EBITDA excluding certain subscription-billing e-commerce merchants (non-GAAP)</b> | <b>\$ 10,841</b>               | <b>\$ 5,265</b>   |

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

(2) Legal expenses related to business and asset acquisition activity and settlement negotiation and other litigation expenses.

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

(4) 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 Priority Technology Holdings, Inc., which is neither a borrower nor a guarantor under the credit agreements. Earnout Adjusted EBITDA of the Borrowers was approximately \$19.4 million for the quarter ended March 31, 2019.