

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

December 2, 2021 (September 17, 2021)
Date of Report (Date of earliest event reported)



PRIORITY
TECHNOLOGY HOLDINGS

(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**

30004

Alpharetta,

(Address of Principal Executive Offices)

Georgia

(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 (see General Instruction A.2. below):

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

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

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

Emerging growth company ☒

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

Item 8.01. Other Events.

On March 5, 2021, Priority Technology Holdings, Inc. (the "Company," "we" or "PRTH") entered into an agreement to acquire the outstanding shares of Finxera Holdings, Inc. ("Finxera") through its wholly owned subsidiary Prime Warrior Acquisition Corp (the "merger sub"). Upon the closing of the acquisition on September 17, 2021, the merger sub merged into Finxera and Finxera became a wholly owned subsidiary of the Company.

This Current Report on Form 8-K is being filed in order to provide as Exhibit 99.1 hereto the audited consolidated financial statements of Finxera for the years ended December 31, 2020 and 2019, as Exhibit 99.2 hereto the unaudited condensed consolidated financial statements of Finxera as of June 30, 2021 and for the six months ended June 30, 2021 and 2020 and as Exhibit 99.3 hereto the unaudited pro forma condensed combined financial information for the nine months ended September 30, 2021 and the year ended December 31, 2020.

Item 9.01. Financial Statements and Exhibits.

(a) Financial Statements of Business Acquired.

The audited consolidated financial statements of Finxera as of December 31, 2020 and 2019 are filed as Exhibit 99.1 to this Current Report on Form 8-K.

The interim unaudited condensed consolidated financial statements of Finxera as of June 30, 2021 and for the six months ended June 30, 2021 and 2020 are filed as Exhibit 99.2 to this Current Report on Form 8-K.

(b) Pro Forma Financial Information.

The unaudited pro forma condensed combined financial statements of PRTH and Finxera for the nine months ended September 30, 2021 and for the year ended December 31, 2020, giving effect to the acquisition as if it had occurred on January 1, 2020, are filed as Exhibit 99.3 to this Current Report on Form 8-K.

(c) Exhibits

Exhibit No.	Description of Exhibit
23	Consent of Frank, Rimerman +Co. LLP
99.1	Audited consolidated financial statements of Finxera for the years ended December 31, 2020 and 2019
99.2	Interim unaudited consolidated financial statements of Finxera Holdings, Inc. as of June 30, 2021 and for the six month periods ended June 30, 2021 and 2020
99.3	Unaudited pro forma condensed combined financial information for the nine months ended September 30, 2021 and the year ended December 31, 2020
104	The cover page from this Current Report on Form 8-K, formatted in Inline XBRL

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: December 2, 2021

PRIORITY TECHNOLOGY HOLDINGS, INC.

By: /s/ Michael Vollkommer

Name: Michael Vollkommer

Title: Chief Financial Officer

Consent of Independent Registered Public Accounting Firm

We consent to the inclusion in this Form 8-K of Priority Technology Holdings, Inc. of our report dated June 24, 2021, relating to the consolidated financial statements of Finxera Holdings, Inc. as of and for the years ended December 31, 2020 and 2019.



Certified
Public
Accountants

Frank, Rimerman + Co. LLP

San Francisco, California
December 1, 2021

One Embarcadero Center, Suite 2410 San Francisco, California 94111 t 415.439.1144 www.frankrimerman.com

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Frank, Rimerman + Co. LLP

Board of Directors
Finxera Holdings, Inc.
San Jose, California



Certified
Public
Accountants

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Finxera Holdings, Inc., a Delaware Corporation, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income, stockholders' equity (deficit) and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

One Embarcadero Center, Suite 2410 San Francisco, California 94111 t 415.439.1144 www.frankrimerman.com

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Finxera Holdings, Inc. as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 13 to the consolidated financial statements, in March 2021, Finxera Holdings, Inc. entered into a merger agreement in which it agreed in principle to sell all of its capital stock to Priority Technology Holdings, Inc. Our opinion is not modified with respect to the matter.

A handwritten signature in black ink that reads "Frank, Rimerman & Co. LLP". The signature is written in a cursive, flowing style.

San Francisco, California
June 24, 2021

Finxera Holdings, Inc.
Consolidated Balance Sheets

	December 31,	
	2020	2019
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 13,071,816	\$ 11,448,870
Restricted cash	2,574,786	2,583,833
Client cash deposit balances	478,869,127	490,248,480
Subscriber cash deposit balances	8,920,759	13,421,145
Accounts receivable	349,036	391,670
Prepaid expenses and other current assets	2,193,273	2,077,244
Short-term investments	1,373,135	1,111,870
Stockholder notes receivable	781,471	-
Total current assets	508,133,403	521,283,112
Property and Equipment, net	502,635	486,265
Capitalized Software Development Costs, net	1,195,944	-
Intangible Assets, net	59,198,830	62,291,727
Goodwill	38,926,907	30,878,907
Other Assets	246,004	370,925
Total assets	<u>\$ 608,203,723</u>	<u>\$ 615,310,936</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities		
Accounts payable	\$ 727,092	\$ 1,025,711
Accrued expenses and other current liabilities	(880,835)	1,353,956
Reserve for processing losses	932,940	1,207,702
Client deposit payment obligations	478,869,127	490,248,480
Subscriber deposit payment obligations	8,920,759	13,421,145
Loans payable, current portion, net	11,229,877	6,935,824
Contingent consideration payable	1,082,000	-
Total current liabilities	500,880,960	514,192,818
Loans Payable, net of current portion, net	206,874,862	135,906,585
Deferred Income Taxes, net	8,422,466	8,680,642
Contingent Consideration, net of current portion	5,000,000	-
Deferred Rent, net of current portion	-	22,395
Total liabilities	721,178,288	658,802,440
Commitments and Contingencies (Notes 5, 10, 11, 12 and 13)		
Stockholders' Deficit		
Series C participating preferred stock, \$0.001 par value	6,765	6,765
Common stock, \$0.001 par value	731	-
Accumulated deficit	(112,982,061)	(43,498,269)
Total stockholders' deficit	(112,974,565)	(43,491,504)
Total liabilities and stockholders' deficit	<u>\$ 608,203,723</u>	<u>\$ 615,310,936</u>

See Notes to Consolidated Financial Statements

Finxera Holdings, Inc.
Consolidated Statements of Income

	Years Ended December 31,	
	2020	2019
Revenue, net	\$ 71,523,483	\$ 67,902,994
Cost of Revenue	4,968,819	4,951,719
Gross profit	66,554,664	62,951,275
Operating Expenses		
General and administrative	24,377,837	18,177,730
Research and development	4,830,206	4,051,625
Sales and marketing	4,633,621	3,092,813
Total operating expenses	33,841,664	25,322,168
Operating Income	32,713,000	37,629,107
Other Income, net	346,029	537,197
Interest Expense	(15,604,844)	(6,303,887)
Debt Extinguishment Costs (Note 5)	(2,563,683)	(962,365)
Acquisition Transaction Expenses (Notes 11 and 13)	(1,112,624)	-
Income Before Income Tax Expense, net	13,777,878	30,900,052
Income Tax Expense, net	2,700,972	7,078,189
Net Income	\$ 11,076,906	\$ 23,821,863

See Notes to Consolidated Financial Statements

Finxera Holdings, Inc.
Consolidated Statements of Stockholders' Equity (Deficit)
Year Ended December 31, 2020 and 2019

	Series C Participating Preferred Stock		Common Stock		Additional Paid-In Capital	Note Receivable from Stockholder	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount				
Balances, December 31, 2018	6,765,302	\$ 6,765	-	\$ -	\$ 47,885,333	\$ (340,288)	\$ 606,092	\$ 48,157,902
Accrued interest on note receivable from stockholder	-	-	-	-	-	(6,628)	-	(6,628)
Reduction in note receivable from stockholder in lieu of payment of bonus	-	-	-	-	-	215,251	-	215,251
Stock-based compensation	-	-	-	-	165,836	-	-	165,836
Dividends paid to Series C participating preferred stockholders	-	-	-	-	(48,051,169)	131,665	(67,926,224)	(115,845,728)
Net income	-	-	-	-	-	-	23,821,863	23,821,863
Balances, December 31, 2019	6,765,302	6,765	-	-	-	-	(43,498,269)	(43,491,504)
Issuance of Class B common stock upon exercise of stock options for cash	-	-	730,855	731	784,111	-	-	784,842
Stock-based compensation	-	-	-	-	203,517	-	-	203,517
Dividends paid to Class B common stockholders	-	-	-	-	(917,750)	-	-	(917,750)
Dividends paid to Series C participating preferred stockholders	-	-	-	-	(69,878)	-	(80,560,698)	(80,630,576)
Net income	-	-	-	-	-	-	11,076,906	11,076,906
Balances, December 31, 2020	6,765,302	\$ 6,765	730,855	\$ 731	\$ -	\$ -	\$ (112,982,061)	\$ (112,974,565)

See Notes to Consolidated Financial Statements

Finxera Holdings, Inc.
Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2020	2019
Cash Flows from Operating Activities		
Net income	\$ 11,076,906	\$ 23,821,863
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,356,826	5,250,248
Amortization of debt discount	3,436,630	1,299,644
Stock-based compensation	203,517	165,836
Accrued interest on loans payable	14,731,897	5,966,608
Deferred income taxes	(258,176)	(409,422)
Accrued interest on notes receivable from stockholder	(1,819)	(6,628)
Changes in operating assets and liabilities, net of business acquisitions:		
Client cash deposit balances	11,379,353	(145,293,965)
Subscriber cash deposit balances	4,500,386	(4,070,326)
Accounts receivable	202,538	(178,529)
Prepaid expenses, other current assets and other assets	21,619	1,935,183
Accounts payable, accrued expenses, other current liabilities and deferred rent	1,517,127	2,217,562
Reserve for processing losses	(274,762)	(993,712)
Client deposit payment obligations	(11,379,353)	145,293,965
Subscriber deposit payment obligations	(4,500,386)	4,070,326
Net cash provided by operating activities	36,012,303	39,068,653
Cash Flows from Investing Activities		
Purchase of property and equipment	(213,863)	(176,056)
Purchase of short-term investments	(3,604,842)	(4,696,259)
Capitalization of software development costs	(1,228,380)	-
Cash paid for business acquisitions	(4,159,440)	-
Issuance of notes receivable to stockholders	(779,652)	-
Proceeds from distribution of investment	87,263	-
Decrease in deposits	-	15,728
Net cash used in investing activities	(9,898,914)	(4,856,587)
Cash Flows from Financing Activities		
Proceeds from loans payable, net	85,504,907	97,227,393
Repayment of principal on loans payable	(13,700,000)	(4,850,000)
Repayment of interest on loans payable	(15,540,913)	(5,125,116)
Dividends paid to Series C participating preferred stockholders	(80,630,576)	(115,845,728)
Dividends paid to Class B common stockholders	(917,750)	-
Proceeds from issuance of common stock	784,842	-
Net cash used in by financing activities	(24,499,490)	(28,593,451)
Net Increase in Cash, Cash Equivalents and Restricted Cash	1,613,899	5,618,615
Cash, Cash Equivalents and Restricted Cash, beginning of year	14,032,703	8,414,088
Cash, Cash Equivalents and Restricted Cash, end of year	<u>\$ 15,646,602</u>	<u>\$ 14,032,703</u>

(continued)

Finxera Holdings, Inc.
Consolidated Statements of Cash Flows (continued)

	Years Ended December 31,	
	2020	2019
Cash and Cash Equivalents	\$ 13,071,816	\$ 11,448,870
Restricted Cash	2,574,786	2,583,833
Total cash, cash equivalents and restricted cash	<u>\$ 15,646,602</u>	<u>\$ 14,032,703</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid for income taxes	\$ 1,109,900	\$ 6,150,308
Cash paid for interest	<u>\$ 15,540,913</u>	<u>\$ 5,125,116</u>
Supplemental Schedule of Non-Cash Investing and Financing Activities		
Proceeds from loans payable used to pay previous loans payable, related fees and accrued but unpaid interest	<u>\$ 146,438,843</u>	<u>\$ 51,835,107</u>
Reduction of investment in connection with the generation of income tax credits	<u>\$ 3,251,581</u>	<u>\$ 4,048,882</u>
Proceeds withheld from distribution in lieu of payment of accrued expenses	<u>\$ 4,733</u>	<u>\$ -</u>
Reduction in note receivable from stockholder in lieu of payment of bonus	<u>\$ -</u>	<u>\$ 215,251</u>
Reduction in note receivable from stockholder in lieu of payment of dividend	<u>\$ -</u>	<u>\$ 131,665</u>
Supplemental Schedule of Investing and Financing Activities		
Assets acquired in business acquisitions (Note 11):		
Accounts receivable	\$ 159,904	\$ -
Prepaid expenses and other current assets	12,727	-
Total assets acquired	<u>172,631</u>	<u>-</u>
Liabilities assumed in business acquisitions (Note 11):		
Accounts payable, accrued expenses and other current liabilities	13,191	-
Net assets acquired	<u>159,440</u>	<u>-</u>
Excess of purchase price over the assets acquired and liabilities assumed recorded as:		
Intangible assets	2,034,000	-
Goodwill	8,048,000	-
Total net assets acquired	<u>\$ 10,241,440</u>	<u>\$ -</u>
Purchase price of business acquisitions (Note 11):		
Cash payment	\$ 4,159,440	\$ -
Contingent consideration payable	6,082,000	-
Total purchase price	<u>\$ 10,241,440</u>	<u>\$ -</u>

See Notes to Consolidated Financial Statements

Finxera Holdings, Inc.
Notes to Consolidated Financial Statements

1. Nature of Business

Finxera Holdings, Inc. (Holdings or the Company) was incorporated as a Delaware corporation on June 28, 2018 (inception).

Effective, June 29, 2018, the Company established Finxera Intermediate, LLC (Intermediate), a Delaware limited liability company (LLC) and a wholly-owned subsidiary of the Company.

Holdings and Intermediate were established by a private equity firm (the Acquirer) to facilitate the acquisition (the 2018 Acquisition) of Finxera, Inc. (Finxera), an operating entity headquartered in San Jose, California, and incorporated under the laws of the State of California. Effective November 2, 2018, the 2018 Acquisition was finalized at which point Finxera became a wholly-owned subsidiary of Intermediate.

Finxera is a financial technology company developing and maintaining workflow automation and financial services solutions, which it provides to corporate clients and consumers. Finxera's primary operations consist of a custom payment processing platform it developed to service the debt settlement industry, under which the platform supports debt settlement service providers (Subscribers) and their end users (Clients) (Note 2). Finxera's platform supports credit card processing, automated clearing house (ACH) debits, electronic bill payments, physical checks and other payment forms. Consumers use these services through the web or integrated customer relationship management (CRM) software.

Finxera is also licensed to perform money transmission, and has received money transmitter licenses (MTLs) from the state of California, as well as 45 other states, Puerto Rico, and Washington D.C. As a licensed money transmitter, under the subscriber agreements, Finxera contracts directly with Clients; however, all of the Company's payment services are carried out in connection with chartered financial institutions (Partner Banks) with which the Company has performed technical integration.

Effective August 8, 2019, Finxera entered into an operating agreement (the Operating Agreement) with Enhanced Capital RETC Fund XII, LLC (Enhanced Capital), a Delaware LLC. Under the terms of the Operating Agreement, Finxera obtained 100% membership interest in Enhanced Capital. Enhanced Capital was established as an investment company which the Finxera uses to invest in renewable energy projects generating income tax credits (Capital Investments) (Note 3).

2. Significant Accounting Policies

Basis of Presentation and Principles of Consolidation:

The consolidated financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S.).

Finxera Holdings, Inc.
Notes to Consolidated Financial Statements

2. Significant Accounting Policies (continued)

Basis of Presentation and Principles of Consolidation: (continued)

The consolidated financial statements include the accounts of Holdings, Intermediate, Finxera, Enhanced Capital, and Finxera India Private Limited (Finxera India), which is a wholly-owned subsidiary of Finxera. All material intercompany accounts and transactions have been eliminated in consolidation.

Foreign Currency Translation:

The functional currency of Finxera India is the Indian rupee, while the Company's reporting currency is the U.S. dollar. Assets and liabilities of Finxera India are translated into U.S. dollars at the exchange rate in effect at the balance sheet date. Revenue and expenses are translated at the average exchange rate in effect during the period. The Company's transactions are predominantly in U.S. dollars. Foreign exchange translation and transaction gains and losses have not been material for the period presented and are included in the consolidated statements of income.

Acquisition Accounting:

In 2020, Finxera acquired two businesses (collectively, the Acquisitions) through asset purchase agreements (the APAs). In connection with the Acquisitions, Finxera recorded all assets acquired and liabilities assumed at fair value. In deriving fair value, Finxera performed purchase price allocations, resulting in a new accounting basis for the assets acquired and liabilities assumed, including the recording of substantial intangible assets and goodwill (Note 11).

Revenue Recognition:

The Company recognizes revenue in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers* (Topic 606). Revenue is derived primarily from enrollment fees, monthly subscription fees, and transaction-based fees (collectively, Client-Based Revenue), all of which are defined under contracts executed between the Client and the Company. The Company also earns interest revenue (Interest Revenue) on certain Client cash deposit balances.

The Company determines revenue recognition through the following steps:

- Identification of the contract, or contracts, with the customer or Client
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, the Company satisfies a performance obligation

Finxera Holdings, Inc.
Notes to Consolidated Financial Statements

2. Significant Accounting Policies (continued)

Revenue Recognition: (continued)

The Company has determined each performance obligation under Client contracts is distinct, and the transaction price, as defined in the contracts, depicts the relative amount of consideration the Company expects to receive in exchange for satisfying each performance obligation.

The revenue associated with enrollment fees is recognized upon the receipt of a fully executed enrollment application, completion of the customer account setup, data verification, and the constructive receipt of the applicable non-refundable fee.

The Company recognizes monthly subscription fees each month as a recurring maintenance fee during the term of the Client's enrollment.

Revenue from transaction-based fees is recognized upon constructive receipt of transaction fees for payments to creditors issued ACH payments, paper check or wire transfer. These fees are transferred to the Company from the Client account balances, which may be maintained by the Company in MTL trust accounts or by Partner Banks (Note 12).

Interest revenue is derived from certain Client cash deposit balances maintained in interest bearing accounts with select Partner Banks. In connection with these Client cash deposit balances, the Company recognized \$5,080,000 in interest revenue in 2020 (\$8,450,000 in 2019), which is included within net revenue in the consolidated statements of income.

Major Customers:

The Company had no major customers in 2020 or 2019. Major customers are defined as consumers generating greater than 10% of the Company's annual net revenue. However, in 2020 and 2019, the Company worked with certain Subscribers through which the aggregate Client-Based Revenue generated from the clients of those specific Subscribers was greater than 10% of the Company's annual net revenue, but because the Client-Based Revenue derived through these Subscribers is generated from the individual clients, the Company does not consider any of its Subscribers to be a major customer.

Cost of Revenue:

Cost of revenue is comprised primarily of bank fees related to the Company's transaction revenue, processing losses, commissions, and costs related to the Company's consumer support infrastructure.

Finxera Holdings, Inc.
Notes to Consolidated Financial Statements

2. Significant Accounting Policies (continued)

Commissions Paid:

Under the terms of the Company's commission policy, a majority of the commissions are paid at inception of the consumer contract and are not refundable to the Company by dealers and agents. As sales commissions are considered incremental and recoverable costs of obtaining a contract with a consumer, Topic 606 requires the sales commissions be capitalized and amortized over the period of benefit received from the commissions. The Company has evaluated its commission policy and determined capitalizing its commission expense would not have a material effect on the Company's consolidated financial statements and has elected to expense all commission costs as incurred.

Research and Development Costs:

Research and development costs are expensed as incurred and consist primarily of salaries and related expenses and consulting expenses.

Advertising Costs:

The Company expenses advertising and promotion costs as incurred in sales and marketing expense in the consolidated statements of income. Advertising and promotion expense was \$41,000 in 2020 (\$169,000 in 2019).

Cash and Cash Equivalents:

Cash and cash equivalents include all cash balances and highly liquid investments purchased with a remaining maturity of three months or less. At December 31, 2020 and 2019, cash and cash equivalents consists of cash and money market funds. The recorded carrying value of cash equivalents approximates their face value.

Restricted Cash:

The Company's restricted cash consists of reserved funds to reimburse select Clients and certain funds held by Partner Banks to collateralize the shared settlement accounts with customers.

Short-Term Investments:

At December 31, 2020 and 2019, the Company's short-term investments are comprised of certificates of deposit and Capital Investments made through Enhanced Capital. The certificates of deposit have remaining maturities greater than three months, but less than twelve months. The Capital Investments are expected to be returned in the form of income tax credits in less than twelve months.

Finxera Holdings, Inc.
Notes to Consolidated Financial Statements

2. Significant Accounting Policies (continued)

Concentration of Credit Risk:

Financial instruments that potentially subject the Company to concentration of credit risk consist of cash and cash equivalents, restricted cash, Client cash deposit balances, Subscriber cash deposit balances and the certificates of deposit (collectively, Cash Deposits). The Company maintains its Cash Deposits at eight domestic and two foreign financial institutions at December 31, 2020 (six domestic and two foreign financial institutions at December 31, 2019).

The Company is exposed to credit risk in the event of default by domestic financial institutions to the extent the cash and cash equivalent deposits are in excess of the amount insured by the Federal Deposit Insurance Corporation (FDIC). These balances exceeded the insurable limit during 2020 and 2019 and, at December 31, 2020, cash and cash equivalents exceeding federally insured limits totaled \$14,709,363 which includes restricted cash (\$13,406,104 at December 31, 2019, which includes restricted cash).

At December 31, 2020, the Company has cash and cash equivalents balances of \$187,400 and short-term investments of \$1,158,300 in two foreign financial institutions, which are not insured by the FDIC (cash equivalents balances of \$127,100 and short-term investments of \$626,000 at December 31, 2019). The Company has not experienced any losses on its Cash Deposits since inception.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Stock-Based Compensation:

Effective January 1, 2020, the Company adopted the requirements of Accounting Standards Update (ASU) 2018-07, *Improvements to Nonemployee Share-Based Payment Accounting*. ASU 2018-07 is an update to Topic 718 and simplifies the accounting for share-based payments to non-employees by aligning it with the accounting for share-based payments to employees, with certain exceptions. The main provision of ASU 2018-07 requires the measurement of all share-based equity classified awards will be fixed at the grant date. Management determined that the adoption of ASU 2018-07 did not result in a material change to accumulated deficit at January 1, 2020, nor did it result in material changes to the Company's accounting policies for its stock options. All amounts and disclosures set forth in these consolidated financial statements and accompanying notes comply with the new standard.

Finxera Holdings, Inc.
Notes to Consolidated Financial Statements

2. Significant Accounting Policies (continued)

Stock-Based Compensation: (continued)

The Company generally grants stock options to employees and non-employees for a fixed number of shares with an exercise price equal to the fair value of the underlying shares at the date of grant. Fair value is determined by the Company's Board of Directors. The Company accounts for these options under FASB ASC Topic 718-10, *Compensation - Stock Compensation*. Under Topic 718-10, all stock option grants are accounted for using the fair value method and compensation is recognized as the underlying options vest.

Fair Value Measurement:

The Company uses a three-level hierarchy, which prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information for fair value measurement based on the nature of inputs used in the valuation of an asset or liability as of the measurement date. Fair value focuses on an exit price and is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The inputs or methodology used for valuing financial instruments are not necessarily an indication of the risk associated with those instruments.

The three-level hierarchy for fair value measurement is defined as follows:

- Level I:** Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level II:** Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level III:** Inputs to the valuation methodology, which are significant to the fair value measurement, are unobservable.

An asset or liability's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Finxera Holdings, Inc.
Notes to Consolidated Financial Statements

2. Significant Accounting Policies (continued)

Fair Value Measurement: (continued)

At December 31, 2020 and 2019, the Company's certificates of deposit and the assets held by the Company's cash benefit plan (the DB Plan) (Note 10) are all classified within Level I of the fair value hierarchy. The Company's certificates of deposit are valued at cost, which approximates fair value, and the assets held by the DB Plan are valued at the net asset value (NAV) of shares held by the DB Plan at year end based on quoted prices on active markets.

At December 31, 2020 and 2019, the fair value of the Company's Capital Investments is estimated based on the Company's percentage interest in the net assets of the funds and projects (the Affiliated Funds) in which Enhanced Capital has invested, net of any income tax credits generated.

These investments carried by the Affiliated Funds are valued at estimated fair value as determined by the Enhanced Capital RETC Manager, LLC (the Manager) (Note 3) and/or the managing members of the Affiliated Funds, after giving consideration to operating results, financial condition, recent sales prices of issuers' securities and other pertinent information. Because of the uncertainty of valuations, however, these estimated values may differ from the values that would have been used had a ready market for the investments existed, and the differences could be material. The Affiliated Funds may also have risk associated with their concentration in certain geographical regions and in certain industries.

The following table presents the financial instruments carried at fair value at December 31, 2020 by the three-level valuation hierarchy:

	Level I	Level II	Level III	Total
Certificates of Deposit	\$ 1,158,300	\$ -	\$ -	\$ 1,158,300
Capital Investments	-	-	214,835	214,835
	<u>\$ 1,158,300</u>	<u>\$ -</u>	<u>\$ 214,835</u>	<u>\$ 1,373,135</u>

The following table presents the financial instruments carried at fair value at December 31, 2019 by the three-level valuation hierarchy:

	Level I	Level II	Level III	Total
Certificates of Deposit	\$ 626,007	\$ -	\$ -	\$ 626,007
Capital Investments	-	-	485,863	485,863
	<u>\$ 626,007</u>	<u>\$ -</u>	<u>\$ 485,863</u>	<u>\$ 1,111,870</u>

Finxera Holdings, Inc.
Notes to Consolidated Financial Statements

2. Significant Accounting Policies (continued)

Fair Value Measurement: (continued)

In 2020, Finxera contributed \$3,145,383 to Enhanced Capital of which \$3,072,549 was in turn invested in various Capital Investments at the direction of the Company and the Manager (\$4,615,722 was contributed in Enhanced Capital in 2019, of which \$4,534,745 was invested in various Capital Investments at the direction of the Company and the Manager) (Note 3). These investments are classified by the Company within Level III of the fair value hierarchy at December 31, 2020 and 2019.

There were no fair value transfers in or out of Level III in 2020 or 2019.

Property and Equipment:

Property and equipment is stated at cost. The Company depreciates property and equipment using the straight-line method over their estimated useful lives, ranging from three to ten years. Leasehold improvements are amortized over the shorter of the estimated useful life of the asset or the lease term. Depreciation and amortization expense was \$197,493 in 2020 (\$143,156 in 2019).

Software Development Costs:

The Company recognizes costs for the development of internal use software by expensing all costs incurred relating to the planning and post-implementation phases of development. Upon the achievement of technological feasibility, costs incurred in the development phase, including upgrades and enhancements, if it is probable such expenditures will result in additional functionality, are capitalized and amortized over an estimated useful life of three years. The amortization period for any capitalized software commences upon the post-implementation stage, when the software is placed into service.

The determination of technological feasibility and the ongoing assessment of the recoverability of these costs require considerable judgment by management with respect to certain external factors, including anticipated future gross revenue, estimated economic life and changes in hardware and software technology. Prior to 2020, the Company had not capitalized any costs related to software development, as management determined the impact to the consolidated financial statements would not have been material.

Finxera Holdings, Inc.
Notes to Consolidated Financial Statements

2. Significant Accounting Policies (continued)

Software Development Costs: (continued)

In 2020, the Company committed to further developing its CRM platform, at which time management determined the development costs to be incurred and eligible for capitalization were expected to be material. As a result, the Company began capitalizing all eligible software development costs. Under this policy, the Company capitalized \$1,228,380 of software development costs in 2020, of which \$925,238 related to the Company's CRM platform, \$154,762 related to its mobile application, and the remaining \$148,380 related to various software development projects. In connection with the software development costs capitalized, \$1,073,618 is in process and has not been placed into service at December 31, 2020. Amortization expense related to the capitalized software development costs was \$32,436 in 2020. At December 31, 2020, the net book value of the capitalized software development costs is \$1,195,944.

Annual amortization expense is expected to be as follows:

Years ending December 31:

2021	\$ 345,010
2022	410,607
2023	347,722
2024	<u>92,605</u>
	<u>\$ 1,195,944</u>

Intangible Assets:

Intangible assets consist of certain partner relationships, customer relationships, developed technology, licenses and in-process technology acquired in connection with the acquisition of Finxera, as well as customer relationships, developed technology, trademarks and non-compete agreements acquired in the Acquisitions (Note 9).

These intangible assets are being amortized over their estimated useful lives of 38 months to 108 months, except for the partner relationships and licenses acquired from Finxera, valued at \$48,030,000, which have been determined to have indefinite useful lives, and are not amortized. The Company recognized amortization expense of \$5,126,897 in 2020 (\$5,107,092 in 2019).

Finxera Holdings, Inc.
Notes to Consolidated Financial Statements

2. Significant Accounting Policies (continued)

Accounting for Impairment of Long-Lived Assets:

Long-lived assets consist of property and equipment, capitalized software development costs, and intangible assets. The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets held and used is measured by comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of their carrying cost or fair value less cost to sell. The Company did not record any expense related to asset impairment in 2020 or 2019.

Goodwill:

Goodwill represents the excess of the purchase price of assets acquired in the 2018 Acquisition and the Acquisitions, over the estimated fair value of the assets acquired. Goodwill relating to the 2018 Acquisition was valued at \$20,889,807 on the date of acquisition and includes the value of the acquired workforce. Concurrent with the 2018 Acquisition, the Company recognized a deferred income tax liability of \$9,989,000 associated with the intangible assets acquired, which was recorded as an increase to goodwill. Goodwill relating to the Acquisitions was valued at \$8,048,000 on the date of acquisition and also includes the value of the acquired workforce.

Goodwill is not amortized, but it is subject to impairment. The Company tests goodwill annually for impairment or whenever events or circumstances indicate the carrying amount may not be recoverable. If the carrying amount of goodwill exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the goodwill over the implied fair value of the goodwill. The Company did not record an impairment of its goodwill in 2020 or 2019.

Money Transmitter Licensing Regulations:

As a licensed money transmitter, Finxera is subject to certain restrictions and requirements, including reporting, net worth and surety bonding requirements, and requirements for regulatory approval of controlling stockholders, agent locations, and consumer forms and disclosures. Finxera is also subject to inspection by the regulators in the jurisdictions in which it is licensed, many of which conduct regular examinations.

Finxera Holdings, Inc.
Notes to Consolidated Financial Statements

2. Significant Accounting Policies (continued)

Money Transmitter Licensing Regulations: (continued)

Finxera adheres to certain regulations in order to comply with reporting requirements mandated by certain states and jurisdictions in which it operates as a licensed money transmitter as follows:

Client Accounts:

For all Client accounts, Finxera must maintain “permissible investments” in an amount equivalent to all “outstanding payment obligations” associated with Client accounts. The definition and interpretation of outstanding payment obligations may vary by jurisdiction and, in some cases, may include the balances held on behalf of Clients even though technically, the outstanding payment obligations represented by these balances are liabilities of the Partner Bank. The types of securities considered to be “permissible investments” vary from state to state, but generally include cash and cash equivalents. The total value of the Client accounts maintained at December 31, 2020 and 2019 are reflected by the Client cash deposit balances included on the consolidated balance sheets.

Client Cash Deposit Balances:

The Client cash deposit balances totaled \$478,869,127 at December 31, 2020, (\$490,248,480 at December 31, 2019) as reflected on the consolidated balance sheets, and are comprised solely of cash and cash equivalents in fully FDIC insured accounts with certain Partner Banks (Note 12). These Client cash deposit balances are readily accessible upon demand by the Client, and Finxera does not generally commingle the assets underlying the Client balances with Company funds. The assets underlying the Client cash deposit balances are classified as current based on their purpose and availability to fulfill the direct obligation.

Client Deposit Payment Obligations:

The total “outstanding payment obligations” associated with the Client cash deposit balances included within the Client accounts totaled \$478,869,127 at December 31, 2020, (\$490,248,480 at December 31, 2019), and is reflected as Client deposit payment obligations included in the consolidated balance sheets.

Finxera Holdings, Inc.
Notes to Consolidated Financial Statements

2. Significant Accounting Policies (continued)

Subscriber Accounts:

In connection with the deposit services Finxera provides to Clients of Subscribers, Finxera processes and holds title to cash and cash equivalents on behalf of the Subscribers. Finxera accounts for these Subscriber balances as follows:

Subscriber Cash Deposit Balances:

Finxera classifies the cash and cash equivalents held on behalf of the Subscribers as Subscriber cash deposit balances. The Subscriber cash deposit balances represent cash and cash equivalents in fully FDIC insured accounts with certain Partner Banks opened for the benefit of the Subscribers. The Subscriber cash deposit balances totaled \$8,920,759 at December 31, 2020, (\$13,421,145 at December 31, 2019), as reflected on the consolidated balance sheets.

Subscriber Deposit Payment Obligations:

The total “outstanding payment obligations” associated with the Subscriber cash deposit balances included within the Subscriber accounts totaled \$8,920,759 at December 31, 2020, (\$13,421,145 at December 31, 2019), and is reflected as Subscriber deposit payment obligations included in the consolidated balance sheets.

Escheatment Reserves:

Unclaimed property laws of every U.S. jurisdiction require the Company to account for certain information on all Client cash deposit balances. The Company maintains specific reserves for refund payments to Clients that are unclaimed at the end of an applicable statutory abandonment period. Statutory abandonment periods for payment instruments range from three to seven years, and the Company has an ongoing program designed to comply with escheatment laws as they apply to its business. At December 31, 2020, the associated escheatment reserves amounted to \$574,786 (\$582,354 at December 31, 2019) and is included within accrued expenses and other current liabilities the consolidated balance sheets.

Reserve for Processing Losses:

Finxera maintains a reserve for processing losses to ensure it has adequate cash to meet all liabilities associated with processing consumer transactions. Finxera recognizes losses in two general categories: a) when payments exceed total balance due to late posting of returns or other decrements to a Client’s balance which cannot be recovered as of the period end and b) when bank-initiated debits against a Finxera clearing account which cannot be attributed to a specific Client balance at the period end.

Finxera Holdings, Inc.
Notes to Consolidated Financial Statements

2. Significant Accounting Policies (continued)

Reserve for Processing Losses: (continued)

The current processing loss reserve amount reflects the differences accumulated as of the reporting date. The Company is consistently reconciling this reserve as part of its monthly reporting process, in order to properly clear and reduce the balances, while still maintaining an appropriate reserve to meet potential liabilities associated with the Client accounts and consumer transactions. At December 31, 2020, the associated processing loss reserves amounted to \$932,940 (\$1,207,702 at December 31, 2019) and is reflected as a current liability in the consolidated balance sheets.

Income Taxes:

The Company accounts for income taxes using the asset and liability method. Under this method, deferred income tax assets and liabilities are recorded based on the estimated future income tax effects of differences between the financial statement and income tax basis of existing assets and liabilities. Deferred income tax assets and liabilities are recorded net and classified as noncurrent on the consolidated balance sheets. A valuation allowance is provided against the Company's deferred income tax assets when their realization is not reasonably assured.

Recent Accounting Pronouncement Not Yet Effective:

Leases:

In February 2016, the FASB issued ASC Topic 842, *Leases*. This standard requires all entities that lease assets under leases with terms of more than 12 months to capitalize the assets and related lease liabilities in the balance sheet.

This standard is effective for the Company as of January 1, 2022 and requires the use of a modified retrospective transition approach for its adoption. The Company is currently evaluating the effect Topic 842 will have on its consolidated financial statements and related disclosures. Management expects the assets leased under operating leases, similar to the leases disclosed in Note 12, will be capitalized together with the related lease obligations on the consolidated balance sheet upon the adoption of Topic 842.

Reclassifications:

Certain reclassifications have been made to prior year balances to conform with current year presentation.

Finxera Holdings, Inc.
Notes to Consolidated Financial Statements

3. Enhanced Capital

In 2019, immediately after entering into the Operating Agreement with Enhanced Capital (Note 1), the Company entered into a service agreement (the Service Agreement) with the Manager (Note 2). Under the terms of the Service Agreement, the Manager is to provide Enhanced Capital various management services in connection with the procurement of investments and originating investment transactions with the Affiliated Funds, that are intended to generate income tax credits for the use of the Company, as well as an annual return on the Company's investment. In connection with these services, the Manager is entitled to a one-time management fee of 2% of all income tax credits generated during any given calendar year, as well as the ability to generate a more substantial incentive-based management fee, as described under the Service Agreement.

In 2019, Finxera contributed \$4,615,722 to Enhanced Capital, of which \$80,977 was paid to the Manager in connection with management fees charged, and the remaining \$4,534,745 was invested into various Capital Investments (Note 2) at the direction of the Company and the Manager. In connection with these Capital Investments, Enhanced Capital estimated the income tax credits to be received for 2019 were \$4,048,882, which was recorded as a direct reduction in the value of the investments, of which the remaining investments were \$485,863 at December 31, 2019.

In 2019, Enhanced Capital also recognized \$57,501 in income tax benefit associated with pass-through losses incurred by the funds comprising the Capital Investments. At December 31, 2019, the combined benefit of the \$57,501 in pass-through losses and the \$4,048,882 in estimated income tax credits was \$4,106,383, which was classified as a direct offset to the Company's income tax payable, included within accrued expenses and other current liabilities, net, on the consolidated balance sheet.

In 2020, Finxera contributed an additional \$3,145,383 to Enhanced Capital, of which \$72,834 was paid to the Manager in connection with management fees charged, and the remaining \$3,072,549 was invested to various Capital Investments at the direction of the Company and the Manager. In connection with these Capital Investments, Enhanced Capital estimated the income tax credits to be received for 2020 were \$3,251,581, net of adjustments related to the 2019 estimate, which was recorded as a direct reduction in the value of the investments. In 2020, Enhanced Capital also received a distribution of \$91,996 in connection with its Capital Investments, which was recorded as a direct reduction in the investments. The cash proceeds received in connection with the distribution was \$87,263, as the remaining \$4,733 had been held back to pay additional fees charged by the Manager. At December 31, 2020, the remaining investments were \$214,825.

In 2020, Enhanced Capital also recognized \$1,022,343 in income tax benefit associated with pass-through losses incurred by the funds comprising the Capital Investments. At December 31, 2020, the combined benefit of the \$1,022,343 in pass-through losses and the \$3,251,581 in income tax credits was \$4,272,924, which was classified as a direct offset to the Company's income tax payable, included within accrued expenses and other current liabilities, net, on the consolidated balance sheet.

Finxera Holdings, Inc.
Notes to Consolidated Financial Statements

4. Balance Sheet Details

Property and Equipment:

Property and equipment consists of the following at December 31:

	<u>2020</u>	<u>2019</u>
Leasehold improvements	\$ 247,824	\$ 311,905
Computers and equipment	338,608	253,935
Vehicles	126,195	73,565
Furniture and fixtures	<u>165,507</u>	<u>24,866</u>
	878,134	664,271
Less accumulated depreciation and amortization	<u>375,499</u>	<u>178,006</u>
	<u>\$ 502,635</u>	<u>\$ 486,265</u>

Intangible Assets:

Intangible assets consist of the following at December 31:

	<u>2020</u>	<u>2019</u>
Partner relationships	\$ 45,900,000	\$ 45,900,000
Customer relationships	13,491,000	11,900,000
Developed technology	7,767,000	7,500,000
Licenses	2,130,000	2,130,000
In-process technology	820,000	820,000
Trademarks	123,000	-
Non-compete agreements	<u>53,000</u>	<u>-</u>
	70,284,000	68,250,000
Less accumulated amortization	<u>11,085,170</u>	<u>5,958,273</u>
	<u>\$ 59,198,830</u>	<u>\$ 62,291,727</u>

Finxera Holdings, Inc.
Notes to Consolidated Financial Statements

4. Balance Sheet Details (continued)

Intangible Assets: (continued)

Annual amortization expense, which is based on the value of the intangible assets and their estimated useful lives, is expected to be as follows:

Years ending December 31:

2021	\$ 5,366,614
2022	1,608,735
2023	1,608,735
2024	1,607,630
2025	246,296
Thereafter	<u>730,820</u>
	<u>\$ 11,168,830</u>

Accrued Expenses and Other Current Liabilities:

Accrued expenses and other current liabilities, net, consists of the following at December 31:

	<u>2020</u>	<u>2019</u>
Income tax payable (receivable), net	\$ (2,848,046)	\$ (1,300,285)
Accrued interest on term loans (Note 5)	43,324	873,133
Escheatment reserve	574,786	582,354
Employee-related liabilities, including bonus and salaries	566,123	487,279
Professional and other general expenses	342,284	342,074
Reserve for uncertain tax positions (Note 7)	227,566	318,436
Company contributions to employee benefit plans (Note 10)	175,706	35,938
Deferred rent, current portion	<u>37,422</u>	<u>15,027</u>
	<u>\$ (880,835)</u>	<u>\$ 1,353,956</u>

5. Borrowings

In November 2018, in connection with the 2018 Acquisition, the Company entered into a credit agreement (the 2018 Credit Agreement) with two lenders. Under the terms of the 2018 Credit Agreement, the Company borrowed a total of \$50,000,000, under two separate terms loans comprised of \$40,000,000 (Term Loan 1) and \$10,000,000 (Term Loan 2) (collectively, the 2018 Term Loans). The 2018 Credit Agreement also provided a line of credit (the 2018 LOC), which allowed for borrowings up to \$5,000,000.

Finxera Holdings, Inc.
Notes to Consolidated Financial Statements

5. Borrowings (continued)

Outstanding borrowings under the 2018 Term Loans bore interest at a variable rate, with Term Loan 1 and Term Loan 2 bearing interest at the LIBOR then in effect plus 5.0% and 4.0%, respectively. At December 31, 2018, the entire \$50,000,000 in borrowings was outstanding under the 2018 Term Loans. During the first seven months of 2019, the Company repaid \$350,000 of the outstanding borrowings under the 2018 Term Loans, along with \$2,687,597 in interest expense (including the \$297,885 in accrued interest from 2018), and, in August 2019, the Company refinanced its credit facility (the 2019 Refinancing). In connection with the 2019 Refinancing, the Company utilized the proceeds from a new debt facility (discussed below) to repay the remaining \$49,650,000 outstanding.

Under the 2018 LOC, all outstanding borrowings plus accrued, but unpaid, interest were to become due in full at the earlier of November 2, 2023 or upon the termination of the initial revolving credit commitment, as described in the 2018 Credit Agreement. Outstanding borrowing under the 2018 LOC accrued interest at the LIBOR then in effect plus 5.0%. The Company did not draw down against the 2018 LOC in 2019 or 2018.

In connection with the 2018 Credit Agreement, the Company was required to pay a total of \$1,138,833 in origination fees and other lender costs associated with the borrowings (the 2018 Origination Costs). The 2018 Origination Costs were withheld directly from the \$50,000,000 borrowed under the 2018 Term Loans, resulting in the Company receiving \$48,861,167 in net cash proceeds which were used in connection with the Acquisition.

The Company recognized the 2018 Origination Costs as a discount to the 2018 Term Loans, which was being amortized to interest expense ratably over the loan terms. The unamortized discount was \$1,100,872 at December 31, 2018. In 2019, the Company recognized an additional \$138,507 of interest expense related to the debt discount prior to the 2019 Refinancing, at which time the unamortized debt discount of \$962,365 was expensed to debt extinguishment costs included in the consolidated statements of income.

In August 2019, as part of the 2019 Refinancing, the Company entered into a new credit agreement (the 2019 Credit Agreement) with four lenders, which allowed for borrowings up to \$155,000,000. The 2019 Credit Agreement was segmented into two parts, a term loan (the 2019 Term Loan) and a revolving line of credit (the 2019 LOC). The 2019 Term Loan allowed for borrowings up to \$150,000,000 and, in August 2019, the Company borrowed the full amount. In connection with these borrowings, \$51,835,107 was withheld directly from the \$150,000,000 borrowed in order to repay the outstanding balance on the 2018 Term Loans, including \$266,244 in accrued but unpaid interest, and \$1,918,863 in loan origination costs related to the 2019 Term Loan (discussed below), resulting in the Company receiving \$98,164,893 in net cash proceeds.

Finxera Holdings, Inc.
Notes to Consolidated Financial Statements

5. Borrowings (continued)

Outstanding borrowings under the 2019 Term Loan bore interest at a variable rate based on the LIBOR then in effect plus 5.0% (6.94% at December 31, 2019). The 2019 Term Loan required monthly interest only payments and quarterly principal payments of \$1,875,000 beginning September 27, 2019 through its maturity date on August 27, 2024 (the Initial Maturity Date), at which time a final balloon payment of \$111,750,000 was due in full.

In 2019, the Company repaid \$4,500,000 in principal associated with the 2019 Term Loan and recognized \$3,310,652 in interest expense, of which \$2,437,519 was paid and the remaining \$873,133 was accrued at December 31, 2019 and included within accrued expenses and other current liabilities on the consolidated balance sheet. At December 31, 2019, \$145,500,000 was outstanding under the 2019 Term Loan. During the first two months of 2020, the Company repaid \$700,000 of the outstanding borrowings under the 2019 Term Loan, along with \$2,469,343 in interest expense (including the \$873,133 in accrued interest from 2018), and, in February 2020, the Company refinanced its credit facility (the 2020 Refinancing). In connection with the 2020 Refinancing, the Company utilized the proceeds from a new debt facility (discussed below) to repay the remaining \$144,800,000 outstanding.

Under the 2019 LOC, all outstanding borrowings plus accrued, but unpaid, interest become due in full at the earlier of the Initial Maturity Date or upon the termination of the initial revolving credit commitment, as described in the 2019 Credit Agreement. Outstanding borrowing under the 2019 LOC accrue interest at the LIBOR then in effect plus 4.0% (5.94% at December 31, 2019). The Company did not draw down against the 2019 LOC in 2020 or 2019.

In connection with the 2019 Credit Agreement, the Company was required to pay a total of \$2,856,363 in origination fees, legal fees, and other lender costs associated with the borrowings (the 2019 Origination Costs). Of the \$2,856,363 in 2019 Origination Costs, \$1,918,863 were withheld directly from the \$150,000,000 borrowed under the 2019 Term Loan (as discussed above) and the remaining \$937,500 were paid directly by the Company. The Company recognized the 2019 Origination Costs as a discount to the Term Loan, which was being amortized to interest expense ratably over the loan terms. The Company recognized \$198,772 of interest expense related to the 2019 Origination Costs in 2019 and the unamortized discount was \$2,657,591 at December 31, 2019. In 2020, the Company recognized an additional \$93,908 of interest expense related to the debt discount prior to the 2020 Refinancing, at which time the unamortized debt discount of \$2,563,683 was expensed to debt extinguishment costs included in the consolidated statements of income.

Finxera Holdings, Inc.
Notes to Consolidated Financial Statements

5. Borrowings (continued)

In February 2020, as part of the 2020 Refinancing, the Company entered into a new credit agreement (the 2020 Credit Agreement) with eight lenders, which allowed for borrowings up to \$240,000,000. The 2020 Credit Agreement was segmented into two parts, a term loan (the 2020 Term Loan) and a revolving line of credit (the 2020 LOC). The 2020 Term Loan allowed for borrowings up to \$235,000,000 and, in March 2020, the Company borrowed the full amount. In connection with these borrowings, \$146,438,843 was withheld directly from the \$235,000,000 borrowed in order to repay the outstanding balance on the 2019 Term Loan, including \$20,793 in accrued but unpaid interest, and \$1,618,050 in loan origination costs related to the 2020 Term Loan (discussed below), resulting in the Company receiving \$88,561,157 in net cash proceeds.

Outstanding borrowings under the 2020 Term Loan bear interest at a variable rate based on the LIBOR then in effect plus 5.5% (5.65% at December 31, 2020). The 2020 Term Loan requires monthly interest only payments and quarterly principal payments of \$3,042,991 beginning June 31, 2020 through December 31, 2024, with a final a final balloon payment of \$177,183,000 due in full on February 14, 2025 (the Maturity Date). Under the 2020 Term Loan, the final balloon payment was to be \$177,183,171; however, in 2020, the Company prepaid \$3,871,027 in principal which was applied against the final balloon payment. In 2020, the Company repaid \$13,000,000 in principal associated with the 2020 Term Loan, including the \$3,871,027 prepayment, and also recognized \$13,114,894 in interest expense of which \$13,071,570 was paid and the remaining \$43,324 is accrued at December 31, 2020, and included within accrued expenses and other current liabilities on the consolidated balance sheet. At December 31, 2020, \$222,000,000 was outstanding under the 2020 Term Loan.

The Company has adopted FASB ASU 2020-04, *Facilitation of the Effects of Reference Rate Reform on Financial Reporting (Reference Rate Reform (Topic 848))* as of March 12, 2020. Topic 848 provides guidance through December 31, 2022 to ease the potential burden in accounting for or recognizing the effects of reference rate reform on financial reporting. In response to concerns about structural risks of interbank offered rates and, particularly, the risk of cessation of the LIBOR, regulators around the world have undertaken reference rate reform initiatives to identify alternative reference rates that are more observable or transaction based and less susceptible to manipulation. The adoption of Topic 848 did not have an impact on the Company's consolidated financial statements as there have been no changes to the 2020 Credit Agreement related to LIBOR through December 31, 2020.

Under the 2020 LOC, all outstanding borrowings plus accrued, but unpaid, interest become due in full at the earlier of the Maturity Date or upon the termination of the initial revolving credit commitment, as described in the 2020 Credit Agreement. Outstanding borrowing under the LOC accrue interest at the LIBOR then in effect plus 5.0% (5.15% at December 31, 2020). The Company did not draw down against the 2020 LOC in 2020.

Finxera Holdings, Inc.
Notes to Consolidated Financial Statements

5. Borrowings (continued)

In connection with the 2020 Credit Agreement, the Company was required to pay a total of \$4,674,300 in origination fees, legal fees, and other lender costs associated with the borrowings (the 2020 Origination Costs). Of the \$4,674,300 in 2020 Origination Costs, \$1,618,050 were withheld directly from the \$235,000,000 borrowed under the 2020 Term Loan (as discussed above) and the remaining \$3,056,250 were paid directly by the Company. The Company recognized the 2020 Origination Costs as a discount to the 2020 Term Loan, which is being amortized to interest expense ratably over the loan terms. The Company recognized \$779,039 of interest expense related to the 2020 Origination Costs in 2020 and the unamortized discount was \$3,895,261 at December 31, 2020.

Borrowings under the 2020 Credit Agreement are secured by substantially all of the assets of the Company. The 2020 Credit Agreements also requires the Company to maintain certain financial and non-financial covenants. The Company believes it was in compliance with all covenants required under the 2020 Credit Agreement at December 31, 2020.

Future minimum principal payments under the 2020 Term Loan are due as follows:

Years ending December 31:

2021	\$ 12,171,964
2022	12,171,964
2023	12,171,964
2024	12,171,964
2025	<u>173,312,144</u>
Balance outstanding	222,000,000
Less unamortized debt discount	<u>3,895,261</u>
Term loan, net of discount	218,104,739
Less term loan, current portion	<u>11,229,877</u>
Noncurrent portion	<u>\$ 206,874,862</u>

Finxera Holdings, Inc.
Notes to Consolidated Financial Statements

6. Related Party Transactions

Related Party Receivable:

In November 2018, immediately prior to the closing of the 2018 Acquisition, Finxera issued 35,000 shares of its Series C preferred stock (Finxera Series C) to one of its stockholders (the Stockholder) in exchange for a \$350,000 note receivable (the 2018 Stockholder Note Receivable). In connection with the 2018 Acquisition, the Stockholder reinvested the underlying 35,000 shares of Finxera Series C in exchange for 35,000 shares of the Company's Series C participating preferred stock (Series C), and Finxera transferred the associated 2018 Stockholder Note Receivable to Holdings in exchange for a \$350,000 intercompany receivable. The 2018 Stockholder Note Receivable was full recourse and was secured by the shares of Series C held by the Stockholder, as well as all stock dividends, cash, instruments and other property or property proceeds from time to time received, receivable or otherwise distributed in respect of or in exchange for any pledged shares held by the Stockholder. The note bore interest at the rate of 4% per annum and was to become due in full on the earlier of November 2, 2025, a change in control, or upon the Stockholder's termination of employment from the Company. All payments towards the satisfaction of the note were first applied to interest, and then to principal. In 2018, the Company accrued \$2,258 in interest on the note. In December 2018, the Company declared a cash dividend of \$0.1848 per share related to the 6,675,302 shares of Series C issued and outstanding, resulting in an aggregate distribution of \$1,250,000 (the December 2018 Dividend). The December 2018 Dividend was paid out to the Series C stockholders in December 2018, at which time \$11,970 owed to the Stockholder was withheld and applied against the 2018 Stockholder Note Receivable in lieu of the dividend payment. At December 31, 2018, the outstanding principal and interest on the 2020 Stockholder Note Receivable was \$340,288.

During the first eight months of 2019, the Company declared and paid \$18,750,000 in dividends to Series C stockholders (Note 8), during which time \$131,665 owed to the Stockholder was withheld and applied against the 2018 Stockholder Note Receivable in lieu of the dividend payment. Following this reduction, the then outstanding balance on the 2018 Stockholder Note Receivable was \$215,251, including \$6,628 in interest accrued during 2019. In August 2019, the Company then approved a bonus to the Stockholder, who is also an employee of the Company, for net proceeds of \$215,251. The net proceeds were then withheld and applied towards the remaining outstanding balance on the 2018 Stockholder Note Receivable. Following this final reduction, the 2018 Stockholder Note Receivable was paid in full and canceled.

Loan Costs:

In 2020, the Company incurred \$4,674,300 in connection with the 2020 Origination Costs (Note 5), of which \$2,400,000 related to legal services provided by or in connection with the Acquirer (Note 1). The Company recognized the 2020 Origination Costs as a discount to the 2020 Term Loans, which is being amortized to interest expense ratably over the loan terms.

Finxera Holdings, Inc.
Notes to Consolidated Financial Statements

6. Related Party Transactions (continued)

Stockholder Notes Receivable:

In June 2020, the Company entered into three stockholder notes receivable (the Stockholder Notes Receivable) under which it loaned \$779,652, in aggregate, to the three stockholders who are also employees of the Company. The Stockholder Notes Receivable are non-recourse and are secured by the shares of Series C and stock options held by the respective stockholders, as well as all stock dividends, cash, instruments and other property or property proceeds from time to time received, receivable or otherwise distributed in respect of or in exchange for any pledged shares held by the respective stockholders. The Stockholder Notes Receivable bear interest at the rate of 0.43% per annum, compounded annually, and become due in full on the earlier of June 15, 2027, a change in control, or upon the respective stockholders' termination of employment from the Company. All payments towards the satisfaction of the outstanding notes receivable are first applied to interest, and then to principal. In 2020, the Company accrued \$1,819 in interest on the notes. At December 31, 2020, the outstanding principal and interest on the Stockholder Notes Receivables was \$781,471.

7. Income Taxes

The Company applies the provisions set forth in FASB ASC Topic 740, *Income Taxes*, to account for the uncertainty in income taxes. In the preparation of income tax returns in federal, state and foreign jurisdictions, the Company asserts certain income tax positions based on its understanding and interpretation of income tax laws. The taxing authorities may challenge such positions, and the resolution of such matters could result in recognition of income tax expense in the Company's consolidated financial statements. Management believes it has used reasonable judgments and conclusions in the preparation of its income tax returns.

The Company uses the "more likely than not" criterion for recognizing the income tax benefit of uncertain income tax positions, and establishing measurement criteria for income tax benefits. The Company has evaluated the impact of these positions and believes that its income tax filing positions and deductions will be sustained upon examination. The Company has recognized a reserve for uncertain income tax positions of \$228,000 as of December 31, 2020 (\$318,000 at December 31, 2019), which is included within accrued expenses and other current liabilities, net, in the consolidated balance sheets.

The Company files a U.S. federal tax return and also files tax returns in the various states and jurisdictions in which the Company operates. The Company also files income tax returns for its subsidiary in India. Management believes the tax return years 2015 through 2019 remain open to examination by the major domestic taxing jurisdictions to which the Company is subject.

Finxera Holdings, Inc.
Notes to Consolidated Financial Statements

7. Income Taxes (continued)

The income tax expense, consists of the following for the years ended December 31:

	<u>2020</u>	<u>2019</u>
Current		
Federal	\$ 2,037,000	\$ 6,433,000
State	611,000	921,000
Foreign	<u>312,000</u>	<u>133,000</u>
	2,960,000	7,487,000
Deferred		
Federal	(451,000)	(556,000)
State	194,000	173,000
Foreign	<u>(2,000)</u>	<u>(26,000)</u>
	<u>(259,000)</u>	<u>409,000</u>
	<u>\$ 2,701,000</u>	<u>\$ 7,078,000</u>

Deferred income taxes result from the tax effect of transactions that are recognized in different periods for financial statement and income tax reporting purposes. The federal deferred income tax assets at December 31, 2020 and 2019 are tax effected at 21%.

The primary components of the Company's net deferred income tax assets (liabilities) are comprised of the following at December 31:

	<u>2020</u>	<u>2019</u>
Deferred Income Tax Assets:		
Research and development income tax credits	\$ 163,000	\$ 275,000
Accruals and reserves	129,000	202,000
Other	<u>21,000</u>	<u>22,000</u>
	313,000	499,000
Deferred Income Tax Liabilities:		
Intangible assets and goodwill	(8,702,000)	(9,153,000)
Property and equipment	<u>(33,000)</u>	<u>(27,000)</u>
	<u>(8,735,000)</u>	<u>(9,180,000)</u>
	<u>\$ 8,422,000</u>	<u>\$ 8,681,000</u>

Finxera Holdings, Inc.
Notes to Consolidated Financial Statements

7. Income Taxes (continued)

The Company had no federal and state net operating loss carryforwards at December 31, 2020 or 2019, nor any federal research and development income tax credit carryforwards. However, the Company had state research and development income tax credit carryforwards of approximately \$467,000 at December 31, 2020 (\$573,000 at December 31, 2019) which may be carried forward indefinitely.

8. Capital Stock

Preferred Stock:

The Company is authorized to issue 10,001,000 shares of preferred stock with a par value of \$0.001 per share. The Board of Directors has designated 10,000,000 shares as Series C and the remaining 1,000 shares as undesignated preferred stock (Undesignated) (collectively, Preferred Stock).

At December 31, 2020 and 2019, the Company had the following shares of Preferred Stock authorized, issued and outstanding:

<u>Series</u>	<u>Shares Authorized</u>	<u>Shares Outstanding</u>	<u>Aggregate Liquidation Preference</u>
Series C	10,000,000	6,765,302	\$ 67,653,000
Undesignated	<u>1,000</u>	<u>-</u>	<u>-</u>
	<u>10,001,000</u>	<u>6,765,302</u>	<u>\$ 67,653,000</u>

The rights, preferences, privileges and restrictions for the holders of Preferred Stock are as follows:

Voting Rights:

The holders of Series C are entitled to voting rights equal to the number of shares of Series C outstanding.

Finxera Holdings, Inc.
Notes to Consolidated Financial Statements

8. Capital Stock (continued)

Preferred Stock: (continued)

Dividends:

The holders of Series C are entitled to receive, prior and in preference to any dividends on Undesignated or common stock, cumulative dividends on each share of Series C outstanding at the rate of 8%, per annum, compounded annually and accruing from the date of issuance, of the Series C purchase price, to the extent the Series C purchase price has not been repaid through prior dividends. The Series C purchase price is \$10.00 per share (the Original Purchase Price).

Dividends are payable when, and if, declared by the Board of Directors. However, to the extent dividends are not paid in cash, dividends are cumulative and compound on an annual basis beginning on the date of issuance on each outstanding share of Series C, whether or not dividends are declared by the Board of Directors.

In November 2018, the Company declared a cash dividend in the amount of \$2.58805 per share related to the 6,765,302 shares of Series C issued and outstanding, resulting in an aggregate distribution of \$17,508,937 (the November Dividend). The dividends paid satisfied the noncumulative dividend requirement for 2018.

During the first eight months of 2019, the Company declared and paid seven separate cash dividends in the amounts of \$0.29563, \$0.25867, \$0.25867, \$0.44344, \$0.33258, \$0.44344, and \$0.73907 per share, related to the 6,765,302 shares of Series C issued and outstanding in the months of January, February, March, May, June, July, and August 2019, respectively, resulting in an aggregate distribution \$18,750,000.

In August 2019, following the 2019 Refinancing and the borrowings drawn under the 2019 Term Loan (Note 5), the Company declared and paid an additional cash dividend in the amount of \$14.37148 per share related to the 6,765,302 shares of Series C issued and outstanding, resulting in an aggregate distribution of \$97,227,393.

The aggregate dividends paid in 2019 satisfied the noncumulative dividend requirement for 2019.

Finxera Holdings, Inc.
Notes to Consolidated Financial Statements

8. Capital Stock (continued)

Preferred Stock: (continued)

Dividends: (continued)

In March 2020, following the 2020 Refinancing and the borrowings drawn under the 2020 Term Loan (Note 5), the Company declared and paid a cash dividend in the amount of \$11.918 per share related to the holders of the 6,765,302 shares of Series C issued and outstanding as of the date of the dividend, resulting in an aggregate distribution of \$80,630,576 (the 2020 Dividend).

The payment of the 2020 Dividend satisfied the noncumulative dividend requirement for 2020.

Liquidation:

In the event of any liquidation, dissolution or winding up of the Company, the holders of Series C are entitled to receive, in preference to any distribution of assets to the holders of Undesignated or common stock, an amount equal to the Original Issuance Price per share, as adjusted for any stock splits, stock dividends, recapitalizations or the like, plus all accrued but unpaid dividends (the Series C Preference Amount). Should the Company's available assets be insufficient to satisfy the Series C Preference Amount, the funds will be distributed ratably among the holders of Series C in proportion to their Series C Preference Amount.

After the payment of the full Series C Preference Amount, the remaining assets of the Company will be distributed ratably amongst the holders of Series C and common stock in accordance with the aggregate number of shares of common stock and Series C that are then outstanding.

Common Stock:

The Company is authorized to issue 2,001,000 shares of common stock with a par value of \$0.001 per share. The Board of Directors has designated 1,000 shares as Class A common stock (Class A) and the remaining 2,000,000 shares as Class B common stock (Class B) (collectively, Common Stock). At December 31, 2020, the Company had 730,855 shares of Class B issued and outstanding and no shares of Class A (no shares of Common Stock were outstanding at December 31, 2019).

The rights and preferences of Class A and Class B are identical except that Class B shares have no voting rights. The holders of Class A have voting rights equal to one vote per share of Class A held.

Finxera Holdings, Inc.
Notes to Consolidated Financial Statements

8. Capital Stock (continued)

Common Stock: (continued)

Beginning in April 2020, following the issuance of Class B, the Company declared and paid monthly dividends to the holders of Class B (the Common Stock Dividends). The aggregate Common Stock Dividends declared and paid in 2020 totaled \$917,750.

9. Equity Incentive Plan

Effective November 2, 2018, the Company adopted the 2018 Equity Incentive Plan (the Plan). Under the Plan provisions, the Board of Directors may grant non-qualified stock options (NSOs) to employees, directors, officers and consultants of the Company. At December 31, 2020, the Company has reserved 1,199,070 shares of Class B for issuance under the Plan, of which 730,855 shares have been exercised and are outstanding (1,189,848 shares of Class B were reserved at December 31, 2019, none of which had been exercised or were outstanding).

Options granted under the Plan are only exercisable to the extent vested, expire no later than ten years from the date grant and may only be granted with an exercise price not less than fair value. Under the Plan provisions, options granted are generally to be divided into two tranches such that: 1) 50% of each option grant is service based, with the respective options vesting over four years (Service Options) or upon a change of control and 2) 50% of each option granted is to be performance based (Performance Options). The vesting of the Performance Options is determined based on the Acquirer achieving and/or surpassing a required multiple of invested capital related to its investment in the Company, as described in the Plan. The Board of Directors determines the fair value of common stock.

Shares of Class B purchased under the Plan are subject to certain restrictions, including the right of first refusal by the Company for sale or transfer of these shares to outside parties. In addition, following the termination of service related to any option holder for any reason (the Repurchase Event), the Company has the right, but not the obligation, to repurchase any shares of common stock purchased under the Plan. The repurchase price for any shares of Class B repurchased is generally to be the fair value of the shares as of the date of the Repurchase Event, as determined by the Board of Directors, subject to certain adjustments as described in the Plan. At December 31, 2020 and 2019, there were no shares of Class B issued or subject to repurchase.

Finxera Holdings, Inc.
Notes to Consolidated Financial Statements

9. Equity Incentive Plan (continued)

In 2020, the Company recognized \$185,287 of employee stock-based compensation related to the Service Options and \$18,230 of employee stock-based compensation related to the Performance Options (\$41,172 of employee stock-based compensation related to the Service Options and \$124,664 of employee stock-based compensation related to the Performance Options in 2019). The stock-based compensation for all employees is allocated on a departmental basis, based on the classification of the option holder.

No income tax benefits have been recognized in the consolidated statements of income for stock-based compensation arrangements and no stock-based compensation costs have been capitalized as of December 31, 2020 and 2019.

In 2020, the Company granted 302,738 stock options to employee, all of which were Service Options (no stock options were granted in 2019). The fair value of each Service Option granted in 2020 was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: expected life ranging from 5.4 to 6.25 years; risk-free interest rates ranging from 0.24% and 0.29%; expected volatility of 39.2%; and no dividends during the expected term. Expected volatility is based on historical volatilities of public companies operating in the Company's industry. The expected life of the options represents the period of time options are expected to be outstanding and is estimated considering vesting terms and employees' historical exercise and post-vesting employment termination behavior. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. The weighted-average grant date fair value of the Service Options granted to employees in 2020 was \$1.37 per share.

Stock option activity under the Plan is as follows:

		Options Outstanding	
	Options Available	Number of Shares	Weighted Average Exercise Price
Balances, December 31, 2018	217,335	972,513	\$ 1.00
Cancelled	38,901	(38,901)	1.00
Balances, December 31, 2019	256,236	933,612	1.00
Authorized	9,222	-	-
Granted	(302,738)	302,738	3.58
Exercised	-	(730,855)	1.07
Cancelled	37,280	(37,280)	1.00
Balances, December 31, 2020	-	468,215	\$ 2.56

Finxera Holdings, Inc.
Notes to Consolidated Financial Statements

9. Equity Incentive Plan (continued)

In 2020, employees exercised 730,855 stock options of which 264,051 were Service Options and the remaining 466,804 were Performance Options.

At December 31, 2020, there were 468,215 Service Options issued and outstanding of which 67,432 were vested and exercisable with a weight-average exercise price of \$3.58. The weighted-average remaining contractual life of Service Options outstanding was 9.29 years at December 31, 2020.

Estimated future stock-based compensation for unvested Service Options granted and outstanding as of December 31, 2020 was \$298,943 to be recognized over a requisite service period of 2.53 years.

10. Benefit Plans

Profit Sharing Plan:

In March 2016, Finxera established a profit-sharing plan (the PS Plan) to provide defined contribution retirement benefits for all eligible employees, as defined in the plan agreement. Participants may contribute a portion of their compensation to the PS Plan, subject to limitations under the Internal Revenue Code. The Company could also make discretionary profit-sharing contributions on a pro rata basis, based on participant's compensation, as well as other Company contributions at the discretion of the Board of Directors. In 2020, the Company contributed \$391,000 to the PS Plan, of which \$176,000 was accrued at December 31, 2020 and remitted to the PS Plan in January 2021 (\$124,000 was contributed in 2019, of which \$36,000 was accrued at December 31, 2019 and remitted to the PS Plan in January 2020).

Cash Benefit Plan:

In March 2016, Finxera established the DB Plan to provide defined benefits for all eligible employees, as defined in the plan agreement. The Company's funding policy is to make the minimum annual contribution required under the Plan Agreement and the applicable regulations. Participant contributions to the DB Plan are not permitted.

In 2020, the Company contributed \$437,000 to the DB Plan, all of which was remitted to the DB Plan in 2020 (no contributions were made to the DB Plan in 2019). Due to the funding status of the DB Plan at December 31, 2020, the Company's management anticipates no Company contributions to be made in 2021.

Finxera Holdings, Inc.
Notes to Consolidated Financial Statements

10. Benefit Plans (continued)

Cash Benefit Plan: (continued)

DB Plan assets primarily consist of exchange-traded funds and money market funds offered by Charles Schwab and Company, which are classified as Level I investments under the fair value hierarchy. Plan asset allocation at December 31, 2020 and 2019 are comprised of 99% equity securities and 1% fixed income investments. The measurement dates used to determine the pension measurements for the majority of the DB Plan assets and benefit obligations was December 31, 2020 and 2019.

The following tables set forth further information regarding the DB Plan as of and for the years ended December 31:

	<u>2020</u>	<u>2019</u>
Obligations and funded status		
Projected benefit obligation	\$ (2,762,315)	\$ (2,083,083)
Plan assets at fair value	<u>3,382,779</u>	<u>2,635,946</u>
Funded status	<u>\$ 620,464</u>	<u>\$ 552,863</u>
Accumulated benefit obligation	<u>\$ (2,762,315)</u>	<u>\$ (2,083,083)</u>
Plan expenses paid	<u>\$ 13,831</u>	<u>\$ 12,091</u>
Components of net periodic benefit cost:		
Service cost	\$ 593,734	\$ 553,769
Interest cost	104,154	71,139
Expected return on plan assets	(131,797)	(111,036)
Recognized net loss	<u>13,672</u>	<u>18,211</u>
Net periodic benefit cost	<u>\$ 579,763</u>	<u>\$ 532,083</u>

At December 31, 2020 and 2019, the DB Plan is fully funded, and, at December 31, 2020, the Company has recognized a prepaid pension asset of \$620,000 (\$553,000 at December 31, 2019). The prepaid pension asset is included within prepaid expenses and other current assets on the consolidated balance sheets. Through December 31, 2020, the Company's management has determined any unrealized gains, losses or other potential pension costs to be recorded as a component of other comprehensive income (loss) have not been material to the consolidated financial statements.

Finxera Holdings, Inc.
Notes to Consolidated Financial Statements

10. Benefit Plans (continued)

Cash Benefit Plan: (continued)

The following assumptions were used to determine the DB Plan status as of and for the years ended December 31:

	<u>2020</u>	<u>2019</u>
Weighted average assumptions used to determine benefit obligations at December 31:		
Discount rate	5.0%	5.0%
Rate of compensation increase	-	-
Weighted average assumptions used to determine net periodic benefit cost for the years ended December 31:		
Discount rate	5.0%	5.0%
Rate of compensation increase	-	-
Expected long-term return on plan assets	5.0%	5.0%

The Company's expected rate of return on DB Plan assets is determined by the DB Plan assets' historical long-term investment performance, current asset allocation and estimates of future long-term returns by asset class. There were no benefits paid in 2020 or 2019.

In March 2021, the Company elected to terminate the DB Plan (Note 13). In connection with that decision, management voted to freeze the DB Plan in April 2021. Upon freezing the DB Plan, it will continue to be operated in accordance with the termination process until all DB Plan assets are distributed to participants or, to the extent the DB Plan is overfunded at the date of distribution, transferred back to the Company. As of the date of the independent auditors' report, management estimates the DB Plan assets to be distributed in connection with the termination will be \$3,440,000, of which \$3,180,000 are expected to be distributed to DB Plan participants in fulfillment of the DB Plan obligation and the remaining \$260,000 will be distributed back to the Company.

Finxera Holdings, Inc.
Notes to Consolidated Financial Statements

11. Acquisitions

In connection with the Acquisitions, as described in Note 2, the aggregate purchase price was \$10,241,440, which was allocated as follows:

	<u>Total</u>
Assets acquired	\$ 172,631
Liabilities assumed	<u>(13,191)</u>
	159,440
Intangible assets acquired:	
Customer relationships	1,591,000
Developed technology	267,000
Trademarks	123,000
Non-compete agreements	<u>53,000</u>
Total intangible assets	2,034,000
Goodwill	<u>8,048,000</u>
Total purchase price	<u>\$ 10,241,440</u>

Useful life of the customer relationships:	96 - 108 months
Useful life of technology	84 months
Useful life of trademarks	108 months
Useful life of non-compete agreements	48 months

In connection with the Acquisitions, the aggregate purchase price was \$10,241,440, which was comprised of \$4,159,440 in cash consideration and contingent consideration payable valued at \$6,082,000. The cash consideration was paid in full during November and December 2020. The contingent consideration payable is comprised of earn-outs equal to 50% of certain revenues earned from the customers assumed in the Acquisitions, as described under each acquired business's respective APA. The associated earn-outs are to be measured and paid every six months, with the first measurement period ending on June 30, 2021, and expiring at various dates through December 31, 2023. The Company incurred \$179,106 in expenses associated with the Acquisitions, which are classified within transaction expenses in the consolidated statement of income.

Finxera Holdings, Inc.
Notes to Consolidated Financial Statements

12. Commitments and Contingencies

Facility Leases:

The Company leases its headquarters in San Jose, California under a non-cancellable operating lease agreement which expires in October 2022. The Company also leases office space in Garner, North Carolina, Selma, North Carolina and Chandigarh, India, under non-cancellable operating leases that expire at various dates through April 2023. In 2020, the Company also leased five apartments (seven in 2019) which it uses to provide corporate housing for certain executive employees, all of which are leased under non-cancellable operating lease agreements. In addition to the base rent, the Company is generally responsible for certain insurance, property tax, and maintenance expenses under the lease agreements.

The Company records rent expense on a straight-line basis over the term of the underlying leases. The difference between cash payments required and rent expense is recorded as deferred rent. Rent expense was \$531,000 in 2020 (\$429,000 in 2019).

Future minimum lease payments under the non-cancelable operating leases are as follows:

Years Ending December 31:

2021	\$ 550,000
2022	509,000
2023	<u>12,000</u>
	<u>\$ 1,071,000</u>

Client Cash Deposit Balances:

In connection with the Company's money transmittal licenses, the Company maintains Client cash deposit balances (Note 2) at Partner Banks. At December 31, 2020, the Client cash deposit balances were \$478,869,127, maintained at seven Partner Banks in amounts ranging from \$1,291,497 to \$218,559,541 (\$490,248,480 at December 31, 2019, maintained at six Partner Banks in amounts ranging from \$8,036,704 to \$129,267,546).

Subscriber Cash Deposit Balances:

The Company maintains Subscriber cash deposit balances (Note 2) at Partner Banks. The Subscriber cash deposit balances were \$8,920,759 at December 31, 2020 and maintained at one Partner Bank (\$13,421,145 at December 31, 2019, maintained at two Partner Banks in amounts ranging from \$2,528,779 to \$10,892,366).

Finxera Holdings, Inc.
Notes to Consolidated Financial Statements

12. Commitments and Contingencies (continued)

Indemnification Agreements:

The Company, as permitted under California law and in accordance with the Company's Bylaws, indemnifies its officers, directors, employees and other agents for certain events or occurrences, subject to certain limits, while the individuals are or were serving at its request in such capacity. The term of the indemnification period is for the individual's lifetime. The maximum amount of potential future indemnification is unlimited; however, the Company has a director and officer insurance policy that limits its exposure and enables it to recover a portion of any future amounts paid. As a result of the Company's insurance policy coverage, the Company believes the fair value of these indemnification agreements is minimal. Therefore, no liability for potential claims has been recorded at December 31, 2020.

Legal:

From time to time, the Company is involved in legal disputes. In the opinion of management, any liabilities resulting from these claims will not have a material adverse effect on the Company's consolidated financial position or results of operations. As a result, no liability for potential legal claims has been recorded at December 31, 2020.

13. Subsequent Events

The global outbreak of the novel coronavirus in 2020 continues to be an evolving situation. The virus has disrupted much of society, impacted global travel and supply chains, and adversely impacted global commercial activity in most industries. The rapid development and fluidity of this situation precludes any prediction as to its ultimate impact, which may have a continued adverse effect on economic and market conditions and continue to cause an extended period of global economic slowdown. Such conditions, which may be across industries, sectors or geographies, may impact the Company's operating performance in the near term.

In March 2021, the Company entered into a merger agreement under which it has agreed in principle to sell all of its capital stock (the Transaction) to Priority Technology Holdings, Inc. (Priority), a publicly-traded leading provider of merchant acquiring and commercial payment solutions. The Transaction was announced publicly. Upon consummation of the Transaction, the Company will become a wholly-owned subsidiary of Priority. In connection with the Transaction, the Company incurred \$933,518 in expenses during 2020, which are classified within transaction expenses in the consolidated statement of income.

Finxera Holdings, Inc.
Notes to Consolidated Financial Statements

13. Subsequent Events (continued)

In March 2021, in connection with the Transaction, the Company elected to terminate the DB Plan (Note 10). Effective May 19, 2021, the DB Plan was formally terminated and, as of the date of the independent auditors' report, the Company is working through the regulatory requirements to distribute the plan assets in accordance with the termination process. Following the final distribution, the DB Plan will cease to exist.

Subsequent events have been evaluated through the date of the independent auditors' report, which is the date the consolidated financial statements were approved by the Company and available to be issued.

Finxera Holdings, Inc.
Unaudited Condensed Consolidated Financial Statements
June 30, 2021 and June 30, 2020

Finxera Holdings, Inc.
Unaudited Condensed Consolidated Balance Sheets

	June 30, 2021	December 31, 2020
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 20,104,708	\$ 13,071,816
Restricted cash	2,512,583	2,574,786
Client cash deposit balances	479,025,698	478,869,127
Subscriber cash deposit balances	11,147,290	8,920,759
Accounts receivable	570,959	349,036
Prepaid expenses and other current assets	2,422,390	2,193,273
Short-term investments	1,146,003	1,373,135
Stockholder notes receivable	783,150	781,471
Total current assets	517,712,781	508,133,403
Property and Equipment, net	460,320	502,635
Capitalized Software Development Costs, net	2,530,569	1,195,944
Intangible Assets, net	56,516,578	59,198,830
Goodwill	38,926,907	38,926,907
Other Assets	245,990	246,004
Total assets	\$ 616,393,145	\$ 608,203,723
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities		
Accounts payable	\$ 684,413	\$ 727,092
Accrued expenses and other current liabilities	1,784,130	(880,835)
Reserve for processing losses	880,219	932,940
Client deposit payment obligations	479,025,698	478,869,127
Subscriber deposit payment obligations	11,147,290	8,920,759
Loans payable, current portion, net	12,171,964	11,229,877
Contingent consideration payable	1,082,000	1,082,000
Total current liabilities	506,775,714	500,880,960
Loans Payable, net of current portion, net	201,181,411	206,874,862
Deferred Income Taxes, net	7,961,744	8,422,466
Contingent Consideration, net of current portion	5,000,000	5,000,000
Total liabilities	720,918,869	721,178,288
Commitments and Contingencies (Notes 5, 10, 11, 12 and 13)		
Stockholders' Deficit		
Series C participating preferred stock, \$0.001 par value	6,765	6,765
Common stock, \$0.001 par value	731	731
Accumulated deficit	(104,533,220)	(112,982,061)
Total stockholders' deficit	(104,525,724)	(112,974,565)
Total liabilities and stockholders' deficit	\$ 616,393,145	\$ 608,203,723

See Notes to Unaudited Condensed Consolidated Financial Statements

Finxera Holdings, Inc.
Unaudited Condensed Consolidated Statements of Income

	Six Months Ended June 30,	
	2021	2020
Revenue, net	\$ 33,353,374	\$ 36,512,195
Cost of Revenue	<u>2,173,458</u>	<u>2,617,745</u>
Gross profit	31,179,916	33,894,450
Operating Expenses		
General and administrative	8,366,987	14,429,319
Research and development	1,285,256	3,888,674
Sales and marketing	<u>1,754,812</u>	<u>3,443,489</u>
Total operating expenses	<u>11,407,055</u>	<u>21,761,482</u>
Operating Income	19,772,861	12,132,968
Other Income (Expense), net	18,755	(12,028)
Interest Expense	(7,891,149)	(7,480,863)
Acquisition Transaction Expenses (Notes 11 and 13)	<u>(10,341)</u>	<u>(851,313)</u>
Income Before Income Tax Expense	11,890,126	3,788,764
Income Tax Expense, net	<u>2,765,904</u>	<u>742,675</u>
Net Income	<u>\$ 9,124,222</u>	<u>\$ 3,046,089</u>

See Notes to Unaudited Condensed Consolidated Financial Statements

Finvera Holdings, Inc.
Unaudited Condensed Consolidated Statements of Stockholders' Equity (Deficit)

	Series C Participating Preferred Stock		Common Stock		Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount		
Balances, December 31, 2019	6,765,302	\$ 6,765	-	\$ -	\$ (43,498,269)	\$ (43,491,504)
Dividends paid to Class B common stockholders	-	-	-	-	(134,654)	(134,654)
Dividend paid to Series C participating preferred stockholders	-	-	-	-	(80,630,575)	(80,630,575)
Net income	-	-	-	-	3,046,089	3,046,089
Balances, June 30, 2020	6,765,302	\$ 6,765	-	\$ -	\$ (121,217,409)	\$ (121,210,644)

	Series C Participating Preferred Stock		Common Stock		Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount		
Balances, December 31, 2020	6,765,302	\$ 6,765	730,855	\$ 731	(112,982,061)	(112,974,565)
Dividends paid to Class B common stockholders	-	-	-	-	(675,381)	(675,381)
Net income	-	-	-	-	9,124,222	9,124,222
Balances, June 30, 2021	6,765,302	\$ 6,765	730,855	\$ 731	\$ (104,533,220)	\$ (104,525,724)

See Notes to Unaudited Condensed Consolidated Financial Statements

Finxera Holdings, Inc.
Unaudited Condensed Consolidated Statements of Cash Flows

	Six Months Ended June 30,	
	2021	2020
Cash Flows from Operating Activities		
Net Income	\$ 9,124,222	\$ 3,046,089
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	2,829,724	2,655,226
Amortization of debt discount and fees	463,588	577,762
Deferred income taxes	(461,160)	
Changes in operating assets and liabilities:		
Client cash deposit balances	(156,571)	(3,566,334)
Subscriber cash deposit Balances	(2,226,531)	(7,907,578)
Accounts receivable	(223,604)	72,589
Prepaid expenses and other current assets	165,472	25,825
Accounts payable	(42,679)	(408,658)
Reserve for processing losses	(52,720)	(13,958)
Accrued expenses and other current liabilities	2,270,816.74	2,093,658
Client deposit payment obligations	156,571	3,566,334
Subscriber cash payment obligations	2,226,531	7,907,578
Net Cash Provided by Operating Activities	14,073,660	8,048,534
Cash Flows from Investing Activities		
Purchase of property and equipment	(1,439,771)	(395,868)
Increase decrease in short-term investments	227,132	165,230
Net cash used in Investing Activities	(1,212,639)	(230,638)
Cash Flows from Financing Activities		
Proceeds from loans payable, net	-	85,525,700
Repayment of principal on loans payable	(5,214,951)	(7,700,000)
Dividend paid in cash	(675,381)	(80,765,230)
Net cash used in Financing Activities	(5,890,332)	(2,939,530)
Net Increase in Cash, Cash Equivalents and Restricted Cash	6,970,689	4,878,366
Cash, Cash Equivalents and Restricted Cash, beginning of period	15,646,602	14,032,703
Cash, Cash Equivalents and Restricted Cash, end of period	\$ 22,617,291	\$ 18,911,069

See Notes to Unaudited Condensed Consolidated Financial Statements

Finxera Holdings, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

1. Nature of Business, Consolidation and Presentation

Finxera Holdings, Inc. (Holdings or the Company) was incorporated as a Delaware corporation on June 28, 2018 (inception).

Effective, June 29, 2018, the Company established Finxera Intermediate, LLC (Intermediate), a Delaware limited liability company (LLC) as its wholly-owned subsidiary.

Holdings and Intermediate were established by a private equity firm (the Acquirer) to facilitate the acquisition (the 2018 Acquisition) of Finxera, Inc. (Finxera), an operating entity headquartered in San Jose, California, and incorporated under the laws of the State of California. Effective November 2, 2018, the 2018 Acquisition was finalized at which point Finxera became a wholly-owned subsidiary of Intermediate.

These Unaudited Condensed Consolidated Financial Statements include the accounts of the Company including those of its majority-owned subsidiaries, and all material intercompany balances and transactions have been eliminated in consolidation. These Unaudited Condensed Consolidated Financial Statements have been prepared in accordance with Generally Accepted Accounting Principles in the United States ("GAAP") for interim financial information. The Unaudited Condensed Consolidated Balance Sheet as of December 31, 2020 was derived from the audited financial statements of the Company for the year ended December 31, 2020 but does not include all disclosures required by GAAP for annual financial statements.

In the opinion of the Company's management, all known adjustments necessary for a fair presentation of the Unaudited Condensed Consolidated Financial Statements for interim periods have been made. These adjustments consist of normal recurring accruals and estimates that affect the carrying amounts of assets and liabilities. These Unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto for the year ended December 31, 2020.

Use of Estimates:

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reported period. Actual results could differ materially from those estimates. In particular, the continued magnitude, duration and effects of the COVID-19 pandemic are difficult to predict, and the ultimate effect could result in future charges related to the recoverability of assets, including financial assets, long-lived assets, goodwill and other losses.

Finxera Holdings, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

Reclassifications:

Certain reclassifications have been made to prior year balances to conform with current year presentation.

2. Significant Accounting Policies

Revenue Recognition:

The Company recognizes revenue in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers* (Topic 606). Revenue is derived primarily from enrollment fees, monthly subscription fees, and transaction-based fees (collectively, Client-Based Revenue), all of which are defined under contracts executed between the Client and the Company. The Company also earns interest revenue (Interest Revenue) on certain Client cash deposit balances. CRM service fees is derived by licensing and consulting fees with commercial customers.

The revenue associated with enrollment fees is recognized upon the receipt of a fully executed enrollment application, completion of the customer account setup, data verification, and the constructive receipt of the applicable non-refundable fee.

The Company recognizes monthly subscription fees each month as a recurring maintenance fee during the term of the Client's enrollment.

Revenue from transaction-based fees is recognized upon constructive receipt of transaction fees for payments to creditors issued ACH payments, paper check or wire transfer. These fees are transferred to the Company from the Client account balances, which may be maintained by the Company in MTL trust accounts or by Partner Banks (Note 12).

Interest revenue is derived from certain Client cash deposit balances maintained in interest bearing accounts with select Partner Banks.

Monthly CRM License fees are recognized on a monthly basis and consulting fees are recognized when services are performed.

Finxera Holdings, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

The following table presents a disaggregation of the Company's consolidated revenues by type:

	Six Months Ended June 30	
	2021	2020
Enrollment fees	\$ 492,974	\$ 751,499
Monthly subscription fees	21,112,100	22,180,882
Transaction fees	8,957,419	9,566,624
Interest income	1,170,273	3,144,654
CRM service fees	740,941	-
Other Services	879,667	868,536
Total revenue, net	<u>\$ 33,353,374</u>	<u>\$ 36,512,195</u>

Major Customers:

The Company had no major customers in the six months ended June 30, 2021 or 2020. Major customers are defined as consumers generating greater than 10% of the Company's annual net revenue. However, in the six months ended June 30, 2021 and 2020, the Company worked with certain Subscribers through which the aggregate Client-Based Revenue generated from the clients of those specific Subscribers was greater than 10% of the Company's annual net revenue, but because the Client-Based Revenue derived through these Subscribers is generated from the individual clients, the Company does not consider any of its Subscribers to be a major customer.

Cash and Cash Equivalents:

Cash and cash equivalents include all cash balances and highly liquid investments purchased with a original maturity of three months or less. At June 30, 2021 and December 31, 2020, cash and cash equivalents consists of cash and money market funds. The recorded carrying value of cash equivalents approximates their face value.

Restricted Cash:

The Company's restricted cash consists of reserved funds to reimburse select Clients and certain funds held by Partner Banks to collateralize the shared settlement accounts with customers.

Short-Term Investments:

At June 30, 2021 and December 31, 2020, the Company's short-term investments are comprised of certificates of deposit and Capital Investments made through Enhanced Capital (Note 3). The certificates of deposit have remaining maturities of less than twelve months. The Capital Investments are expected to be returned in the form of income tax credits in less than twelve months.

Concentration of Credit Risk:

Finxera Holdings, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

Financial instruments that potentially subject the Company to concentration of credit risk consist of cash and cash equivalents, restricted cash, Client cash deposit balances, Subscriber cash deposit balances and the certificates of deposit (collectively, Cash Deposits). The Company maintains its Cash Deposits at Seven domestic and two foreign financial institutions at June 30, 2021 and December 31, 2020.

The Company is exposed to credit risk in the event of default by domestic financial institutions to the extent the cash and cash equivalent deposits are in excess of the amount insured by the Federal Deposit Insurance Corporation (FDIC). These balances exceeded the insurable limit at June 30, 2021. At December 31, 2020, cash and cash equivalents exceeding federally insured limits totaled \$14,709,363, which includes restricted cash.

At June 30, 2021 and December 31, 2020, the Company has cash and cash equivalents and short-term investments of \$164,299 and \$992,437, and \$187,400 and \$1,158,300, respectively, in two foreign financial institutions, which are not insured by the FDIC.

Fair Value Measurement:

The Company uses a three-level hierarchy, which prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information for fair value measurement based on the nature of inputs used in the valuation of an asset or liability as of the measurement date. Fair value focuses on an exit price and is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The inputs or methodology used for valuing financial instruments are not necessarily an indication of the risk associated with those instruments.

The three-level hierarchy for fair value measurement is defined as follows:

- Level I:** Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level II:** Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level III:** Inputs to the valuation methodology, which are significant to the fair value measurement, are unobservable.

An asset or liability's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Finxera Holdings, Inc.**Notes to Unaudited Condensed Consolidated Financial Statements**

At June 30, 2021 and December 31, 2020, the Company's certificates of deposit and the assets held by the Company's cash benefit plan (the DB Plan) (Note 10) are all classified within Level I of the fair value hierarchy. The Company's certificates of deposit are valued at cost, which approximates fair value, and the assets held by the DB Plan are valued at the net asset value (NAV) of shares held by the DB Plan at year end based on quoted prices on active markets.

At June 30, 2021 and December 31, 2020, the fair value of the Company's Capital Investments is estimated based on the Company's percentage interest in the net assets of the funds and projects (the Affiliated Funds) in which Enhanced Capital has invested, net of any income tax credits generated.

These investments carried by the Affiliated Funds are valued at estimated fair value as determined by the Enhanced Capital RETC Manager, LLC (the Manager) (Note 3) and/or the managing members of the Affiliated Funds, after considering operating results, financial condition, recent sales prices of issuers' securities and other pertinent information. Because of the uncertainty of valuations, however, these estimated values may differ from the values that would have been used had a ready market for the investments existed, and the differences could be material. The Affiliated Funds may also have risk associated with their concentration in certain geographical regions and in certain industries.

The following table presents the financial instruments carried at fair value at June 30, 2021 by the three-level valuation hierarchy:

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Certificates of Deposit	\$ 992,437	\$ -	\$ -	\$ 992,437
Capital Investments	-	-	153,566	153,566
	<u>\$ 992,437</u>	<u>\$ -</u>	<u>\$ 153,566</u>	<u>\$ 1,146,003</u>

The following table presents the financial instruments carried at fair value at December 31, 2020 by the three-level valuation hierarchy:

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Certificates of Deposit	\$ 1,158,300	\$ -	\$ -	\$ 1,158,300
Capital Investments	-	-	214,835	214,835
	<u>\$ 1,158,300</u>	<u>\$ -</u>	<u>\$ 214,835</u>	<u>\$ 1,373,135</u>

There were no fair value transfers in or out of Level III in 2021 or 2020.

Finxera Holdings, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

Property and Equipment:

Property and equipment are stated at cost. The Company depreciates property and equipment using the straight-line method over their estimated useful lives, ranging from three to ten years. Leasehold improvements are amortized over the shorter of the estimated useful life of the asset or the lease term. For the six months ended June 30, 2021 and 2020, depreciation and amortization expense was \$106,684 and \$101,680, respectively.

Software Development Costs:

The Company recognizes costs for the development of internal use software by expensing all costs incurred relating to the planning and post-implementation phases of development. Upon the achievement of technological feasibility, costs incurred in the development phase, including upgrades and enhancements, if it is probable such expenditures will result in additional functionality, are capitalized and amortized over an estimated useful life of three years. The amortization period for any capitalized software commences upon the post-implementation stage, when the software is placed into service. For the six months ended June 30, 2021 and 2020, amortization expense related to the capitalized software development costs was \$40,788 and zero, respectively.

Goodwill:

Goodwill represents the excess of the purchase price of assets acquired in the 2018 Acquisition and the Acquisitions, over the estimated fair value of the assets acquired. Goodwill relating to the 2018 Acquisition was valued at \$20,889,807 on the date of acquisition and includes the value of the acquired workforce. Concurrent with the 2018 Acquisition, the Company recognized a deferred income tax liability of \$9,989,000 associated with the intangible assets acquired, which was recorded as an increase to goodwill. Goodwill relating to the Acquisitions was valued at \$8,048,000 on the date of acquisition and also includes the value of the acquired workforce.

Goodwill is not amortized, but it is subject to impairment. The Company tests goodwill annually for impairment or whenever events or circumstances indicate the carrying amount may not be recoverable. If the carrying amount of goodwill exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the goodwill over the implied fair value of the goodwill. The Company did not record an impairment of its goodwill in 2021 or 2020.

Money Transmitter Licensing Regulations:

As a licensed money transmitter, Finxera is subject to certain restrictions and requirements, including reporting, net worth and surety bonding requirements, and requirements for regulatory approval of controlling stockholders, agent locations, and consumer forms and disclosures. Finxera is also subject to inspection by the regulators in the jurisdictions in which it is licensed, many of which conduct regular examinations.

Finxera Holdings, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

Finxera adheres to certain regulations in order to comply with reporting requirements mandated by certain states and jurisdictions in which it operates as a licensed money transmitter as follows:

Client Accounts:

For all Client accounts, Finxera must maintain “permissible investments” in an amount equivalent to all “outstanding payment obligations” associated with Client accounts. The definition and interpretation of outstanding payment obligations may vary by jurisdiction and, in some cases, may include the balances held on behalf of Clients even though technically, the outstanding payment obligations represented by these balances are liabilities of the Partner Bank. The types of securities considered to be “permissible investments” vary from state to state, but generally include cash and cash equivalents. The total value of the Client accounts maintained at June 30, 2021 and December 31, 2020 are reflected by the Client cash deposit balances included on the unaudited condensed consolidated balance sheets.

Client Cash Deposit Balances:

The Client cash deposit balances totaled \$479,025,698 and \$478,869,127 at June 30, 2021 and December 31, 2020, respectively as reflected on the unaudited condensed consolidated balance sheets, and are comprised solely of cash and cash equivalents in fully FDIC insured accounts with certain Partner Banks (Note 12). These Client cash deposit balances are readily accessible upon demand by the Client, and Finxera does not generally commingle the assets underlying the Client balances with Company funds. The assets underlying the Client cash deposit balances are classified as current based on their purpose and availability to fulfill the direct obligation.

Client Deposit Payment Obligations:

The total “outstanding payment obligations” associated with the Client cash deposit included within the Client accounts totaled \$479,025,698 and \$478,869,127 at June 30, 2021 and December 31, 2020, respectively, and is reflected as Client deposit payment obligations included in the unaudited condensed consolidated balance sheets.

Subscriber Accounts:

In connection with the deposit services Finxera provides to Clients of Subscribers, Finxera processes and holds title to cash and cash equivalents on behalf of the Subscribers. Finxera accounts for these Subscriber balances as follows:

Subscriber Cash Deposit Balances:

Finxera classifies the cash and cash equivalents held on behalf of the Subscribers as Subscriber cash deposit balances. The Subscriber cash deposit balances represent cash and cash equivalents in fully FDIC insured accounts with certain Partner Banks opened for the

Finxera Holdings, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

benefit of the Subscribers. The Subscriber cash deposit balances totaled \$11,147,290 and \$8,920,759 at June 30, 2021 and December 31, 2020, respectively, as reflected on the unaudited condensed consolidated balance sheets.

Subscriber Deposit Payment Obligations:

The total “outstanding payment obligations” associated with the Subscriber cash deposit balances included within the Subscriber accounts totaled \$11,147,290 and \$8,920,759 at June 30, 2021 and December 31, 2020, respectively, and is reflected as Subscriber deposit payment obligations included on the unaudited condensed consolidated balance sheets.

Escheatment Reserves:

Unclaimed property laws of every U.S. jurisdiction require the Company to account for certain information on all Client cash deposit balances. The Company maintains specific reserves for refund payments to Clients that are unclaimed at the end of an applicable statutory abandonment period. Statutory abandonment periods for payment instruments range from three to seven years, and the Company has an ongoing program designed to comply with escheatment laws as they apply to its business. At June 30, 2021 and December 31, 2020, the associated escheatment reserves amounted to \$512,583 and \$574,786, respectively, and is included within accrued expenses and other current liabilities on the unaudited condensed consolidated balance sheets.

Reserve for Processing Losses:

Finxera maintains a reserve for processing losses to ensure it has adequate cash to meet all liabilities associated with processing consumer transactions. Finxera recognizes losses in two general categories: a) when payments exceed total balance due to late posting of returns or other decrements to a Client’s balance which cannot be recovered as of the period end and b) when bank-initiated debits against a Finxera clearing account which cannot be attributed to a specific Client balance at the period end.

The current processing loss reserve amount reflects the differences accumulated as of the reporting date. The Company is consistently reconciling this reserve as part of its monthly reporting process, in order to properly clear and reduce the balances, while still maintaining an appropriate reserve to meet potential liabilities associated with the Client accounts and consumer transactions. At June 30, 2021 and December 31, 2020, the associated processing loss reserves amounted to \$880,219 and \$932,940, respectively, and is reflected as a current liability in the unaudited condensed consolidated balance sheets.

Recent Accounting Pronouncement Not Yet Effective:

Leases:

Finxera Holdings, Inc.**Notes to Unaudited Condensed Consolidated Financial Statements**

In February 2016, the FASB issued ASC Topic 842, *Leases*. This standard requires all entities that lease assets under leases with terms of more than 12 months to capitalize the assets and related lease liabilities in the balance sheet.

This standard is effective for the Company as of January 1, 2022 and requires the use of a modified retrospective transition approach for its adoption. The Company is currently evaluating the effect Topic 842 will have on its consolidated financial statements and related disclosures. Management expects the assets leased under operating leases, similar to the leases disclosed in Note 12, will be capitalized together with the related lease obligations on the consolidated balance sheet upon the adoption of Topic 842, but it is not expected to have a material effect on the Company's results of operations or cash flows.

Implementation Costs Incurred in Cloud Computing Arrangements:

In August 2018, the FASB issued ASU 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, 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). This update is effective for the Company's annual reporting period beginning January 1, 2021, and will be effective for interim periods beginning in 2022. The amendments are applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption, and the Company has not yet decided to use the retrospective or prospective adoption method. Based on current operations of the Company, the adoption of this update is not expected to have a material effect on the Company's results of operations, financial position or cash flows.

Goodwill Impairment Testing:

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment*, which 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 Step 1 of the current goodwill impairment test). Any impairment charge will be limited to the amount of goodwill allocated to an impacted reporting unit. This update 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 update will be applied prospectively. The Company must adopt this new standard no later than the beginning of 2023 for annual and interim reporting periods. The impact that this update 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.

Finxera Holdings, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

3. Enhanced Capital

Enhanced Capital was established as an investment company which Finxera uses to invest in renewable energy projects generating income tax credits (Capital Investments). In 2019, immediately after entering into the Operating Agreement with Enhanced Capital (Note 1), the Company entered into a service agreement (the Service Agreement) with the Manager (Note 2). Under the terms of the Service Agreement, the Manager is to provide Enhanced Capital various management services in connection with the procurement of investments and originating investment transactions with the Affiliated Funds, that are intended to generate income tax credits for the use of the Company, as well an annual return on the Company's investment. In connection with these services, the Manager is entitled to a one-time management fee of 2% of all income tax credits generated during any given calendar year, as well as the ability to generate a more substantial incentive-based management fee, as described under the Service Agreement. At June 30, 2021 and December 30, 2020, the remaining investments, net of estimated tax credits to be received, were \$153,566 and \$214,835, respectively, and included within Short-term investments on the unaudited condensed consolidated balance sheets.

4. Balance Sheet Details

Property and Equipment:

Property and equipment consist of the following at June 30, 2021 and December 31, 2020:

	<u>2021</u>	<u>2020</u>
Leasehold improvements	\$ 247,824	\$ 247,824
Computers and equipment	406,827	338,608
Vehicles	124,782	126,195
Furniture and fixtures	<u>163,058</u>	<u>165,507</u>
	942,491	878,134
Less accumulated depreciation and amortization	<u>482,171</u>	<u>375,499</u>
	<u>\$ 460,320</u>	<u>\$ 502,635</u>

Finxera Holdings, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

Intangible Assets:

Intangible assets consist of the following at June 30, 2021 and December 31, 2020:

	2021	2020
Partner relationships	\$ 45,900,000	\$ 45,900,000
Customer relationships	13,491,000	13,491,000
Developed technology	7,767,000	7,767,000
Licenses	2,130,000	2,130,000
In-process technology	820,000	820,000
Trademarks	123,000	123,000
Non-compete agreements	53,000	53,000
	70,284,000	70,284,000
Less accumulated amortization	13,767,422	11,085,170
	<u>\$ 56,516,578</u>	<u>\$ 59,198,830</u>

Intangible assets are being amortized over their estimated useful lives of 38 months to 108 months, except for the partner relationships and licenses acquired from Finxera, valued at \$48,030,000, which have been determined to have indefinite useful lives, and are not amortized. For the six months ended June 30, 2021 and 2020, the Company recognized amortization expense of \$2,682,252 and \$2,553,546 respectively.

Accrued Expenses and Other Current Liabilities:

Accrued expenses and other current liabilities, net, consists of the following at June 30, 2021 and December 31, 2020:

	2021	2020
Income tax payable (receivable), net	\$ (1,066,316)	\$ (2,848,046)
Accrued interest on term loans (Note 5)	8,245	43,324
Escheatment reserve	512,583	574,786
Employee-related liabilities, including bonus and salaries	973,686	566,123
Professional and other general expenses	1,044,059	342,284
Reserve for uncertain tax positions (Note 7)	227,566	227,566
Company contributions to employee benefit plans (Note 10)	77,192	175,706
Deferred rent, current portion	7,115	37,422
	<u>\$ 1,784,130</u>	<u>\$ (880,835)</u>

Finxera Holdings, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

5. Borrowings

In August 2019, as part of the 2019 Refinancing, the Company entered into a new credit agreement (the 2019 Credit Agreement) with four lenders, which allowed for borrowings up to \$155,000,000. During the first two months of 2020, the Company repaid \$700,000 of the outstanding borrowings under the 2019 Term Loan, along with \$2,469,343 in interest expense (including the \$873,133 in accrued interest from 2018), and, in February 2020, the Company refinanced its credit facility (the 2020 Refinancing). In connection with the 2020 Refinancing, the Company utilized the proceeds from a new debt facility (discussed below) to repay the remaining \$144,800,000 outstanding.

In 2020, the Company recognized an additional \$93,908 of interest expense related to the debt discount prior to the 2020 Refinancing, at which time the unamortized debt discount of \$2,563,683 was expensed to debt extinguishment costs included in the consolidated statements of income.

In February 2020, as part of the 2020 Refinancing, the Company entered into a new credit agreement (the 2020 Credit Agreement) with eight lenders, which allowed for borrowings up to \$240,000,000. The 2020 Credit Agreement was segmented into two parts, a term loan (the 2020 Term Loan) and a revolving line of credit (the 2020 LOC). The 2020 Term Loan allowed for borrowings up to \$235,000,000 and, in March 2020, the Company borrowed the full amount. In connection with these borrowings, \$146,438,843 was withheld directly from the \$235,000,000 borrowed in order to repay the outstanding balance on the 2019 Term Loan, including \$20,793 in accrued but unpaid interest, and \$1,618,050 in loan origination costs related to the 2020 Term Loan (discussed below), resulting in the Company receiving \$88,561,157 in net cash proceeds, with which \$3,056,250 of origination costs were paid directly by the Company (as discussed below).

Outstanding borrowings under the 2020 Term Loan bear interest at a variable rate based on the LIBOR then in effect plus 5.5% (5.65% at December 31, 2020). The 2020 Term Loan requires monthly interest only payments and quarterly principal payments of \$3,042,991 beginning June 30, 2020 through December 31, 2024, with a final balloon payment of \$177,183,000 due in full on February 14, 2025 (the Maturity Date). Under the 2020 Term Loan, the final balloon payment was to be \$177,183,171; however, in 2020, the Company prepaid \$3,871,027 in principal which was applied against the final balloon payment. In 2020, the Company repaid \$13,000,000 in principal associated with the 2020 Term Loan, including the \$3,871,027 prepayment, and also recognized \$13,114,894 in interest expense of which \$13,071,570 was paid and the remaining \$43,324 is accrued at December 31, 2020, and included within accrued expenses and other current liabilities on the consolidated balance sheet. At December 31, 2020, \$222,000,000 was outstanding under the 2020 Term Loan.

During the six months ended June 30, 2021, the Company repaid \$5,214,951 in principal and paid \$7,450,875 in interest associated with the 2020 Term Loan, and recognized \$7,407,551 in interest expense. At June 30, 2021, \$216,785,048 was outstanding on the 2020 Term Loan bearing interest at 6.75%. During the six months ended June 30, 2020, the Company repaid \$7,700,000 in principal and paid \$7,763,581 in interest, and recognized \$6,890,448 in interest expense.

Finxera Holdings, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

Under the 2020 LOC, all outstanding borrowings plus accrued, but unpaid, interest become due in full at the earlier of the Maturity Date or upon the termination of the initial revolving credit commitment, as described in the 2020 Credit Agreement. Outstanding borrowing under the LOC accrue interest at the LIBOR then in effect plus 5.0% (5.15% at December 31, 2020). The Company did not draw down against the 2020 LOC in 2021 or 2020.

In connection with the 2020 Credit Agreement, the Company was required to pay a total of \$4,674,300 in origination fees, legal fees, and other lender costs associated with the borrowings (the 2020 Origination Costs). Of the \$4,674,300 in 2020 Origination Costs, \$1,618,050 were withheld directly from the \$235,000,000 borrowed under the 2020 Term Loan (as discussed above) and the remaining \$3,056,250 were paid directly by the Company. The Company recognized the 2020 Origination Costs as a discount to the 2020 Term Loan, which is being amortized to interest expense ratably over the loan terms. The Company recognized \$463,588 of interest expense related to the 2020 Origination Costs for the six months ended June 30, 2021, and the unamortized discount was \$3,431,673 at June 30, 2021 and 3,895,261 at December 31, 2020.

Borrowings under the 2020 Credit Agreement are secured by substantially all of the assets of the Company. The 2020 Credit Agreements also requires the Company to maintain certain financial and non-financial covenants. The Company was compliant with all covenants required under the 2020 Credit Agreement at June 30, 2021 and December 31, 2020.

As of June 30, 2021, future minimum principal payments under the 2020 Term Loan are due as follows:

Years ending December 31:

2021	\$ 6,957,012
2022	12,171,964
2023	12,171,964
2024	12,171,964
2025	<u>173,312,144</u>
Balance outstanding	216,785,048
Less unamortized debt discount	<u>3,431,673</u>
Term loan, net of discount	213,353,375
Less term loan, current portion	<u>12,171,964</u>
Noncurrent portion	<u>\$ 201,181,411</u>

Finxera Holdings, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

6. Related Party Transactions

Loan Costs:

In 2020, the Company incurred \$4,674,300 in connection with the 2020 Origination Costs (Note 5), of which \$2,400,000 related to legal services provided by or in connection with the Acquirer (Note 1). The Company recognized the 2020 Origination Costs as a discount to the 2020 Term Loans, which is being amortized to interest expense ratably over the term of the loan.

Stockholder Notes Receivable:

In June 2020, the Company entered into three stockholder notes receivable (the Stockholder Notes Receivable) under which it loaned \$779,652, in aggregate, to the three stockholders who are also employees of the Company. The Stockholder Notes Receivable are non-recourse and are secured by the shares of Series C and stock options held by the respective stockholders, as well as all stock dividends, cash, instruments and other property or property proceeds from time to time received, receivable or otherwise distributed in respect of or in exchange for any pledged shares held by the respective stockholders. The Stockholder Notes Receivable bear interest at the rate of 0.43% per annum, compounded annually, and become due in full on the earlier of June 15, 2027, a change in control, or upon the respective stockholders' termination of employment from the Company. All payments towards the satisfaction of the outstanding notes receivable are first applied to interest, and then to principal. As of June 30, 2021, the Company had accrued \$1,680 in interest on the notes. At June 30, 2021 and December 31, 2020, the outstanding principal and interest on the Stockholder Notes Receivables was \$783,150 and \$781,471, respectively.

7. Income Taxes

The Company's effective income tax rate (benefit) for the six months ended June 30, 2021 and 2020 was 24.9% and 19.6%, respectively.

8. Capital Stock

Preferred Stock:

The Company is authorized to issue 10,001,000 shares of preferred stock with a par value of \$0.001 per share. The Board of Directors has designated 10,000,000 shares as Series C and the remaining 1,000 shares as undesignated preferred stock (Undesignated) (collectively, Preferred Stock).

Finxera Holdings, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

At June 30, 2021 and December 31, 2020, the Company had the following shares of Preferred Stock authorized, issued and outstanding:

<u>Series</u>	<u>Shares Authorized</u>	<u>Shares Outstanding</u>	<u>Aggregate Liquidation Preference</u>
Series C	10,000,000	6,765,302	\$ 67,653,000
Undesignated	<u>1,000</u>	<u>-</u>	<u>-</u>
	<u>10,001,000</u>	<u>6,765,302</u>	<u>\$ 67,653,000</u>

The rights, preferences, privileges and restrictions for the holders of Preferred Stock are as follows:

Voting Rights:

The holders of Series C are entitled to voting rights equal to the number of shares of Series C outstanding.

Dividends:

The holders of Series C are entitled to receive, prior and in preference to any dividends on Undesignated or common stock, cumulative dividends on each share of Series C outstanding at the rate of 8%, per annum, compounded annually and accruing from the date of issuance, of the Series C purchase price, to the extent the Series C purchase price has not been repaid through prior dividends. The Series C purchase price is \$10.00 per share (the Original Purchase Price).

Dividends are payable when, and if, declared by the Board of Directors. However, to the extent dividends are not paid in cash, dividends are cumulative and compound on an annual basis beginning on the date of issuance on each outstanding share of Series C, whether or not dividends are declared by the Board of Directors.

In March 2020, following the 2020 Refinancing and the borrowings drawn under the 2020 Term Loan (Note 5), the Company declared and paid a cash dividend in the amount of \$11.918 per share related to the holders of the 6,765,302 shares of Series C issued and outstanding as of the date of the dividend, resulting in an aggregate distribution of \$80,630,576 (the 2020 Dividend).

The payment of the 2020 Dividend satisfied the noncumulative dividend requirement for 2020.

At June 30, 2021, no dividends were declared or paid to preferred stock holders.

Finxera Holdings, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

Liquidation:

In the event of any liquidation, dissolution or winding up of the Company, the holders of Series C are entitled to receive, in preference to any distribution of assets to the holders of Undesignated or common stock, an amount equal to the Original Issuance Price per share, as adjusted for any stock splits, stock dividends, recapitalizations or the like, plus all accrued but unpaid dividends (the Series C Preference Amount). Should the Company's available assets be insufficient to satisfy the Series C Preference Amount, the funds will be distributed ratably among the holders of Series C in proportion to their Series C Preference Amount.

After the payment of the full Series C Preference Amount, the remaining assets of the Company will be distributed ratably amongst the holders of Series C and common stock in accordance with the aggregate number of shares of common stock and Series C that are then outstanding.

Common Stock:

The Company is authorized to issue 2,001,000 shares of common stock with a par value of \$0.001 per share. The Board of Directors has designated 1,000 shares as Class A common stock (Class A) and the remaining 2,000,000 shares as Class B common stock (Class B) (collectively, Common Stock). At June 30, 2021 and December 31, 2020, the Company had 730,855 and 730,855 shares of Class B issued and outstanding, respectively, and no shares of Class A.

The rights and preferences of Class A and Class B are identical except that Class B shares have no voting rights. The holders of Class A have voting rights equal to one vote per share of Class A held.

Beginning in April 2020, following the issuance of Class B, the Company declared and paid monthly dividends to the holders of Class B (the Common Stock Dividends). The aggregate Common Stock Dividends declared and paid through the six months ended June 30, 2020 totaled \$134,654.

Through the six months ended June 30, 2021, a dividend of \$675,381 was paid to the holders of Class B Common Stock.

9. **Equity Incentive Plan**

Effective November 2, 2018, the Company adopted the 2018 Equity Incentive Plan (the Plan). Under the Plan provisions, the Board of Directors may grant non-qualified stock options (NSOs) to employees, directors, officers and consultants of the Company. At June 30, 2021 and at December 31, 2020, the Company has reserved 1,199,070 shares of Class B for issuance under the Plan, of which 730,855 shares have been exercised and are outstanding.

Finxera Holdings, Inc.**Notes to Unaudited Condensed Consolidated Financial Statements**

For the six months ended June 30, 2021 and 2020, employee stock-based compensation related to the Service Options and the Performance Options was not material. No income tax benefits have been recognized in the consolidated statements of income for stock-based compensation arrangements and no stock-based compensation costs have been capitalized as of June 30, 2021 and December 31, 2020.

In 2020, the Company granted 302,738 stock options to employee, all of which were Service Options. The fair value of each Service Option granted in 2020 was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: expected life ranging from 5.4 to 6.25 years; risk-free interest rates ranging from 0.24% and 0.29%; expected volatility of 39.2%; and no dividends during the expected term. Expected volatility is based on historical volatilities of public companies operating in the Company's industry. The expected life of the options represents the period of time options are expected to be outstanding and is estimated considering vesting terms and employees' historical exercise and post-vesting employment termination behavior. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. The weighted-average grant date fair value of the Service Options granted to employees in 2020 was \$1.37 per share.

Stock option activity under the Plan is as follows:

	Options Available	Options Outstanding	
		Number of Shares	Weighted Average Exercise Price
Balances, December 31, 2019	256,236	933,612	\$ 1.00
Authorized	9,222	-	-
Cancelled	37,280	(37,280)	\$ 1.00
Granted	<u>(302,738)</u>	<u>302,738</u>	<u>\$ 3.58</u>
Balances, June 30, 2020	<u>-</u>	<u>1,199,070</u>	<u>\$ 1.65</u>
Exercised	<u>-</u>	<u>(730,855)</u>	<u>\$ 1.07</u>
Balances, December 31, 2020	<u>-</u>	<u>468,215</u>	<u>\$ 2.56</u>

In 2020, employees exercised 730,855 stock options of which 264,051 were Service Options and the remaining 466,804 were Performance Options

At December 31, 2020, there were 468,215 Service Options issued and outstanding of which 67,432 were vested and exercisable with a weight-average exercise price of \$3.58. The weighted-average remaining contractual life of Service Options outstanding was 9.29 years at December 31, 2020.

Finxera Holdings, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

During the six months ending June 30, 2021, there was no activity in the Plan.

Estimated future stock-based compensation for unvested Service Options granted and outstanding as of December 31, 2020 was \$298,943 to be recognized over a requisite service period of 2.53 years.

10. Benefit Plans

Profit Sharing Plan:

In March 2016, Finxera established a profit-sharing plan (the PS Plan) to provide defined contribution retirement benefits for all eligible employees, as defined in the plan agreement. Participants may contribute a portion of their compensation to the PS Plan, subject to limitations under the Internal Revenue Code. The Company could also make discretionary profit-sharing contributions on a pro rata basis, based on participant's compensation, as well as other Company contributions at the discretion of the Board of Directors. For the six months ended June 30, 2021, the Company made \$183,062 in contributions to the PS Plan. In 2020, the Company contributed \$391,000 to the PS Plan, of which \$176,000 was accrued at December 31, 2020 and remitted to the PS Plan in January 2021.

Cash Benefit Plan:

In March 2016, Finxera established the DB Plan to provide defined benefits for all eligible employees, as defined in the plan agreement. The Company's funding policy is to make the minimum annual contribution required under the Plan Agreement and the applicable regulations. Participant contributions to the DB Plan are not permitted.

In March 2021, the Company elected to terminate the DB Plan. In connection with that decision, management voted to freeze the DB Plan in April 2021. Upon freezing the DB Plan, it will continue to be operated in accordance with the termination process until all DB Plan assets are distributed to participants or, to the extent the DB Plan is overfunded at the date of distribution, transferred back to the Company. As of June 30, 2021, management estimates the DB Plan assets to be distributed in connection with the termination will be approximately \$3,440,000, of which \$3,180,000 are expected to be distributed to DB Plan participants in fulfillment of the DB Plan obligation and the remaining approximately \$260,000 will be distributed back to the Company.

In 2020, the Company contributed \$437,000 to the DB Plan, all of which was remitted to the DB Plan in 2020. Due to the funding status of the DB Plan at December 31, 2020, no Company contributions were made in 2021.

DB Plan assets primarily consist of exchange-traded funds and money market funds offered by Charles Schwab and Company, which are classified as Level I investments under the fair value hierarchy. Plan asset allocation at December 31, 2020 are comprised of 99% equity securities and 1% fixed income

Finxera Holdings, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

investments. The measurement dates used to determine the pension measurements for the majority of the DB Plan assets and benefit obligations was December 31, 2020.

The following tables set forth further information regarding the DB Plan as of and for the years ended December 31, 2020:

	<u>2020</u>
Obligations and funded status	
Projected benefit obligation	\$ (2,762,315)
Plan assets at fair value	<u>3,382,779</u>
Funded status	<u>\$ 620,464</u>
Accumulated benefit obligation	<u>\$ (2,762,315)</u>
Plan expenses paid	<u>\$ 13,831</u>
Components of net periodic benefit cost:	
Service cost	\$ 593,734
Interest cost	104,154
Expected return on plan assets	(131,797)
Recognized net loss	<u>13,672</u>
Net periodic benefit cost	<u>\$ 579,763</u>

At December 31, 2020, the DB Plan is fully funded, and, at December 31, 2020, the Company has recognized a prepaid pension asset of \$620,000. The prepaid pension asset is included within prepaid expenses and other current assets on the unaudited condensed consolidated balance sheets. Through June 30, 2021 and December 31, 2020, the Company's management has determined any unrealized gains, losses or other potential pension costs to be recorded as a component of other comprehensive income (loss) have not been material to the consolidated financial statements.

Finxera Holdings, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

The following assumptions were used to determine the DB Plan status as of and for the year ended December 31, 2020:

	<u>2020</u>
Weighted average assumptions used to determine benefit obligations at December 31:	
Discount rate	5.0%
Rate of compensation increase	-
Weighted average assumptions used to determine net periodic benefit cost for the years ended December 31:	
Discount rate	5.0%
Rate of compensation increase	-
Expected long-term return on plan assets	5.0%

The Company's expected rate of return on DB Plan assets is determined by the DB Plan assets' historical long-term investment performance, current asset allocation and estimates of future long-term returns by asset class. There were no benefits paid through June 30, 2021 or in 2020.

Finxera Holdings, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

11. Acquisitions

In November 2020, the Company acquired two businesses (collectively, the Acquisitions) through asset purchase agreements (the APAs). In connection with the Acquisitions, Finxera recorded all assets acquired and liabilities assumed at fair value. In deriving fair value, Finxera performed purchase price allocations, resulting in a new accounting basis for the assets acquired and liabilities assumed. The aggregate purchase price was \$10,241,440, which was allocated as follows:

	<u>Total</u>
Assets acquired	\$ 172,631
Liabilities assumed	<u>(13,191)</u>
	159,440
 Intangible assets acquired:	
Customer relationships	1,591,000
Developed technology	267,000
Trademarks	123,000
Non-compete agreements	<u>53,000</u>
Total intangible assets	2,034,000
Goodwill	<u>8,048,000</u>
Total purchase price	<u>\$ 10,241,440</u>
 Useful life of the customer relationships:	96 - 108 months
Useful life of technology	84 months
Useful life of trademarks	108 months
Useful life of non-compete agreements	48 months

In connection with the Acquisitions, the aggregate purchase price was \$10,241,440, which was comprised of \$4,159,440 in cash consideration and contingent consideration payable valued at \$6,082,000. The cash consideration was paid in full during November and December 2020. The contingent consideration payable is comprised of earn-outs equal to 50% of certain revenues earned from the customers assumed in the Acquisitions, as described under each acquired business's respective APA. The associated earn-outs are to be measured and paid every six months, with the first measurement period ending on June 30, 2021, and expiring at various dates through December 31, 2023. The Company incurred \$179,106 in expenses associated with the Acquisitions, which are classified within transaction expenses in the consolidated statement of income.

Finxera Holdings, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

12. Commitments and Contingencies

Facility Leases:

The Company leases its headquarters in San Jose, California under a non-cancellable operating lease agreement which expires in October 2022. The Company also leases office space in Garner, North Carolina, Selma, North Carolina and Chandigarh, India, under non-cancellable operating leases that expire at various dates through April 2023. In 2020, the Company also leased five apartments which it uses to provide corporate housing for certain executive employees, all of which are leased under non-cancellable operating lease agreements. In addition to the base rent, the Company is generally responsible for certain insurance, property tax, and maintenance expenses under the lease agreements.

Future minimum lease payments under the non-cancelable operating leases are as follows:

Years Ending December 31:

2021	\$ 275,000
2022	509,000
2023	<u>12,000</u>
	<u>\$ 1,071,000</u>

Client Cash Deposit Balances:

In connection with the Company's money transmittal licenses, the Company maintains Client cash deposit balances (Note 2) at Partner Banks. At June 30, 2021 and December 31, 2020, the Client cash deposit balances were \$479,025,698 and \$478,869,127, respectively, maintained at seven Partner Banks in amounts ranging from \$918,388 to \$248,137,577.

Subscriber Cash Deposit Balances:

The Company maintains Subscriber cash deposit balances (Note 2) at Partner Banks. The Subscriber cash deposit balances at June 30, 2021 and December 31, 2020, were \$11,147,290 and \$8,920,759, respectively and maintained at one Partner Bank.

Finxera Holdings, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

Indemnification Agreements:

The Company, as permitted under California law and in accordance with the Company's Bylaws, indemnifies its officers, directors, employees and other agents for certain events or occurrences, subject to certain limits, while the individuals are or were serving at its request in such capacity. The term of the indemnification period is for the individual's lifetime. The maximum amount of potential future indemnification is unlimited; however, the Company has a director and officer insurance policy that limits its exposure and enables it to recover a portion of any future amounts paid. As a result of the Company's insurance policy coverage, the Company believes the fair value of these indemnification agreements is minimal. Therefore, no liability for potential claims has been recorded at June 30, 2021 or December 31, 2020.

Legal:

From time to time, the Company is involved in legal disputes. In the opinion of management, any liabilities resulting from these claims will not have a material adverse effect on the Company's consolidated financial position or results of operations. As a result, no liability for potential legal claims has been recorded at June 30, 2021 or December 31, 2020.

13. Subsequent Events

The global outbreak of the novel coronavirus in 2020 continues to be an evolving situation. The virus has disrupted much of society, impacted global travel and supply chains, and adversely impacted global commercial activity in most industries. The rapid development and fluidity of this situation precludes any prediction as to its ultimate impact, which may have a continued adverse effect on economic and market conditions and continue to cause an extended period of global economic slowdown. Such conditions, which may be across industries, sectors or geographies, may impact the Company's operating performance in the near term.

On September 17, 2021, upon acquisition of 100% of the its common stock by PRTH, Company has become a wholly-owned subsidiary of PRTH. In connection with the Transaction, the Company incurred \$10,341 and \$851,313 in expenses during the six months ending June 30, 2021 and 2020, respectively, which are classified within transaction expenses in the consolidated statement of income. Subsequent events have been evaluated through December 2, 2021 i.e. the date the consolidated financial statements were approved by the Company and available to be issued.

Unaudited Pro Forma Condensed Combined Financial Information

On March 5, 2021, Priority Technology Holdings, Inc. (the "Company," "we" or "PRTH") entered into an agreement to acquire (the "acquisition") the outstanding shares of Finxera Holdings, Inc. ("Finxera") through its wholly owned subsidiary Prime Warrior Acquisition Corp (the "merger sub"). Upon the closing of the acquisition on September 17, 2021, the merger sub merged into Finxera and Finxera became a wholly owned subsidiary of the Company.

The following tables present unaudited pro forma condensed combined financial information (the "Unaudited Pro Forma Financial Statements") about the Company's Consolidated Statements of Operations (the "Unaudited Pro Forma Statements of Operations") after giving effect to the acquisition and the related financing transactions. The Company's Unaudited Condensed Consolidated Balance Sheet as of September 30, 2021 included with PRTH's Quarterly Report on Form 10-Q for the quarter ended September 30, 2021 reflected the effects of the acquisition, therefore unaudited pro forma condensed combined financial information about the Company's Consolidated Balance Sheet is not required. The Unaudited Pro Forma Statements of Operations for the year ended December 31, 2020 and for the nine months ended September 30, 2021 combine the historical Consolidated Statements of Operations of PRTH and Finxera, giving effect to the acquisition as if it had been completed on January 1, 2020.

The Unaudited Pro Forma Financial Statements and the Notes to the Unaudited Pro Forma Financial Statements were prepared using the acquisition method of accounting with PRTH as the acquirer of Finxera. The historical consolidated financial information has been adjusted in the Unaudited Pro Forma Financial Statements to give effect to events that are (i) directly attributable to the acquisition, (ii) factually supportable and (iii) with respect to the Unaudited Pro Forma Statements of Operations, expected to have a continuing effect on the combined results of PRTH and Finxera. The Unaudited Pro Forma Financial Statements contained herein do not reflect the costs of any integration activities or benefits that may result from the realization of future revenue enhancements or cost savings from operating efficiencies, or any other synergies that may result from the acquisition. Management anticipates that certain material charges will be incurred subsequent to the acquisition for items such as operations and technology integration. However, since the timing and effect are not specifically determinable at this time, no amounts are included in the Unaudited Pro Forma Financial Statements for such items.

The Unaudited Pro Forma Financial Statements and the Notes to the Unaudited Pro Forma Financial Statements are being provided for illustrative purposes only and do not purport to represent what the combined company's actual results of operations would have been had the acquisition been completed on the dates indicated, nor are they necessarily indicative of the combined company's future results of operations for any future period.

PRTH has completed a preliminary purchase price allocation based on the estimated fair values of acquired assets and assumed liabilities. Differences between the fair values of Finxera's assets and liabilities used in the preliminary purchase price allocation and the fair values of Finxera's assets and liabilities at the time of the final purchase price allocation may have material effect on the combined company's Consolidated Statements of Operations.

Further, PRTH has not identified all adjustments necessary to conform Finxera's accounting policies and financial statement presentation to PRTH's policies and presentation. PRTH is in the process of performing such analysis and differences identified in that analysis could have a material effect on the combined company's financial information.

The pro forma adjustments are preliminary and are subject to change as additional information becomes available and as additional analysis is performed. The preliminary pro forma adjustments have been made solely for the purpose of providing the Unaudited Pro Forma Financial Statements.

The Unaudited Pro Forma Financial Statements and the Notes to the Unaudited Pro Forma Financial Statements are based on and should be read in conjunction with (i) the historical audited consolidated financial statements of PRTH and the related notes included in PRTH's Annual Report on Form 10-K for the year ended December 31, 2020 and the historical unaudited consolidated financial statements of PRTH included in PRTH's Quarterly Report on Form 10-Q for the period ended September 30, 2021 and (ii) the historical audited consolidated financial statements of Finxera and the related notes for the year ended December 31, 2020 included in this Current Report on Form 8-K.

Priority Technology Holdings, Inc.
Unaudited Pro Forma Statement of Operations
Nine Months Ended September 30, 2021
(in thousands, except per share amounts)

	PRTH Historical	Finxera Historical	Pro Forma Adjustments	Note 3 Reference	Pro Forma Combined
Revenues	\$ 370,853	\$ 46,684			\$ 417,537
Operating expenses					
Costs of services	264,527	3,171	—		267,698
Salary and employee benefits	31,808	31,610	—	(b)	63,418
Depreciation and amortization	32,123	4,094	12,694	(c)	48,911
Selling, general and administrative	22,213	6,589	—	(b)	28,802
Total operating expenses	350,671	45,464	12,694		408,829
Operating income (loss)	20,182	1,220	(12,694)		8,708
Other income (expenses)					
Interest expense	(24,608)	(14,528)	(2,198)	(d)	(41,334)
Debt extinguishment and modification costs	(8,322)	—	—		(8,322)
Other income (expense), net	92	(513)	—		(421)
Total other expenses, net	(32,838)	(15,041)	(2,198)		(50,077)
(Loss) income before income taxes	(12,656)	(13,821)	(14,892)		(41,369)
Income tax expense (benefit)	49	(1,345)	(3,723)	(f)	(5,019)
Net (loss) income	(12,705)	(12,476)	(11,169)		(36,350)
Less: net income attributable to redeemable non-controlling interests and redeemed non-controlling interests	(10,777)	—	—		(10,777)
Less: dividends and accretion attributable to redeemable senior preferred stockholders	(9,724)	—	(7,573)	(e)	(17,297)
Net (loss) income attributable to common stockholders	\$ (33,206)	\$ (12,476)	\$ (18,742)		\$ (64,424)
Loss per common share:					
Basic	\$ (0.48)				\$ (0.84)
Diluted	\$ (0.48)				\$ (0.84)
Weighted-average common shares outstanding:					
Basic	69,689		7,034	(g)	76,723
Diluted	69,689		7,034	(g)	76,723

Priority Technology Holdings, Inc.
Unaudited Pro Forma Statement of Operations
Year Ended December 31, 2020
(in thousands, except per share amounts)

	PRTH Historical	RentPayment Sale ⁽¹⁾	Finxera Historical	Pro Forma Adjustments	Note 3 Reference	Pro Forma Combined
Revenues	\$ 404,342	\$ (12,042)	\$ 71,523	\$ —		\$ 463,823
Operating expenses						
Costs of services	277,374	(1,362)	4,969	—		280,981
Salary and employee benefits	39,507	(1,649)	21,554	—	(b)	59,412
Depreciation and amortization	40,775	(3,668)	5,357	18,088	(c)	60,552
Selling, general and administrative	25,825	(3,538)	8,043	—	(b)	30,330
Total operating expenses	383,481	(10,217)	39,923	18,088		431,275
Operating income (loss)	20,861	(1,825)	31,600	(18,088)		32,548
Other income (expenses)						
Interest expense	(44,839)	—	(15,605)	(8,043)	(d)	(68,487)
Debt extinguishment and modification costs	(1,899)	—	(2,563)	2,563	(d)	(1,899)
Gain on sale of business	107,239	—	—	—		107,239
Other income, net	596	—	346	—		942
Total other income (expenses), net	61,097	—	(17,822)	(5,480)		37,795
Income (loss) before income taxes	81,958	(1,825)	13,778	(23,568)		70,343
Income tax expense	10,899	(100)	2,701	(5,892)	(f)	7,608
Net income (loss)	71,059	(1,725)	11,077	(17,676)		62,735
Less: net income attributable to redeemable non-controlling interests and redeemed non-controlling interests	(45,398)	—	—	—		(45,398)
Less: dividends and accretion attributable to redeemable senior preferred stockholders	—	—	—	(10,663)	(e)	(10,663)
Net income (loss) attributable to common stockholders	\$ 25,661	\$ (1,725)	\$ 11,077	\$ (28,339)		\$ 6,674
Earnings per common share:						
Basic	\$ 0.38					\$ 0.09
Diluted	\$ 0.38					\$ 0.09
Weighted-average common shares outstanding:						
Basic	67,158			7,551	(g)	74,709
Diluted	67,263			7,551	(g)	74,814

⁽¹⁾ Refer to Note 3 (a).

Priority Technology Holdings, Inc.
Notes to Unaudited Pro Forma Financial Statements

1. Basis of Presentation

The Unaudited Pro Forma Financial Statements and related notes present the pro forma condensed combined results of operations of PRTH and Finxera.

The historical financial information of PRTH and Finxera as of and for the nine months ended September 30, 2021 was derived from the unaudited condensed consolidated financial statements presented in PRTH's Quarterly Report on Form 10-Q for the period ended September 30, 2021 and Finxera's unaudited financial information for the period ended September 16, 2021, respectively. The historical financial information of PRTH and Finxera for the year ended December 31, 2020 was derived from the audited consolidated financial statements presented in PRTH's Annual Report on Form 10-K for the year ended December 31, 2020, and audited financial statements of Finxera for the year ended December 30, 2020, filed with this Current Report on Form 8-K, respectively. Financial information of Finxera for the period from September 17, 2021 (the "acquisition date") to September 30, 2021 is included in PRTH's unaudited condensed consolidated financial statements presented on its Quarterly Report on Form 10-Q for the period ended September 30, 2021.

The Unaudited Pro Forma Financial Statements reflect certain reclassifications to align the historical financial statement presentation of PRTH and Finxera. PRTH has not yet identified all adjustments necessary to conform Finxera's accounting policies and financial statement presentation to PRTH's policies and presentation. PRTH is in the process of performing such analysis and differences identified in that analysis could have a material effect on the combined company's financial information. The Unaudited Pro Forma Financial Statements also reflect adjustments for the year ended December 31, 2020 to eliminate the effect of the disposal of the RentPayment operations in September of 2020.

The Unaudited Pro Forma Financial Statements were prepared using the acquisition method of accounting, with PRTH as the acquirer of Finxera. In the pro forma financial statements, adjustments are determined based on the preliminary purchase price allocation based on the estimated fair values of acquired assets and assumed liabilities and are subject to revision based on a final determination of fair value within the measurement period of up to twelve months subsequent to the acquisition date. Differences between the fair values of Finxera's assets and liabilities used in the preliminary purchase price allocation and the fair values of Finxera's assets and liabilities at the time of final purchase price allocation may have material effect on the combined company's Consolidated Statements of Operations. The pro forma adjustments are preliminary and are subject to change as additional information becomes available and as additional analysis is performed. The preliminary pro forma adjustments have been made solely for the purpose of providing the Unaudited Pro Forma Financial Statements.

2. Consideration, Financing and Preliminary Valuation

The preliminary purchase price is \$407.0 million and is subject to customary adjustments including final purchase accounting and working capital adjustments. The transaction was funded with the Company's cash on hand, proceeds from the issuance of the redeemable senior preferred stock and debt, and the issuance of common equity shares to the sellers.

The acquisition was accounted for as a business combination using the acquisition method of accounting, under which the assets acquired and liabilities assumed were recognized at their fair values as of the acquisition date, with the excess of the fair value of consideration transferred over the fair value of the net assets acquired recognized as goodwill. The fair values of the assets acquired and liabilities assumed as of the acquisition date were estimated by management based on the valuation of the Finxera business using the discounted cash flow method and other factors specific to certain assets and liabilities. The preliminary purchase price allocation is set forth in the table below and is expected to be finalized as soon as practicable, but no later than one year from the acquisition date.

(in thousands)

Consideration:		
Cash	\$	379,220
Equity instruments ⁽¹⁾		34,388
Less: cash and restricted cash acquired		(6,598)
Total purchase consideration, net of cash and restricted cash acquired	\$	407,010
Recognized amounts of assets acquired and liabilities assumed:		
Accounts receivable	\$	385
Prepaid expenses and other current assets		5,963
Current portion of notes receivable		784
Settlement assets and customer account balances		498,811
Property, equipment and software, net		411
Goodwill		252,062
Intangible assets, net ⁽²⁾		202,890
Other non-current assets		955
Accounts payable and accrued expenses		(7,837)
Settlement and customer account obligations		(498,811)
Deferred income taxes, net		(43,395)
Other non-current liabilities		(5,208)
Total purchase consideration	\$	407,010

⁽¹⁾ The fair value of the 7,551,354 shares of PRTH common stock that were issued was determined based on their market price at the time of closing adjusted for an appropriate liquidity discount due to trading restrictions under Securities Rule 144.

⁽²⁾ The intangible assets acquired consist of \$148.4 million for referral partner relationships, \$36.0 million for technology, \$16.4 million for customer relationships and \$2.1 million for money transmitter licenses.

3. Pro Forma Adjustments

The Unaudited Pro Forma Condensed Combined Statements of Operations include adjustments made assuming the acquisition and related financing transactions were completed as of January 1, 2020 and do not include any material nonrecurring charges that may arise in subsequent periods as a result of the acquisition.

The following items are reflected as pro forma adjustments:

(a) Adjustments reflect the elimination of the Company's RentPayment operations due to the sale of the business in September 2020 which was considered to be a significant disposal.

(b) The historical financial statements of PRTH and Finxera include the following non-recurring transaction costs. These costs will not affect PRTH's Statements of Operations beyond 12 months after the acquisition date.

(in thousands)

		Nine Months Ended September 30, 2021			Year Ended December 31, 2020		
		PRTH	Finxera	Combined	PRTH	Finxera	Combined
Salary and employee benefits	\$	—	22,398	22,398	—	—	—
Marketing, general and administrative		9,182	3,923	13,105	108	1,113	1,221
	\$	9,182	26,321	35,503	108	1,113	1,221

(c) This pro forma adjustment represents changes in the estimated amortization expense as if the acquisition had been consummated on January 1, 2020:

<i>(in thousands)</i>	Nine Months Ended September 30, 2021	Year Ended December 31, 2020
Estimated amortization expense	\$ 16,509	\$ 23,215
Elimination of Finxera's historical amortization expense	(3,815)	(5,127)
Pro forma adjustment to amortization expense	<u>\$ 12,694</u>	<u>\$ 18,088</u>

(d) This pro forma adjustment represents the net change in interest expense as if the acquisition related borrowings of PRTH and the repayment of the Finxera historical credit facilities had been consummated on January 1, 2020. Interest expense on the new credit facility was calculated using pricing associated with the new agreement. For the purpose of these unaudited pro forma financial statements, the stated interest rate for the borrowings under the new credit facility was 6.75%.

<i>(in thousands)</i>	Nine Months Ended September 30, 2021	Year Ended December 31, 2020
Interest expense on PRTH's new credit facility and amortization of new debt issuance costs	\$ (16,726)	\$ (23,648)
Elimination of Finxera's historical interest expense associated with its credit facilities	14,528	15,605
Pro forma adjustment to interest expense	<u>\$ (2,198)</u>	<u>\$ (8,043)</u>
Elimination of Finxera's historical debt modification cost	\$	2,563

(e) This pro forma adjustment reflects the accrual for dividends and other accretions due to the preferred stockholders, at a rate of 13.0% annually based on the preferred shares that have been issued:

<i>(in thousands)</i>	Nine Months Ended September 30, 2021	Year Ended December 31, 2020
Dividend	\$ 6,918	\$ 9,750
Accretion of discount and issuance cost	655	913
Pro forma adjustment	<u>\$ 7,573</u>	<u>\$ 10,663</u>

(f) This pro forma adjustment reflects the income tax effect of the pro forma adjustments in the Unaudited Condensed Combined Pro Forma Statements of Operations utilizing the blended federal and state statutory income tax rate of 25%.

(g) The unaudited pro forma basic and diluted earnings per share calculations are based on the basic and diluted weighted-average number of shares outstanding after giving effect to the number of shares of PRTH common stock expected to be issued pursuant to the acquisition.

<i>(in thousands)</i>	Nine Months Ended September 30, 2021	Year Ended December 31, 2020
Basic weighted-average number of shares outstanding	69,689	67,158
Shares of PRTH common stock issued as part of the purchase consideration	7,034	7,551
Pro forma basic weighted-average number of shares outstanding	<u>76,723</u>	<u>74,709</u>
Diluted weighted-average number of shares outstanding	69,689	67,263
Shares of PRTH common stock issued as part of the purchase consideration	7,034	7,551
Pro forma diluted weighted-average number of shares outstanding	<u>76,723</u>	<u>74,814</u>