

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

Form 8-K/A
(Amendment No. 2)

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

July 25, 2018
Date of Report (Date of earliest event reported)

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

Delaware

(State or other jurisdiction of incorporation)

001-37872

(Commission File Number)

47-4257046

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

**2001 Westside Parkway
Suite 155
Alpharetta, GA**

(Address of Principal Executive Offices)

30004

(Zip Code)

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

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

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

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

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

Emerging growth company ☒

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

Introductory Note

On July 25, 2018, the registrant consummated the previously announced business combination pursuant to a contribution agreement, dated February 26, 2018, as amended and restated on March 26, 2018 and April 17, 2018 (the “Purchase Agreement”), by and among M I Acquisitions, Inc. (“M I Acquisitions”), Priority Investment Holdings, LLC (“PIH”) and Priority Incentive Equity Holdings, LLC (“PIEH” and, together with PIH, the “Sellers”), which provided for, among other things, the acquisition of 100% of the issued and outstanding equity securities of Priority Holdings, LLC by M I Acquisitions, which resulted in Priority Holdings, LLC becoming a wholly-owned subsidiary of M I Acquisitions (together with the other transactions contemplated by the Purchase Agreement, the “Business Combination”).

Upon the closing of the Business Combination, the registrant changed its name from “M I Acquisitions, Inc.” to “Priority Technology Holdings, Inc.” Unless the context otherwise requires, “we,” “us,” “our” and the “Company” refer to the registrant and its subsidiaries. “M I Acquisitions” refers to the registrant prior to the closing, and “Priority” refers to the business of Priority Holdings, LLC before it became a subsidiary of Company upon the closing.

On July 31, 2018, the Company filed a Current Report on Form 8-K and the first amendment thereto (together, the “Original Form 8-K”) to report the closing of the Business Combination and related matters under Items 1.01, 2.01, 3.02, 3.03, 4.01, 5.01, 5.02, 5.03, 5.05, 5.06 and 9.01 of Form 8-K.

This Amendment No. 2 on Form 8-K/A (this “Amendment”) amends the Original Form 8-K to include certain financial information of Priority and related disclosures. This Amendment does not modify or update any of the information or disclosures in the Original Form 8-K except to the extent specifically set forth herein.

Item 2.01 Completion of Acquisition or Disposition of Assets.

The information set forth under Item 2.01 in the Original Form 8-K is incorporated by reference in this Item 2.01.

The unaudited condensed consolidated financial statements of Priority and its subsidiaries as of June 30, 2018 and for each of the six-month periods ended June 30, 2018 and 2017 are included in this Amendment as Exhibit 99.3 and incorporated herein by reference.

The Management’s Discussion and Analysis of Financial Condition and Results of Operations and Qualitative and Quantitative Disclosure About Market Risk of Priority and its subsidiaries for the six-month period ended June 30, 2018 is included in this Amendment as Exhibit 99.4 and incorporated herein by reference.

The unaudited pro forma combined statements of operations for the year ended December 31, 2017 and for the six months ended June 30, 2018 giving pro forma effect to the Business Combination as if it had occurred on January 1, 2017 and the unaudited pro forma combined balance sheet as of June 30, 2018 assuming that the Business Combination had occurred on June 30, 2018 are included in this Amendment as Exhibit 99.5 and incorporated herein by reference.

Item 9.01 Financial Statements and Exhibits.

(a) *Financial statements of businesses acquired*

The unaudited condensed consolidated financial statements of Priority and its subsidiaries as of June 30, 2018 and for each of the six-month periods ended June 30, 2018 and 2017 are included in this Amendment as Exhibit 99.3.

(b) *Pro Forma Financial Information*

The unaudited pro forma combined statements of operations for the year ended December 31, 2017 and for the six months ended June 30, 2018 giving pro forma effect to the Business Combination as if it had occurred on January 1, 2017 and the unaudited pro forma combined balance sheet as of June 30, 2018 assuming that the Business Combination had occurred on June 30, 2018 are included in this Amendment as Exhibit 99.5.

(d) Exhibits:

Exhibit	Description
<u>2.1</u> [*]	<u>Second Amended and Restated Contribution Agreement, dated as of April 17, 2018, by and among Priority Investment Holdings, Priority Incentive Equity Holdings, LLC and M I Acquisitions, Inc. (incorporated by reference to Annex A to the Company's Proxy Statement on Schedule 14(a) filed July 5, 2018).</u>
<u>2.2</u> [*]	<u>Purchase Agreement, dated as of February 26, 2018 by and among Priority Holdings, LLC, M SPAC LLC, M SPAC Holdings I LLC, M SPAC Holdings II LLC, and M I Acquisitions, Inc. (incorporated by reference to Annex B to the Company's Proxy Statement on Schedule 14(a) filed July 5, 2018).</u>
<u>3.1</u> [*]	<u>Second Amended and Restated Certificate of Incorporation of Priority Technology Holdings, Inc.</u>
<u>3.2</u> [*]	<u>Amended and Restated Bylaws of Priority Technology Holdings, Inc.</u>
<u>10.1</u> [*]	<u>Registration Rights Agreement dated as of July 25, 2018 by and among M I Acquisitions, Inc. and the other parties thereto.</u>
<u>10.2</u> [*]	<u>Priority Technology Holdings, Inc. 2018 Equity Incentive Plan.</u>
<u>10.3</u> [*]	<u>Priority Technology Holdings, Inc. Earnout Incentive Plan</u>
<u>10.4</u> [*]	<u>Credit and Guaranty Agreement, dated as of January 3, 2017 by and among Pipeline Cynergy Holdings, LLC, Priority Institutional Partner Services, LLC, Priority Payment Systems Holdings LLC, Priority Holdings, LLC, the Credit Parties, the Lenders and SunTrust Bank.</u>
<u>10.4.1</u> [*]	<u>First Amendment to the Credit and Guaranty Agreement, dated as of November 14, 2017 by and among Pipeline Cynergy Holdings, LLC, Priority Institutional Partner Services, LLC, Priority Payment Systems Holdings LLC, Priority Holdings, LLC, the other Guarantors, the Lenders and SunTrust Bank.</u>
<u>10.4.2</u> [*]	<u>Second Amendment to the Credit and Guaranty Agreement, dated as of January 11, 2018 by and among Pipeline Cynergy Holdings, LLC, Priority Institutional Partner Services, LLC, Priority Payment Systems Holdings LLC, Priority Holdings, LLC, the other Guarantors, each 2018 Converting Lender, each new 2018 Refinancing Term Lender, each 2018 Incremental Term Loan Lenders, each Revolving Credit Lender and SunTrust Bank.</u>
<u>10.5</u> [*]	<u>Credit and Guaranty Agreement, dated as of January 3, 2017, by and among Priority Holdings, LLC, the Credit Parties, the Lenders and Goldman Sachs Specialty Lending Group, L.P.</u>
<u>10.5.1</u> [*]	<u>First Amendment to the Credit and Guaranty Agreement, dated as of November 14, 2017, by and among Priority Holdings LLC, the Guarantors, the Lenders and Goldman Sachs Specialty Group, L.P.</u>
<u>10.5.2</u> [*]	<u>Consent and Second Amendment to the Credit and Guaranty Agreement, dated as of January 11, 2018, by and among Priority Holdings LLC, the Guarantors, the Lenders and Goldman Sachs Specialty Group, L.P.</u>
<u>14.1</u> [*]	<u>Code of Ethics.</u>
<u>16.1</u> [*]	<u>Letter from Marcum LLP to the Securities and Exchange Commission dated July 31, 2018.</u>
<u>99.1</u> [*]	<u>Selected Historical Financial Information of M I Acquisitions prior to the Business Combination.</u>
<u>99.2</u> [*]	<u>Audited Consolidated Financial Information of Priority and its subsidiaries as of December 31, 2017 and 2016 and for each of the three year periods ended December 31, 2017, December 31, 2016 and December 31, 2015.</u>
<u>99.3</u>	<u>Unaudited Condensed Consolidated Financial Statements of Priority and its subsidiaries as of June 30, 2018 and for each of the six-month periods ended June 30, 2018 and 2017.</u>
<u>99.4</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations and Qualitative and Quantitative Disclosure About Market Risk for Priority and its subsidiaries as of June 30, 2018 and for each of the six-month periods ended June 30, 2018 and 2017.</u>
<u>99.5</u>	<u>Unaudited Pro Forma Combined Financial Information for the year ended December 31, 2017 and as of and for the six-month period ended June 30, 2018.</u>

^{*} Previously filed in the Original Form 8-K.

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: August 14, 2018

PRIORITY TECHNOLOGY HOLDINGS, INC.

By: /s/ Bruce E. Mattox

Name: Bruce E. Mattox

Title: Chief Financial Officer

Unaudited Condensed Consolidated Financial Statements

PRIORITY HOLDINGS, LLC AND SUBSIDIARIES

For the Six Months Ended June 30, 2018

Unaudited Condensed Consolidated Financial Statements	
Unaudited Condensed Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017	1
Unaudited Condensed Consolidated Statements of Operations for the six months ended June 30, 2018 and 2017	2
Unaudited Condensed Consolidated Statement of Changes in Members' Equity (Deficit) for the six months ended June 30, 2018	3
Unaudited Condensed Consolidated Statement of Changes in Members' Equity (Deficit) for the six months ended June 30, 2017	4
Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and 2017	5
Notes to the Unaudited Condensed Consolidated Financial Statements	6

PRIORITY HOLDINGS, LLC AND SUBSIDIARIES

Unaudited Condensed Consolidated Balance Sheets As of June 30, 2018 and December 31, 2017

<i>(in thousands)</i>	June 30, 2018	December 31, 2017
ASSETS		
Current Assets:		
Cash	\$ 12,652	\$ 27,966
Restricted cash	17,189	16,193
Accounts receivable, net of allowance for doubtful accounts of \$107 and \$484, respectively	40,104	47,433
Due from related parties	269	197
Prepaid expenses and other current assets	3,988	3,550
Current portion of notes receivable	3,078	3,442
Settlement assets	3,634	7,207
Total current assets	<u>80,914</u>	<u>105,988</u>
Notes receivable, less current portion	3,604	3,807
Property, equipment, and software, net	16,049	11,943
Goodwill	102,030	101,532
Intangible assets, net	45,092	42,062
Other assets	1,692	1,375
Total assets	<u>\$ 249,381</u>	<u>\$ 266,707</u>
LIABILITIES AND MEMBERS' DEFICIT		
Current liabilities:		
Accounts payable and accrued expenses	\$ 21,406	\$ 18,603
Accrued residual commissions	21,311	23,470
Customer deposits	3,295	4,853
Current portion of long-term debt	2,682	7,582
Settlement obligations	9,483	10,474
Current portion of common unit repurchase obligation	-	1,500
Total current liabilities	<u>58,177</u>	<u>66,482</u>
Long-term debt, net of discounts and deferred financing costs	341,352	267,939
Warrant liability	12,773	8,701
Common unit repurchase obligation	-	7,690
Other liabilities	6,485	6,050
Total long term liabilities	<u>360,610</u>	<u>290,380</u>
Total liabilities	<u>418,787</u>	<u>356,862</u>
Commitments and Contingencies (Notes 7 and 8)		
Members' deficit	(169,406)	(90,155)
Total members' deficit	<u>(169,406)</u>	<u>(90,155)</u>
Total liabilities and members' deficit	<u>\$ 249,381</u>	<u>\$ 266,707</u>

See Notes to Unaudited Condensed Consolidated Financial Statements

PRIORITY HOLDINGS, LLC AND SUBSIDIARIES

Unaudited Condensed Consolidated Statements of Operations

For the six months ended June 30, 2018 and 2017

<i>(in thousands, except per unit data)</i>	Six months ended June 30,	
	2018	2017
REVENUE:		
Merchant card fees revenue	\$ 204,746	\$ 182,223
Outsourced services revenue	12,162	11,041
Other revenues	3,450	1,439
Total revenue	220,358	194,703
OPERATING EXPENSES:		
Costs of merchant card fees	158,400	139,260
Other costs of services	9,043	7,288
Salary and employee benefits	18,414	16,236
Depreciation and amortization	7,780	7,652
Selling, general and administrative	6,582	4,212
Transaction costs	3,671	-
Change in fair value of contingent consideration	-	(410)
Other operating expenses	5,385	5,631
Total operating expenses	209,275	179,869
Income from operations	11,083	14,834
OTHER INCOME (EXPENSES):		
Interest and other income	377	247
Interest and other expense	(15,882)	(13,935)
Change in fair value of warrant liability	(3,530)	(527)
Equity in loss and impairment of unconsolidated entities	(853)	(158)
Total other expenses	(19,888)	(14,373)
Net (loss) income	<u>\$ (8,805)</u>	<u>\$ 461</u>
(Loss) income per unit:		
Basic and diluted (loss) income per unit	\$ (2.03)	\$ 0.06
Weighted-average common units outstanding:		
Basic and diluted	4,370	5,162

See Notes to Unaudited Condensed Consolidated Financial Statements

PRIORITY HOLDINGS, LLC AND SUBSIDIARIES

Unaudited Condensed Consolidated Statement of Changes in Members' Equity (Deficit) For the six months ended June 30, 2018

<i>(in thousands)</i>	Common Units - A Amount	Common Units - A Units	Common Units - B Amount	Common Units - B Units	Members' Equity (Deficit)
Balance - December 31, 2017	<u>\$ (93,490)</u>	<u>5,249</u>	<u>\$ 3,335</u>	<u>302</u>	<u>\$ (90,155)</u>
Member distributions	(6,337)	-	-	-	(6,337)
Unit-based compensation	-	-	795	19	795
Net loss	(8,805)	-	-	-	(8,805)
Redemption of membership interest	(64,903)	(954)	-	-	(64,903)
Pro rata adjustment	-	-	-	(55)	-
Balance - June 30, 2018	<u><u>\$ (173,535)</u></u>	<u><u>4,295</u></u>	<u><u>\$ 4,130</u></u>	<u><u>266</u></u>	<u><u>\$ (169,406)</u></u>

See Notes to Unaudited Condensed Consolidated Financial Statements

PRIORITY HOLDINGS, LLC AND SUBSIDIARIES

Unaudited Condensed Consolidated Statement of Changes in Members' Equity (Deficit)

For the six months ended June 30, 2017

<i>(in thousands)</i>	Preferred Units - A Amount	Preferred Units - A Units	Common Units - A Amount	Common Units - A Units	Common Units - B Amount	Common Units - B Units	Common Units - C Amount	Common Units - C Units	Members' Equity (Deficit)
Balance - December 31, 2016	<u>\$ 2,709</u>	<u>2,701</u>	<u>\$ 108,970</u>	<u>10,000</u>	<u>\$ 2,314</u>	<u>638</u>	<u>\$ 2,014</u>	<u>1,500</u>	<u>\$ 116,007</u>
Unit-based compensation	-	-	-	-	533	(13)	-	-	533
Member distribution	-	-	(2,906)	-	-	-	-	-	(2,906)
Net income	-	-	461	-	-	-	-	-	461
Redemption of membership interest	-	-	(203,000)	(4,751)	-	-	-	-	(203,000)
Reclass of common unit repurchase obligation	-	-	(9,190)	-	-	-	-	-	(9,190)
Release of contingent consideration	-	-	3,812	-	-	-	-	-	3,812
Elimination of Class C Units	-	-	2,014	-	-	-	(2,014)	(1,500)	-
Elimination of Preferred Units	(2,709)	(2,701)	2,709	-	-	-	-	-	-
Pro rata adjustment	-	-	-	-	-	(303)	-	-	-
Balance - June 30, 2017	<u>\$ -</u>	<u>-</u>	<u>\$ (97,130)</u>	<u>5,249</u>	<u>\$ 2,847</u>	<u>322</u>	<u>\$ -</u>	<u>-</u>	<u>\$ (94,283)</u>

See Notes to Unaudited Condensed Consolidated Financial Statements

PRIORITY HOLDINGS, LLC AND SUBSIDIARIES

Unaudited Condensed Consolidated Statements of Cash Flows For the six months ended June 30, 2018 and 2017

(in thousands)	Six months Ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net loss (income)	\$ (8,805)	\$ 461
Adjustment to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	7,780	7,652
Unit-based compensation expense	795	532
Amortization of debt issuance costs	375	354
Amortization of debt discount	280	250
Equity in loss and impairment of unconsolidated entities	853	153
Change in fair value of warrant liability	3,530	527
Change in fair value of contingent consideration	-	(410)
Loss on debt extinguishment	541	1,753
Payment in kind interest	2,407	2,505
Other	(1)	-
Change in operating assets and liabilities:		
Accounts receivable	7,287	(2,589)
Settlement assets	3,574	1,175
Prepaid expenses and other current assets	(361)	3,140
Notes receivable	418	(1,249)
Related parties	(72)	(46)
Accounts payable, accrued expenses and accrued residual commissions	3	1,518
Settlement obligations	(991)	(61)
Customer deposits	(1,557)	(2,098)
Other liabilities	316	(241)
Other non current assets	(1,452)	-
Net cash provided by operating activities	14,920	13,326
Cash flows from investing activities:		
Acquisition of business, net of cash acquired	(312)	-
Additions to property and equipment	(5,721)	(2,445)
Acquisition of merchant portfolios	(8,225)	(2,484)
Net cash used in investing activities	(14,258)	(4,929)
Cash flows from financing activities:		
Proceeds from issuance of long term debt	67,113	276,290
Repayment of long term debt	(1,341)	(89,696)
Debt issuance costs	(322)	(4,570)
Distributions to members	(6,337)	(2,906)
Redemption of membership interests	(74,093)	(203,000)
Net cash used in financing activities	(14,980)	(23,882)
Change in cash and restricted cash:		
Net decrease in cash and restricted cash	(14,318)	(15,485)
Cash and restricted cash, at the beginning of year	44,159	41,703
Cash and restricted cash, at the end of year	\$ 29,841	\$ 26,218
Supplemental cash flow information:		
Cash paid for interest	\$ 11,926	\$ 8,798
Non-cash investing and financing activities:		
Purchase of property and equipment through accounts payable	\$ 701	\$ 270
Common unit repurchase obligation	\$ -	\$ 9,190

See Notes to Unaudited Condensed Consolidated Financial Statements

PRIORITY HOLDINGS, LLC AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Priority Holdings, LLC (the “Company”) was organized as a limited liability company on May 21, 2014 in the state of Delaware in accordance with the provisions of the Delaware Limited Liability Company Act as a result of the merger between Pipeline Cynergy Holdings, LLC (“PCH”) and Priority Payment Systems Holdings, LLC (“PPSH”). Priority Holdings, LLC and its subsidiaries are hereinafter referred to as the Company. Until January 3, 2017, the Company was owned by a group of private equity investors led primarily by Priority Investment Holdings, LLC (“PIH”) and Comvest Pipeline Cynergy Holdings, LLC (“Comvest”). On January 3, 2017, the Company exercised a redemption of the majority of Comvest’s membership units resulting in a change in the majority-voting unitholder. See Note 10 – Members Equity.

The Company provides merchant transaction processing services to small and medium-sized merchants and operates in two reportable segments, Consumer Payments and Commercial Payments and Managed Services. For more information about the Company’s segments, refer to Note 13 – Segment Information. The Company enters into agreements with payment processors which in turn have agreements with multiple Card Associations. These Card Associations comprise an alliance aligned with insured financial institutions (“Member Banks”) that work in conjunction with various local, state, territory, and federal government agencies to make the rules and guidelines regarding the use and acceptance of credit and debit cards. Card Association rules require that vendors and processors be sponsored by a Member Bank and register with the Card Associations. The Company has multiple sponsorship bank agreements and is a registered Independent Sales Organization (“ISO”) with Visa®. The Company is also a registered Member Service Provider with MasterCard®. The Company’s sponsorship agreements allow the capture and processing of electronic data in a format to allow such data to flow through networks for clearing and fund settlement of merchant transactions. The Company uses a direct sales force and contracts with other ISOs and Independent Sales Agents (“ISA”) to attract merchant accounts. The Company develops and purchases software to process and monitor merchant transactions, provide customer support and other back office services.

Basis of Presentation and Consolidation

The accompanying unaudited condensed consolidated financial statements include those of the Company and its controlled subsidiaries. All intercompany accounts and transactions have been eliminated upon consolidation. Investments in unconsolidated affiliated companies are accounted for under the equity method and are included in “Other assets” in the accompanying unaudited condensed consolidated balance sheets. The Company generally utilizes the equity method of accounting when it has an ownership interest of between 20% and 50% in an entity, provided the Company is able to exercise significant influence over the investee’s operations.

These unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) for interim financial information and should be read in connection with the Company’s audited consolidated financial statements and related notes as of and for the year ended December 31, 2017. The accompanying unaudited condensed consolidated financial statements are unaudited; however, in the opinion of management they include all normal and recurring adjustments necessary for a fair presentation of the Company’s unaudited condensed consolidated financial statements for the periods presented. The accompanying unaudited condensed consolidated balance sheet as of December 31, 2017 was derived from the Company’s audited consolidated financial statements as of and for the year ended December 31, 2017. Results of operations reported for interim periods are not necessarily indicative of results for the entire year due to seasonal fluctuations in the Company’s revenue as a result of consumer spending patterns. All intercompany balances and transactions have been eliminated.

PRIORITY HOLDINGS, LLC AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

Use of Estimates

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

Comprehensive Income

Comprehensive income represents the sum of net income (loss) and other amounts that are not included in the unaudited condensed consolidated statement of operations as the amounts have not been realized. For the six months ended June 30, 2018 and 2017, there were no differences between the Company's net income (loss) and comprehensive income (loss). Therefore, no separate Statement of Other Comprehensive Income is included in the financial statements for the reporting periods.

Accounting Policies

The accounting policies of the Company are described in Note 1 to the Company's audited consolidated financial statements as of and for the year ended December 31, 2017. There have been no material changes to these accounting policies, except as noted below for the new accounting pronouncement adopted in the first six months of 2018. Certain of the Company's accounting policies, as previously disclosed in Note 1 to the Company's audited consolidated financial statements as of and for the year ended December 31, 2017, are presented below for revenue recognition, cost of services, and fair value.

Revenue Recognition

The Company recognizes revenue when (1) it is realized or realizable and earned, (2) there is persuasive evidence of an arrangement, (3) delivery and performance has occurred, (4) there is a fixed or determinable sales price and (5) collection is reasonably assured.

The Company generates revenue primarily for fees charged to merchants for the processing of card-based transactions. The Company's reporting segments are organized by services the Company provides and distinct business units. Set forth below is a description of the Company's revenue by segment. See Note 16 – Segment Information in the Company's audited consolidated financial statements for the year ended December 31, 2017 for further discussion of the Company's reportable segments.

Consumer Payments

The Company's Consumer Payments segment represents merchant card fee revenues, which are based on the electronic transaction processing of credit, debit and electronic benefit transaction card processing authorized and captured through third-party networks, check conversion and guarantee, and electronic gift certificate processing. Merchants are charged rates which are based on various factors, including the type of bank card, card brand, merchant charge volume, the merchants industry and the merchant's risk profile. Typically, revenues generated from these transactions are based on a variable percentage of the dollar amount of each transaction and in some instances, additional fees are charged for each transaction. The Company's contracts in most instances involve three parties: the Company, the merchant and the sponsoring bank. The Company's sponsoring banks collect the gross revenue from the merchants, pay the interchange fees and assessments to the credit card associations, retain their fees and pay to the Company a net residual payment representing the Company's fee for the services provided. Merchant customers may also be charged miscellaneous fees, including statement fees, annual fees, and monthly minimum fees, fees for handling chargebacks, gateway fees and fees for other miscellaneous services.

PRIORITY HOLDINGS, LLC AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

The determination of whether a company should recognize revenue based on the gross amount billed to a customer or the net amount retained is a matter of judgment that depends on the facts and circumstances of the arrangement and that certain factors should be considered in the evaluation. The Company recognizes merchant card fee revenues net of interchange fees, which are assessed to the Company's merchant customers on all transactions processed by third parties. Interchange fees and rates are not controlled by the Company, which effectively acts as a clearing house collecting and remitting interchange fee settlement on behalf of issuing banks, debit networks, credit card associations and its processing customers. All other revenue is reported on a gross basis, as the Company contracts directly with the merchant, assumes the risk of loss and has pricing flexibility.

Commercial Payments and Managed Services

The Company's Commercial Payments and Managed Services segment represents outsourced services revenue, which is primarily derived from providing an outsourced sales force to certain enterprise customers. These services may be provided in areas related to supplier / management campaigns, merchant development programs, and receivable finance management. Commercial Payments and Managed Services are provided on a cost-plus fee arrangement. Revenue is recognized to the extent of billable rates times hours worked and other reimbursable costs incurred.

Other revenue

Other revenue is comprised of fees for services not specifically described above, which are generally transaction-based fees that are recognized at the time the transactions are processed, and revenue generated from the sale of point of sale devices ("terminals") when the following four criteria are met: evidence of an agreement exists, delivery has occurred, the selling price is fixed and determinable, and collection of the selling price is reasonably assured.

Costs of Services

Costs of Merchant Card Fees

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

PRIORITY HOLDINGS, LLC AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

Other Costs of Services

Other costs of services include salaries directly related to outsourced services revenue, merchant supplies, and other service expenses.

Fair Value Measurements

The Company measures certain assets and liabilities at fair value. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The Company uses a three-level fair value hierarchy to prioritize the inputs used to measure fair value and maximizes the use of observable inputs and minimizes the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 – Quoted market prices in active markets for identical assets or liabilities as of the reporting date.

Level 2 – Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3 – Unobservable inputs that are not corroborated by market data.

The fair values of the Company's warrant liability, merchant portfolios, assets and liabilities acquired in mergers and business combinations and the implied fair value of the Company, are primarily based on Level 3 inputs and are generally estimated based upon independent appraisals that include discounted cash flow analyses based on the Company's most recent cash flow projections and, for years beyond the projection period, estimates based on assumed growth rates. Assumptions are also made regarding appropriate discount rates, perpetual growth rates, and capital expenditures, among others. In certain circumstances, the discounted cash flow analyses are corroborated by a market-based approach that utilizes comparable company public trading values and, where available, values observed in public market transactions.

The carrying values of accounts and notes receivable, accounts payable and accrued expenses, long-term debt and cash, including settlement assets and the associated deposit liabilities approximate fair value due to either the short-term nature of such instruments or the fact that the interest rate of the debt is based upon current market rates.

Accounting Pronouncement Adopted in the First Six Months of 2018

Modifications to Share-based Compensation Awards (ASU 2017-09)

As of January 1, 2018, the Company adopted ASU No. 2017-09, Compensation-Stock Compensation Topic 718-Scope of Modification Accounting ("ASU 2017-09"). ASU 2017-09 clarifies when changes to the terms and conditions of share-based payment awards must be accounted for as modifications. Entities apply the modification accounting guidance if the value, vesting conditions, or classification of an award changes. The Company has not modified any share-based payment awards since the adoption of ASU 2017-09. Should the Company modify share-based payment awards in the future, it will apply the provisions of ASU 2017-09.

PRIORITY HOLDINGS, LLC AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

Recently Issued Pronouncements Not Yet Adopted

The effective dates noted below for recently adopted accounting pronouncements are for non-public entities

Revenue Recognition (ASC 606)

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which since has been codified in Accounting Standards Codification (“ASC”) 606, Revenue from Contracts with Customers (“ASC 606”). This guidance clarifies the principles for recognizing revenue and will be applicable to all contracts with customers regardless of industry-specific or transaction-specific fact patterns. Further, the guidance will require improved disclosures as well as additional disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. Since its original issuance, the FASB has issued several updates to this guidance, and additional updates are possible. The new standard will be effective for the Company at the beginning of 2019. The standards permit the use of either the retrospective or cumulative effect transition method. The new standard could change the amount and timing of revenue and costs for certain significant revenue streams, increase areas of judgment and related internal controls requirements, change the presentation of revenue for certain contract arrangements and possibly require changes to the Company’s software systems to assist in both internally capturing accounting differences and externally reporting such differences through enhanced disclosure requirements. The Company has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its consolidated financial statements.

Leases (ASU 2016-02)

In February 2016, the FASB issued new lease accounting guidance in ASU No. 2016-02, Leases-Topic 842, which has been codified in ASC 842, Leases (“ASC 842”). Under this new guidance, lessees will be required to recognize for all leases (with the exception of short-term leases): 1) a lease liability equal to the lessee's obligation to make lease payments arising from a lease, measured on a discounted basis and 2) a right-of-use asset which will represent the lessee's right to use, or control the use of, a specified asset for the lease term. The new standard will be effective for the Company at the beginning of 2020, including interim periods within the year of adoption. The new standard requires a modified retrospective basis, and early adoption is permitted. The Company is still evaluating the potential effects of ASC 842. The adoption of ASC 842 will require the Company to recognize material non-current assets and liabilities for right-of-use assets and operating lease liabilities on its consolidated balance sheet, but is not expected to have a material effect on the Company's results of operations or cash flows. ASC 842 will also require additional footnote disclosures to the Company's consolidated financial statements.

Credit Losses (ASU 2016-13)

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”). This new guidance will change how entities account for credit impairment for trade and other receivables, as well as for certain financial assets and other instruments. ASU 2016-13 will replace the current “incurred loss” model with an “expected loss” model. Under the “incurred loss” model, a loss (or allowance) is recognized only when an event has occurred (such as a payment delinquency) that causes the entity to believe that a loss is probable (i.e., that it has been “incurred”). Under the “expected loss” model, an entity will recognize a loss (or allowance) upon initial recognition of the asset that reflects all future events that will lead to a loss being realized, regardless of whether it is probable that the future event will occur. The “incurred loss” model considers past events and current conditions, while the “expected loss” model includes expectations for the future which have yet to occur. ASU 2016-13 will be effective for the Company at the beginning of 2021. The standard will require entities to record a cumulative-effect adjustment to the balance sheet as of the beginning of the first reporting period in which the guidance is effective. The Company is currently evaluating the potential impact that ASU 2016-13 may have on the timing of recognizing future provisions for expected losses on the Company's accounts receivable.

PRIORITY HOLDINGS, LLC AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

Statement of Cash Flows (ASU 2016-15)

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

Definition of a Business (ASU 2017-01)

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business (“ASU 2017-01”). This guidance will assist entities in determining if acquired assets constitute the acquisition of a business or the acquisition of assets for accounting and reporting purposes. This distinction is important because only a business can recognize goodwill. In practice prior to ASU 2017-01, if revenues were generated immediately before and after a transaction, the acquisition was typically considered a business. Under ASU 2017-01, requiring entities to further assess the substance of the processes they acquire will likely reduce the number of transactions accounted for as business acquisitions. ASU 2017-01 will be effective for the Company at the beginning of 2019. The impact that ASU 2017-01 may have on the Company's financial position, results of operations or cash flows will depend on the nature of any acquisition commencing after the Company's adoption of this ASU.

Goodwill Impairment Testing (ASU 2017-04)

In January 2017, the FASB issued ASU No. 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment (“ASU 2017-04”). ASU 2017-04 will eliminate the requirement to calculate the implied fair value of goodwill (step 2 of the current goodwill impairment test) to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value (i.e., measure the charge based on the current step 1). Any impairment charge will be limited to the amount of goodwill allocated to an impacted reporting unit. ASU 2017-04 will not change the current guidance for completing Step 1 of the goodwill impairment test, and an entity will still be able to perform the current optional qualitative goodwill impairment assessment before determining whether to proceed to Step 1. Upon adoption, ASU 2017-04 will be applied prospectively. ASU 2017-04 will be effective for the Company at the beginning of 2022. The impact that ASU 2017-04 may have on the Company’s financial condition or results of operations will depend on the circumstances of any goodwill impairment event that may occur after adoption.

PRIORITY HOLDINGS, LLC AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

Concentrations

The Company's revenue is substantially derived from processing Visa® and MasterCard® bank card transactions. Because the Company is not a Member Bank, in order to process these bank card transactions, the Company maintains sponsorship agreements with three Member Banks as of June 30, 2018, which require, among other things, that the Company abide by the by-laws and regulations of the Card Associations.

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

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

Reclassification

Certain prior year amounts in the unaudited condensed consolidated financial statements have been reclassified to conform to the current year presentation, with no effect on net loss or members' deficit.

2. BUSINESS COMBINATION

On April 2, 2018, Priority PayRight Health Solutions, LLC ("PPRHS"), a subsidiary of the Company, purchased the majority of the operating assets and certain operating liabilities of PayRight Health Solutions ("PayRight"). This purchase allowed PPRHS to gain control over the PayRight business and therefore the Company's consolidated financial statements include the financial position, results of operations, and cash flows of PayRight from the date of acquisition. PayRight utilizes technology assets to deliver customized payment solutions to the healthcare industry. The results of the acquired business and goodwill of \$497,560 from the transaction are being reported by the Company as part of the Commercial Payments and Managed Services reportable segment. The Company transferred total consideration with a fair value of \$886,191 consisting of: \$504,932 in cash and forgiveness of amounts owed to the Company by PayRight; \$262,312 fair value of the Company's previous equity method investment described in the following paragraph; and profit and distribution rights with a fair value of \$118,946. The measurement period, as defined by ASC 805, *Business Combinations*, is still open for the April 2, 2018 PayRight purchase since the Company is awaiting information to determine the acquisition-date fair value of certain acquired assets and assumed liabilities.

PRIORITY HOLDINGS, LLC AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

Previously, in October 2015, the Company purchased a non-controlling interest in the equity of PayRight, and prior to April 2, 2018, the Company accounted for this investment using the equity method of accounting. Immediately prior to PPRHS's April 2, 2018 purchase of substantially all of PayRight's business assets, the Company's existing non-controlling investment in PayRight had a carrying value of approximately \$1.1 million with an estimated fair value on the acquisition date of approximately \$262,312. The Company recorded an impairment loss of \$0.8 million for the difference between the carrying value and the fair value of the non-controlling equity method investment in PayRight. The loss is reported as equity in loss and impairment of unconsolidated entities in the Company's unaudited condensed consolidated statement of operations for the six months ended June 30, 2018.

3. SETTLEMENT ASSETS AND OBLIGATIONS

The principal components of the Company's settlement assets and obligations at June 30, 2018 and December 31, 2017 were as follows:

(in thousands)

Settlement Assets	June 30, 2018	December 31, 2017
Due from card processors	\$ 3,634	\$ 7,207
Settlement Obligations		
Due to ACH payees	9,483	10,474
Total settlement obligations, net	<u>\$ (5,849)</u>	<u>\$ (3,267)</u>

Amounts due to ACH payees are offset by restricted cash.

4. GOODWILL AND INTANGIBLE ASSETS

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

(in thousands)

	June 30, 2018	December 31, 2017
Consumer Payments	\$ 101,532	\$ 101,532
Commercial Payments and Managed Services	498	-
	<u>\$ 102,030</u>	<u>\$ 101,532</u>

The Company's intangible assets primarily include merchant portfolios and other intangible assets such as non-compete agreements, tradenames, acquired technology (developed internally by acquired companies prior to the business combination with the Company) and customer relationships.

PRIORITY HOLDINGS, LLC AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

The following table summarizes the changes in the carrying amount of goodwill for the six months ended June 30, 2018:

<i>(in thousands)</i>	Total
Balance at December 31, 2017	\$ 101,532
Goodwill acquired in PayRight acquisition	498
Balance at June 30, 2018	<u>\$ 102,030</u>

As of June 30, 2018 and December 31, 2017 intangible assets consisted of the following:

<i>(in thousands)</i>	June 30, 2018	December 31, 2017
Other intangible assets:		
Merchant portfolios	\$ 54,941	\$ 46,716
Non-compete agreements	3,390	3,390
Tradenname	2,580	2,580
Acquired technology (developed internally)	13,500	13,200
Customer relationships	51,090	51,090
	<u>125,501</u>	<u>116,976</u>
Less accumulated amortization:		
Merchant portfolios	(43,190)	(41,915)
Non-compete agreements	(3,390)	(3,243)
Tradenname	(884)	(776)
Acquired technology (developed internally)	(9,028)	(7,928)
Customer relationships	(23,917)	(21,052)
	<u>(80,409)</u>	<u>(74,914)</u>
	<u>\$ 45,092</u>	<u>\$ 42,062</u>

The Company tests goodwill for impairment for each of its reporting units on an annual basis, or when events occur or circumstances indicate the fair value of a reporting unit is below its carrying value. The Company will perform its annual goodwill impairment test as of November 30, 2018 using market data and discounted cash flow analyses. The Company concluded there were no indicators of impairment as of June 30, 2018 or December 31, 2017. As such, there was no accumulated impairment loss as of June 30, 2018 and December 31, 2017.

Actual amortization expense to be reported in future periods could differ from these estimates as a result of new intangible asset acquisitions, changes in useful lives, and other relevant events or circumstances.

PRIORITY HOLDINGS, LLC AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

5. PROPERTY, EQUIPMENT AND SOFTWARE

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

A summary of property, equipment, and software as of June 30, 2018 and December 31, 2017 follows:

<i>(in thousands)</i>	June 30, 2018	December 31, 2017	Useful Life
Furniture and fixtures	\$ 2,063	\$ 1,871	2-7 years
Equipment	8,016	6,256	3-7 years
Computer software	24,064	20,443	3-5 years
Leasehold improvements	5,754	4,965	5-10 years
	<u>39,897</u>	<u>33,535</u>	
Less accumulated depreciation	(23,848)	(21,592)	
Property, equipment, and software, net	<u>\$ 16,049</u>	<u>\$ 11,943</u>	

Depreciation expense totaled \$2.3 million and \$2.1 million for the six months ended June 30, 2018 and 2017, respectively.

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

The Company accrues for certain expenses that have been incurred, which are classified within accounts payable and accrued expenses in the accompanying unaudited condensed consolidated balance sheets.

Accounts payable and accrued expenses as of June 30, 2018 and December 31, 2017 consists of the following:

<i>(in thousands)</i>	June 30, 2018	December 31, 2017
Accounts payable	\$ 11,672	\$ 8,751
Accrued compensation	8,946	6,136
Other accrued expenses	788	3,716
	<u>\$ 21,406</u>	<u>\$ 18,603</u>

PRIORITY HOLDINGS, LLC AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

7. LONG-TERM DEBT

Long-term debt as of June 30, 2018 and December 31, 2017 consists of the following:

(in thousands)

	June 30, 2018	December 31, 2017
Term Loan - Senior, matures January 3, 2023 and bears interest at LIBOR plus 5.0% for June 30, 2018 and 6.0% for December 31, 2017 (Actual rate of 7.0% at June 30, 2018 and 7.4% at December 31, 2017)	\$ 264,159	\$ 198,000
Term Loan - Subordinated, matures July 3, 2023 and bears interest at 5.0% plus payment-in-kind interest (Actual rate of 10.5% at June 30, 2018 and 11.3% at December 31, 2017)	87,525	85,118
Total Debt	351,684	283,118
Less: current portion of long-term debt	(2,682)	(7,582)
Less: unamortized debt discounts	(3,320)	(3,212)
Less: deferred financing costs	(4,330)	(4,385)
Total long-term debt	\$ 341,352	\$ 267,939

Debt Restructuring

On January 3, 2017, the Company restructured its long-term debt by entering into a Credit and Guaranty Agreement with a syndicate of lenders (the "Credit Agreement"). As a result, the syndicate of lenders became senior lenders and Goldman Sachs became a subordinated lender to the Company. The Credit Agreement had a maximum borrowing amount of \$225.0 million, consisting of a \$200.0 million Term Loan and a \$25.0 million revolving credit facility. In addition, on January 3, 2017, the Company entered into a Credit and Guaranty Agreement with Goldman Sachs Specialty Lending Group, L.P. ("GS") (the "GS Credit Agreement" and, together with the GS Agreement, the "Original Agreements") for an \$80.0 million term loan, the proceeds of which were used to refinance the amounts previously outstanding with GS. The term loans under the Credit Agreement and GS Credit Agreement were issued at a discount of \$3.7 million, which is being amortized to interest expense over the lives of the term loans using the effective interest method. The Company determined that the 2017 debt restructuring should be accounted for as a debt extinguishment. The Company recorded an extinguishment loss of approximately \$1.8 million, which consisted primarily of lender fees incurred in connection with the refinancing and the write-off of unamortized deferred financing fees and original issue discount associated with the previous debt.

PRIORITY HOLDINGS, LLC AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

On January 11, 2018, the Company modified its long-term debt by amending the GS Credit Agreement and the Credit Agreement (collectively, the “2018 Amendment”). The 2018 Amendment increased the Credit Agreement term loans by \$67.5 million and lowered the applicable margin under the Credit Agreement. The \$67.5 million in additional borrowings under the Credit Agreement was issued at a discount of \$0.4 million, which is being amortized to interest expense over the lives of the term loans using the effective interest method. Borrowings under the Credit Agreement were subject to an applicable margin, or percentage per annum, equal to: (i) with respect to Initial Term Loans, (a) for LIBOR Rate Loans, 6.00% per annum and (b) for Base Rate Loans, 5.00% per annum; and (ii) with respect to Revolving Loans (a) for LIBOR Rate Loans and Letter of Credit fees, 6.00%, (b) for Base Rate Loans, 5.00% and (c) for unused commitment fees, 0.50%. As a result of the 2018 Amendment, borrowings under the Credit Agreement are subject to an applicable margin, or percentage per annum, equal to: (i) with respect to Initial Term Loans, (a) for LIBOR Rate Loans, 5.00% per annum and (b) for Base Rate Loans, 4.00% per annum; and (ii) with respect to Revolving Loans (a) for LIBOR Rate Loans and Letter of Credit fees, 5.00%, (b) for Base Rate Loans, 4.00% and (c) for unused commitment fees, 0.50%.

The Company determined that the 2018 Amendment should be accounted for as a debt modification. Therefore, all previously deferred fees and costs continue to be amortized to interest expense using the effective interest method over the respective terms of the amended loans. The Company incurred \$0.8 million in issuance costs related to the 2018 Amendment, which were expensed as incurred and recorded as a component of interest and other expense in the accompanying unaudited condensed consolidated statement of operations for the six months ended June 30, 2018. In connection with the new lenders to the Credit Agreement as a result of the 2018 Amendment, the Company capitalized incremental deferred financing costs of \$0.3 million and fees paid to lenders of \$0.4 million. The Company is amortizing these amounts to interest and other expense using the effective interest method over the terms of the Credit Agreement.

As a result of the 2018 Amendment, the Credit Agreement has a maximum borrowing amount of \$292.5 million, consisting of a \$267.5 million Term Loan and a \$25.0 million revolving credit facility. The Credit Agreement matures on January 3, 2023, with the exception of the revolving credit facility which expires on January 2, 2022. Any amounts outstanding under the revolving credit facility must be paid in full before the maturity date of January 2, 2022. There were no amounts outstanding under the revolving credit facility as of June 30, 2018 or December 31, 2017. The Company recorded \$0.1 million of interest expense for the six months ended June 30, 2018 as a penalty for not drawing on the revolving credit facility.

The Credit Agreement, as amended, contains representations and warranties, financial and collateral requirements, mandatory payment events, and events of default and affirmative and covenants, including without limitation, covenants that restrict among other things, the ability to create liens, merge or consolidate, dispose of assets, incur additional indebtedness, make certain investments or acquisitions, enter into certain transactions (including with affiliates), and to enter into certain leases. Substantially all of the Company’s assets are pledged as collateral under the Credit Agreement and GS Credit Agreement. The financial covenant consists of an amended Total Net Leverage Ratio, as defined in the Amended SunTrust Term Loan Agreement and GS Agreement. As of June 30, 2018 and December 31, 2017, the Company was in compliance with the financial covenant.

PRIORITY HOLDINGS, LLC AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

The terms of the GS Agreement were amended to allow for the increase in borrowings under the Credit Agreement but otherwise the terms of the GS Agreement were not substantively changed by the 2018 Amendment. The borrowing amount under the GS Agreement is \$80.0 million and was not changed in the 2018 Amendment. The GS Agreement matures on July 3, 2023.

Under the credit agreement the Company is required to make quarterly principal payments of \$0.7 million. As of December 31, 2017, the Company was obligated to make certain additional mandatory prepayments based on Excess Cash Flow, as defined in the Credit Agreement. As of December 31, 2017, the mandatory prepayment based on Excess Cash Flow was \$5.6 million, which was included in current portion of long-term debt. On April 30, 2018, the Company entered into a Limited Waiver and Consent and is no longer obligated to make the 2017 mandatory prepayment based on Excess Cash Flow, as defined in the Credit Agreement. As of June 30, 2018, the amount of the excess cash flow payment previously classified as current portion of long-term debt has been classified as long-term debt as the amount is no longer callable by the creditor as of the date of the issuance of the quarterly financial statements.

Principal contractual maturities on long-term debt at June 30, 2018 are as follows:

(in thousands)

Year ending June 30,	Maturities
2019	\$ 2,682
2020	2,682
2021	2,682
2022	2,682
2023	2,682
Thereafter	338,274
	<u>\$ 351,684</u>

For the six months ended June 30, 2018, the payment-in-kind (PIK) interest added \$2.4 million to the principal amount of the subordinated debt, which totaled \$87.5 million as of June 30, 2018.

The Company recorded \$13.8 million and \$11.6 million of interest expense for the six months ended June 30, 2018 and 2017, respectively.

PRIORITY HOLDINGS, LLC AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

Warrants

In connection with the prior GS Credit Agreement, the Company issued warrants to GS to purchase 1.0% of the Company's outstanding Class A Common units. As part of the 2017 debt restructuring, the 1.0% warrant with GS was extinguished and the Company issued new warrants to GS to purchase 1.8% of the Company's outstanding Class A Common units.

On January 11, 2018, the 1.8% warrant was amended to provide GS with warrants to purchase 2.2% of the Company's outstanding Class A Common units. The change in the warrant percentage was the result of anti-dilution provisions in the agreement, which were triggered by the Class A Common unit redemption that occurred during the six months ended June 30, 2018 as discussed in Note 10 – Members Equity. The warrants have a term of 7 years, an exercise price of \$0 and may be exercised at any time prior to expiration date. Since the obligation is based solely on the fact that the 2.2% interest in equity of the Company is fixed and known at inception as well as the fact that GS may exercise the warrants, with a settlement in cash, any time prior to the expiration date of December 31, 2023, the warrants are required to be recorded as a liability.

As of June 30, 2018 and December 31, 2017, the warrants have a fair value of \$12.8 million and \$8.7 million, respectively, and are presented as a warrant liability in the accompanying unaudited condensed consolidated balance sheets. The increases in fair value of the warrants of \$4.1 million and \$0.7 million for the six months ended June 30, 2018 and 2017, respectively, are included in change in fair value of warrant liability in the consolidated statements of operations. Interest and other expense includes \$0.3 million and \$0.3 million of debt discount amortization for the six months ended June 30, 2018 and 2017, respectively.

Deferred Financing Costs

Capitalized deferred financing costs related to the Company's credit facilities totaled \$4.3 million and \$4.4 million at June 30, 2018 and December 31, 2017, respectively. Deferred financing costs are being amortized using the effective interest method over the remaining term of the respective debt and are recorded as a component of interest expense. The Company recognized interest expense related to the amortization of deferred financing costs of \$0.4 million and \$0.4 million for the six months ended June 30, 2018 and 2017, respectively. Deferred financing costs are included in long-term debt in the consolidated balance sheets.

PRIORITY HOLDINGS, LLC AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

8. COMMITMENTS AND CONTINGENCIES

The Company is involved in certain legal proceedings and claims, which arise in the ordinary course of business. In the opinion of the Company, based on consultations with inside and outside counsel, the results of any of these ordinary course matters, individually and in the aggregate, are not expected to have a material effect on its results of operations, financial condition, or cash flows. As more information becomes available, if the Company should determine that an unfavorable outcome is probable on a claim and that the amount of probable loss that it will incur on that claim is reasonably estimable, it will record an accrued expense for the claim in question. If and when the Company records such an accrual, it could be material and could adversely impact its financial condition, results of operations, and cash flows.

9. RELATED PARTY TRANSACTIONS

The Company has a management services agreement and an annual bonus payout with PSD Partners, which is owned by a member of Priority Investment Holdings, LLC, which is the member owner of Priority Holdings, LLC. For the six months ended June 30, 2018 and 2017, the Company incurred a total of \$0.6 million and \$0.4 million, respectively, for costs related to management service fees, annual bonus payout, and occupancy fees, which are recorded in selling, general and administrative expenses in the accompanying unaudited condensed consolidated statement of operations.

10. MEMBERS' EQUITY

On January 3, 2017, the Company used the proceeds from the 2017 debt restructuring to redeem 4,681,590 Class A Common units for \$200.0 million (the "Redemption"). Concurrent with the Redemption, (i) the Company and its members entered into an amended and restated operating agreement that eliminated the Class A Preferred units and the Class C Common units and (ii) the Plan of Merger was terminated which resulted in the cancellation of related contingent consideration due to the Preferred A unitholders.

On January 31, 2017, the Company entered into a redemption agreement with one of its minority unitholders to redeem their Class A common membership units for a total redemption price of \$12.2 million. The Company accounted for the Common Unit Repurchase Obligation as a liability because it is required to redeem these Class A Common units for cash. The liability was recorded at fair value at the date of the redemption agreement, which was equal to the redemption value. Under this agreement, the Company redeemed \$3.0 million of 69,470 Class A Common units in April 2017. As of December 31, 2017, the Common Unit Repurchase Obligation had a redemption value of \$9.2 million.

The remaining \$9.2 million was redeemed through the January 17, 2018 redemption of 115,751 Class A Common units for \$5.0 million and the February 23, 2018 redemption of 96,999 Class A Common Units for \$4.2 million. Therefore, the Company no longer had a Common Unit Repurchase Obligation as of June 30, 2018.

In addition to the aforementioned redemptions, the Company redeemed 295,834 Class A Common units for \$26.0 million on January 17, 2018 and 445,410 Class A Common Units for \$39.0 million on January 19, 2018. As a result of the aforementioned redemptions, the Company is 100% owned by PIH.

The Class A common units redeemed in January and February 2018 were then cancelled by the Company. The redemption transactions and the amended and restated operating agreement resulted in a one unitholder gaining control and becoming the majority unitholder of the Company. These changes in the equity structure of the Company have been recorded in the accompanying unaudited condensed consolidated Statement of Changes in Members' Equity (Deficit) as capital transactions.

PRIORITY HOLDINGS, LLC AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

The equity structure of the Company is as follows as of June 30, 2018 and December 31, 2017:

(in thousands)	June 30, 2018		December 31, 2017	
	Authorized	Issued	Authorized	Issued
Class A Common Units, voting	4,295	4,295	5,249	5,249
Class B Common Units, non-voting	274	266	335	302
Class C Common Units, non-voting	-	-	-	-

The Company paid distributions of \$6.3 million and \$2.9 million to the members during the six months ended June 30, 2018 and 2017, respectively.

11. INCENTIVE INTEREST PLAN

In 2014, as part of the merger with Pipeline Cynergy Holdings, the Company established the Priority Holdings Management Incentive Plan (the “Plan”) pursuant to the Operating Agreement of Priority Holdings, LLC, for which selected Company employees and contractors may be awarded Management Incentive Units representing a fractional part of the interests in Profits, Losses and Distributions of the Company and having the rights and obligations specified with respect to Class B Common Units or such other class of Units as the Board may establish from time to time in the Operating Agreement.

The management incentive interest units are intended to qualify as a compensatory benefit plan within the meaning of Rule 701 of the U.S. Securities Act of 1933 and the issuance of Management Incentive Units pursuant thereto is intended to qualify for the exemption from registration under the Securities Act provided by Rule 701; provided that the foregoing shall not restrict or limit the Company’s ability to issue any Management Incentive Units pursuant to any other exemption from registration under the Securities Act available to the Company. The Management Incentive Units are intended for U.S. federal income tax purposes to be “profits interests” within the meaning of Internal Revenue Service Revenue Procedures 93-27 and 2001-43.

Under the Plan, the Board of Managers determines the terms and conditions of the profits interests granted. The majority of awards vest over the requisite service period or periods during which an employee is required to provide service in exchange for an award under the incentive interest plan. The profits interest units will vest at a rate of 40% or 20% as of September 21, 2016 and then in evenly across the remaining 3-5 years.

Concurrent with the redemptions disclosed in Note 10 – Members’ Equity, the Management Incentive Units were adjusted to maintain their pro-rata participation with the remaining membership interests by reducing the total number of units available and outstanding. The adjustments did not impact the value, terms, or vesting conditions of the Management Incentive Units. All employee units forfeited are eligible to be reissued in subsequent grants. Therefore, forfeited units are included in shares available for grant as of the end of each period.

PRIORITY HOLDINGS, LLC AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

The following summarizes the activity of the Plan for the six months ended June 30, 2018:

	Units Available for Grant	Units Granted
Balance at December 31, 2017	33,504	301,536
Pro rata adjustment	(6,089)	(54,804)
Units granted	(19,190)	19,190
Balance at June 30, 2018	<u>8,225</u>	<u>265,922</u>

	Number of Units	Weighted-Average Grant- Date Fair Value
Vested units at December 31, 2017	183,938	\$ 15.18
Pro rata adjustment	(33,431)	18.55
Units vested	9,595	45.64
Vested units at June 30, 2018	<u>160,102</u>	<u>\$ 20.17</u>

PRIORITY HOLDINGS, LLC AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

	Number of Units	Weighted-Average Grant- Date Fair Value
Non-vested units at December 31, 2017	117,598	\$ 15.18
Pro rata adjustment	(21,373)	18.55
Units issued	19,190	45.64
Units vested	(9,595)	45.64
Non-vested units at June 30, 2018	<u>105,820</u>	<u>\$ 21.01</u>

The following summarizes the activity of the Plan for the six months ended June 30, 2017:

	Units Available for Grant	Units Granted
Balance at December 31, 2016	-	638,297
Pro rata adjustment	-	(303,256)
Units forfeited	12,678	(12,678)
Balance at June 30, 2017	<u>12,678</u>	<u>322,363</u>

	Number of Units	Weighted-Average Grant- Date Fair Value
Vested units at December 31, 2016	184,468	\$ 7.97
Pro rata adjustment	(87,641)	15.18
Vested units at June 30, 2017	<u>96,827</u>	<u>\$ 15.18</u>

	Number of Units	Weighted-Average Grant- Date Fair Value
Non-vested units at December 31, 2016	453,829	\$ 7.97
Pro rata adjustment	(215,615)	15.18
Units forfeited	(12,678)	15.18
Non-vested units at June 30, 2017	<u>225,536</u>	<u>\$ 15.18</u>

PRIORITY HOLDINGS, LLC AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

Unit-based compensation expense was \$0.8 million and \$0.5 million for six months ended June 30, 2018 and 2017, respectively, which is included in “Salary and employee benefits” in the accompanying unaudited condensed consolidated statements of operations. As of June 30, 2018, there is approximately \$1.4 million of total unrecognized compensation cost related to non-vested share units granted under the plan. Under the plan there is no stated exercise price per unit.

12. FAIR VALUE MEASUREMENTS

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

Warrant

On January 3, 2017, the warrants of 1.0% were cancelled and replaced by the issuance of warrants to purchase Class A Common Units representing 1.8% of the outstanding Class A Common Units of the Company. On January 11, 2018, the debt warrants of 1.8% were cancelled and replaced by the issuance of warrants to purchase Class A Common Units representing 2.2% of the outstanding Class A Common Units of the Company. See Note 7 – Long-Term Debt. The Company estimates the fair value of the Company using a weighted-average of values derived from generally accepted valuation techniques, including market approaches, which consider the guideline public company method, the guideline transaction method, the recent funding method, and an income approach, which considers discounted cash flows. The Company adjusts the carrying value of the warrant to fair value as determined by the valuation model and recognizes the change in fair value as an increase or decrease in interest and other expense. As such, the Company classifies the warrant subjected to recurring fair value measurement as Level 3 in the fair value hierarchy.

Contingent Consideration – Preferred A Units Earnout

In conjunction with the merger disclosed in Note 1 – Nature of Business and Summary of Significant Accounting Policies, the Company provided a contingent preferred equity earnout plan. A current market valuation model, as described above, is used to estimate the fair value of the Company which, in turn, establishes the value of the preferred equity earnout contingent consideration. The Company adjusts the carrying value of the contingent consideration to fair value as determined by the valuation model and recognizes the change in fair value as “Change in fair value of contingent consideration.” The Company used a multiple of ten times the adjusted EBITDA, and applied a discount of 30% for lack of control and marketability in determining the value of the units. As such, the Company classifies the contingent consideration subjected to recurring fair value measurement as Level 3 in the fair value hierarchy.

The table below presents the recorded amount of the warrants classified as liabilities measured at fair value on a recurring basis as of June 30, 2018 and December 31, 2017.

PRIORITY HOLDINGS, LLC AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

(in thousands)

	Level 1	Level 2	Level 3	Total
Balance as of June 30, 2018				
Warrant liability	\$ -	\$ -	\$ 12,773	\$ 12,773
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,773</u>	<u>\$ 12,773</u>

	Level 1	Level 2	Level 3	Total
Balance as of December 31, 2017				
Warrant liability	\$ -	\$ -	\$ 8,701	\$ 8,701
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,701</u>	<u>\$ 8,701</u>

The following table shows a reconciliation of the beginning and ending balances for liabilities measured at fair value on a recurring basis using significant unobservable inputs that are classified as Level 3 in the fair value hierarchy for the six months ended June 30, 2018 and 2017:

	Warrant Liability
Balance at December 31, 2017	\$ 8,701
Extinguishment of GS 1.8% warrant liability (Note 7)	(8,701)
GS 2.2% warrant liability (Note 7)	12,182
Adjustment to fair value included in earnings	591
Balance at June 30, 2018	<u>\$ 12,773</u>

	Warrant Liability	Contingent Consideration
Balance at December 31, 2016	\$ 4,353	\$ 4,222
Extinguishment of GS 1.0% warrant liability (Note 7)	(4,353)	-
GS 1.8% warrant liability (Note 7)	4,503	-
Adjustment to ACCPC contingent consideration	-	(410)
Release of Preferred A contingent consideration (Note 10)	-	(3,812)
Adjustment to fair value included in earnings	527	-
Balance at June 30, 2017	<u>\$ 5,030</u>	<u>\$ -</u>

PRIORITY HOLDINGS, LLC AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

There were no transfers among the fair value levels during the six months ended June 30, 2018 and 2017.

13. SEGMENT INFORMATION

The Company's operating segments are based on the Company's product offerings and consist of the following: Consumer Payments and Commercial Payments and Managed Services, which are organized by services the Company provides and its distinct business units. The Commercial Payments and Managed Services operating segments have been combined into one Commercial Payments and Managed Services reportable segment.

To manage the business, the Company's Chairman and Chief Executive Officer ("CEO") both collectively serve as the chief operating decision makers ("CODM"). The CODM evaluates the performance and allocate resources based on the operating income of each segment. The Company operates in two reportable segments, Consumer Payments and Commercial Payments and Managed Services. For a detailed discussion of the Company's reportable segments refer to Note 16 – Segment Information in the Company's audited consolidated financial statements as of and for the year ended December 31, 2017.

Information on segments and reconciliations to consolidated revenues, consolidated operating income and consolidated depreciation and amortization are as follows for the periods presented:

(in thousands)	Six months Ended June 30,	
	2018	2017
Revenues:		
Consumer Payments	\$ 206,738	\$ 182,816
Commercial Payments and Managed Services	13,620	11,887
Consolidated Revenues	<u>\$ 220,358</u>	<u>\$ 194,703</u>
Operating income (loss):		
Consumer Payments	\$ 11,434	\$ 13,709
Commercial Payments and Managed Services	(350)	1,125
Consolidated operating income	<u>\$ 11,083</u>	<u>\$ 14,834</u>
Depreciation and amortization:		
Consumer Payments	\$ 7,544	\$ 7,463
Commercial Payments and Managed Services	236	189
Consolidated depreciation and amortization	<u>\$ 7,780</u>	<u>\$ 7,652</u>

PRIORITY HOLDINGS, LLC AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

A reconciliation of total operating income to the Company's net income (loss) is as follows:

<i>(in thousands)</i>	Six months Ended June 30,	
	2018	2017
Total operating income	\$ 11,083	\$ 14,834
Less: interest and other expense, net	(15,505)	(13,688)
Less: increase in fair value of warrant liability	(3,530)	(527)
Equity in loss and impairment of unconsolidated entities	(853)	(158)
Net (loss) income	<u>\$ (8,805)</u>	<u>\$ 461</u>

The Company's results of operations and financial condition are not significantly reliant upon any single customer for the six months ended June 30, 2018 and 2017. Substantially all revenues are generated in the United States.

PRIORITY HOLDINGS, LLC AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

14. EARNINGS PER UNIT

The following table sets forth the computation of the Company's basic and diluted earnings (loss) per unit:

<i>(in thousands except per unit data)</i>	Six months Ended June 30,	
	2018	2017
Numerator:		
Net (loss) income	\$ (8,805)	\$ 461
Less: Distributions to participating securities	(45)	(133)
Net (loss) income available to common unitholders	(8,850)	328
Denominator:		
Weighted average units outstanding – basic and diluted	4,370	5,162
Basic and diluted (loss) earnings per unit	\$ (2.03)	\$ 0.06

As of June 30, 2018 and 2017, there were 265,922 and 322,362 non-voting Class B units as well as warrants to issue 2.2% and 1.8% of the outstanding Class A Common units of the Company that are anti-dilutive. There were no dilutive common unit equivalents for the six months ended June 30, 2018 and 2017.

15. SUBSEQUENT EVENTS

Subsequent events have been evaluated from the balance sheet date through August 14, 2018, the date on which the unaudited condensed consolidated financial statements were available to be issued.

On July 18, 2018, a subsidiary of the Company entered into an asset purchase agreement to acquire the operating business assets of RadPad Holdings, Inc, which operates a web and mobile application where renters can search for and locate a rental home. On the same date, the same subsidiary of the Company also entered into an asset purchase agreement to acquire the operating business assets of Landlord Station, LLC, which primarily uses web-based applications to screen and manage renters for landlords. The asset purchases constituted the acquisitions of businesses for accounting purposes. For these two asset purchases, the Company paid approximately \$4.0 million cash to the sellers, some of whom also received profit interests in future activities of the acquiring subsidiary. The Company is in the process of completing the initial accounting for these acquisitions as business combinations in accordance with ASC 805, Business Combinations, including the allocation of the purchase price to the fair value of identifiable assets acquired and liabilities assumed. There are no revenues or results of operations of the acquired entities included in the accompanying unaudited condensed consolidated statement of operations for the six months ended June 30, 2018.

PRIORITY HOLDINGS, LLC AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

On July 25, 2018, M I Acquisitions, Inc. (“MI”), a special purpose acquisition company listed on the NASDAQ, acquired 100% of the outstanding equity interests of the Company and its subsidiaries. For accounting purposes, the transaction is a reverse acquisition whereby the Company is treated as the acquirer and MI is treated as the acquiree. Immediately after the combination event, the new combined entity changed its name to Priority Technology Holdings, Inc. and is listed on the NASDAQ under the symbol PRTH effective July 27, 2018. Costs incurred related to the transaction for the six months ended June 30, 2018 were \$3.7 million and are recorded as transaction costs in the unaudited condensed consolidated statement of operations. Prior to July 25, 2018, MI had no material business operations. MI’s assets consisted primarily of \$51.9 million of cash at the date of the transaction. Concurrently with the closing, the Company and Goldman Sachs agreed to cancel the Goldman Sachs Warrant (“GS Warrant”), as disclosed in Notes 7 and 12, and Goldman Sachs was paid cash of \$12.7 million for the GS Warrant.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements for the six-month periods ended June 30, 2018 (the "2018 period") and June 30, 2017 (the "2017 period") and related notes included elsewhere in Item 2.01 of this Current Report on Form 8-K (the "Form 8-K"). The following discussion and analysis should also be read together with our audited consolidated financial statements for the years ended December 31, 2017, 2016 and 2015, our unaudited condensed consolidated financial statements for the three-month periods ended March 31, 2018 and 2017 and related notes, and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations of Priority," which are included in M I Acquisitions Inc.'s definitive proxy statement filed with the Securities and Exchange Commission (the "SEC") on July 5, 2018 (the "Proxy Statement").

Forward-Looking Statements

This discussion and analysis contains forward-looking statements about our plans and expectations of what may happen in the future. Forward-looking statements are based on a number of assumptions and estimates that are inherently subject to significant risks and uncertainties, and our actual results could differ materially from the results anticipated by our forward-looking statements. See the section entitled "Special Note Regarding Forward-Looking Statements" in the Proxy Statement." Our future results and financial condition may also differ materially from those we currently anticipate as a result of the factors described in the sections entitled "Risk Factors" in the Proxy Statement. Throughout this section, unless otherwise noted "we," "us," "our" and the "Company" refer to Priority Technology Holdings, Inc. and our consolidated subsidiaries. Capitalized terms used and not otherwise defined herein have meanings assigned to them in the Proxy Statement. Certain amounts in this section may not foot due to rounding.

Business Overview

We are a leading provider of merchant acquiring and commercial payment solutions, offering unique product capabilities to primarily small and medium size businesses ("SMB") and distribution partners in the United States. Our company was founded in 2005 with a mission to build a merchant inspired payments platform that would advance the goals of our SMB and enterprise clients and business partners. We have grown from the 38th largest U.S. merchant acquirer to become the 13th largest as of the end of 2017, measured by Visa and MasterCard purchase volume provided by The Nilson Report. We are currently the 6th largest non-bank merchant acquirer in the United States. For the six months ended June 30, 2018, we processed over 230 million transactions and over \$19 billion in payment volume. We are headquartered near Atlanta in Alpharetta, GA. As of June 30, 2018, we had 532 employees led by an experienced group of payments executives. We provide our services through two reportable segments: (1) Consumer Payments and (2) Commercial Payments and Managed Services.

Consumer Payments

Our Consumer Payments segment provides full-service merchant acquiring and payment processing solutions mainly to SMBs. Our technology platform, MX Merchant, provides end users with a customizable virtual terminal with proprietary business management tools and add-on applications ("apps") that create an integrated merchant experience. MX Merchant's add-on apps include invoicing, customer engagement, and data analytics focused primarily on targeted marketing, website development, inventory management, and customer engagement. MX Merchant can be deployed on hardware from a variety of vendors and can operate either as a standalone product or integrated with third-party software. Our Consumer Payments segment partners with a diverse reseller community, including independent service organizations ("ISO"), financial institutions, independent software vendors ("ISV"), value-added resellers, and other referral partners. Through our MX Connect platform, we leverage and provide resellers with value-added tools and resources, including marketing resources, automated onboarding, merchant underwriting, and merchant activity monitoring and reporting. We believe MX Connect enables resellers to manage their merchant base and accelerate the growth of their businesses. We offer ISVs and value-added resellers a technology "agnostic" and feature-rich application processing interface ("API") that provides developers with the ability to integrate electronic payment acceptance into their software and improve onboarding efficiency for their merchant base.

Through resellers and acquisition of merchant portfolios, we become a party to arrangements with merchants and sponsoring banks for the processing of merchant card transactions. Pursuant to each arrangement and with respect to each card transaction, the sponsoring bank receives payment from card associations (e.g., Visa, MasterCard) and we earn transaction fee revenue from the processing and related services that we provide to merchants. We receive these revenues net of interchange fees due to the issuing bank, card association fees and assessments, and processing and related fees due to payment processors (e.g., First Data, Total System Services). Our transaction fee revenues are based primarily on the number and a percentage of the dollar volume of payment transactions processed by a merchant customer and, to a lesser extent, from MX Merchant monthly subscription costs. Our Consumer Payments segment accounted for \$206.7 million in revenue and \$11.4 million of operating income for the six months ended June 30, 2018. All of our shared corporate services expenses, including executive compensation and technology support services, have been allocated to our Consumer Payments segment for all periods discussed in this report.

Commercial Payments and Managed Services

Our Commercial Payments and Managed Services segment provides curated managed services and a robust suite of integrated automated payment solutions to leading financial institutions and card networks, including Citibank, MasterCard, Visa and American Express (“AMEX”). This segment supports a direct sales model that provides turnkey merchant development, product sales and supplier enablement programs. Through our Commercial Payments Exchange (“CPX”) platform, we provide our clients a seamless bridge for supplier payments by integrating payment instruction files via virtual card, purchase card, ACH +, dynamic discounting, or check.

This segment’s revenues are generated primarily through outsourced arrangements provided by our in-house sales force to financial institution customers on a cost-plus fee basis. As a partner to these financial institutions, we originate merchant financing arrangements, including AMEX buyer initiated payments (“BIP”) and AMEX merchant financing loans with the financial institutions’ merchant customers. Revenue is recognized primarily based on billable rates and hours worked, plus material and other billable items. In addition, through our CPX platform, we generate revenue from interchange fees based on a variable percentage of dollars transacted at on-boarded merchant locations, as well as subscription fees. Although CPX was only recently rolled out to customers, we believe it represents a high-growth opportunity for us since the commercial payments volume in the United States is over twice the size of consumer payments and has substantial additional opportunities for growth using electronic payments. Our Commercial Payments and Managed Services segment accounted for \$13.6 million in revenue and incurred a \$0.4 million operating loss for the six months ended June 30, 2018.

Highlights of Consolidated Results of Operations

- Consolidated revenues increased by 13.2% to \$220.4 million for the six months ended June 30, 2018, compared to \$194.7 million for the corresponding period in 2017, primarily due to an 11.9% increase in merchant bankcard processing dollar value and a 7.7% increase in bankcard transactions.
- Consolidated operating income was \$11.1 million for the six months ended June 30, 2018 compared to \$14.8 million for the prior-year period. Our consolidated operating margin for the six months ended June 30, 2018 was 5.0% compared to 7.6% for the prior-year period. While our bankcard processing dollar value and number of bankcard transactions increased by 11.9% and 7.7%, respectively, our consolidated operating income was negatively impacted by costs associated with the ramp up our CPX business, higher selling, general, and administrative (“SG&A”) costs, and non-recurring costs in connection with the our business combination with M I Acquisitions, Inc. (“M I”).
- Net consolidated loss was \$8.8 million for the six months ended June 30, 2018 compared to \$0.5 million net income for the prior-year period. Consolidated Adjusted EBITDA (a non-GAAP measure) was \$27.7 million for the six months ended June 30, 2018, an increase of \$2.5 million, or 9.8%, from the prior-year period.

Factors Affecting the Comparability of Our Results

The comparability of our results for the periods discussed herein has been impacted and may, for future periods, be further impacted by the following factors:

The Business Combination

Our results of operations for the periods presented reflect our status as a privately-held limited liability company for tax purposes prior to the consummation of the previously announced business combination with M I on July 25, 2018. As such, our income and losses have historically flowed through to our members and no provisions for federal income taxes were provided in our consolidated financial statements. As a result of the business combination on July 25, 2018, we are a C Corporation for income tax purposes, which will result in the recognition of income tax expense or benefit in our consolidated statement of operations for all subsequent periods. As a public company, we also expect to incur higher legal, accounting and other costs that we did not incur in prior periods.

Debt Upsizing and Equity Redemptions

On January 11, 2018, we increased our credit facility with SunTrust Bank (as administrative agent) (the “Senior Secured Credit Facility”) from \$200.0 million to \$267.5 million. The proceeds of the debt upsizing were used mainly to redeem our previously-issued equity interests. We redeemed: (1) 411,585 Class A Common units for \$31.0 million on January 17, 2018; (2) 445,410 Class A Common Units for \$39.0 million on January 19, 2018; and (3) 96,999 Class A Common Units for \$4.2 million on February 23, 2018.

As a result of the overall increase in debt, we recognized \$13.8 million of interest expense for the six months ended June 30, 2018 compared to \$11.6 million for the six months ended June 30, 2017.

In connection with the debt upsizing, the warrant previously issued to Goldman Sachs (“GS”) was amended to give it the right, upon exercise, to receive 2.2% of our then-outstanding Class A Common Units at any time prior to expiration (the “GS Warrant”). The GS Warrant was a seven-year, zero exercise price warrant issued in connection with a previous refinancing of our debt in January 2017. The fair value of the GS Warrant liability was \$12.8 million at June 30, 2018, reflecting a \$4.1 million increase in fair value from December 31, 2017 which was recorded within change in fair value of warrants, in our unaudited condensed consolidated statement of operations for the six months ended June 30, 2018. In connection with the business combination, the GS Warrant was canceled on July 25, 2018 in consideration of a cash payment of \$12.7 million in accordance with the terms of the GS Warrant agreement.

New Merchant Portfolios, Residuals, and Investment in Businesses

In the ordinary course of our business, we acquire new merchant relationships through contracts and relationships with ISOs and other resellers, as well as residual rights to commissions payable to such resellers.

On April 2, 2018, we purchased the majority of the operating assets and certain operating liabilities of PayRight Health Solutions (“PayRight”), in which we previously owned a minority interest and accounted for using the equity method. As a result, our consolidated financial statements now includes the financial position, results of operations, and cash flows of PayRight (within our Commercial Payments and Managed Services segment). The total fair value of the transaction was approximately \$0.9 million, of which approximately \$0.3 million pertained to our previously-owned equity method investment. As a result, we recorded a loss of \$0.8 million on our equity method investment in our unaudited condensed consolidated statement of operations for the six months ended June 30, 2018. See Note 2 to our unaudited consolidated financial statements included elsewhere in the Form 8-K.

Seasonality

We have experienced, and expect to continue to experience, seasonal fluctuations in our revenues as a result of consumer spending patterns and the recognition of non-transaction based fees. Historically, our annual revenues have typically been lower in the first quarter and higher in the fourth quarter, primarily due to the seasonal shopping and buying patterns experienced by our merchant customers. Some variability may also result from seasonal events (such as retail sales events) and the number of processing days in a month or quarter. Our quarterly operating expenses, other than cost of services (which trend in the direction of revenues), do not typically fluctuate seasonally.

Components of Revenue and Expenses

Revenues

Merchant card fees revenue

Merchant card fees revenue consists mainly of fees for processing electronic payments, including credit, debit and electronic benefit transaction card processing (authorized and captured through third-party networks integrated into Priority's solutions). The fees are generally based on a variable percentage of the dollar amount of each transaction and, in some cases, additional fees for each transaction. In addition, merchant customers may also be charged miscellaneous fees, including statement fees, annual fees, monthly minimum fees, fees for handling chargebacks, gateway fees, and fees for other miscellaneous services. Merchant card fees revenue is attributable primarily to our Consumer Payments segment.

Outsourced services revenue

Outsourced services revenue consists mainly of cost-plus fees related to business-to-business ("B2B") services, merchant financing and buyer initiated payment programs sold on behalf of certain enterprise customers, originated through our in-house sales force, including incentives for meeting sales targets. Outsourced services revenue are attributable primarily to our Commercial Payments and Managed Services segment.

Other revenue

Other revenue is comprised of fees for products and services not specifically described above, mainly revenue from the sale of equipment (primarily point of sale terminals) and processing of ACH transactions.

Operating Expenses

Costs of merchant card fees

Costs of merchant card fees is comprised mainly of residual payments to agents and ISOs and processing fees paid to third parties attributable to merchant acquisition and providing transaction processing and related services to our merchants.

Other costs of services

Other costs of services consist of salaries directly related to outsourced services revenue, the cost of equipment (point of sale terminals) sold and third-party fees and commissions related to our ACH processing activities.

Salary and employee benefits

Salary and employee benefits includes expenses for salaries, wages, commissions and bonuses, as well as expenses related to unit-based compensation rewards using the estimated grant date fair value. We amortize unit-based compensation for awards granted on a straight line basis over the requisite service (vesting) period.

Depreciation and amortization

Depreciation and amortization consists primarily of amortization of intangible assets, mainly including merchant portfolios, customer relationships and internally developed technology (software), and to a lesser extent depreciation on our investments in property, equipment and software, mainly computer software. Merchant portfolios are amortized over their estimated useful lives using either a straight-line or an accelerated method that most accurately reflects the pattern in which the economic benefits of the respective asset is consumed. Customer relationships and internally developed technology are amortized on a straight-line basis over their estimated useful lives. Property, equipment and software depreciation expense is recognized on a straight-line basis over the estimated useful life of the asset.

Selling, general and administrative (SG&A)

Selling, general and administrative expenses include mainly professional services, advertising and rent.

Transaction Costs

Non-recurring costs, such as legal, advisory, and accounting fees, associated with our 2018 business combination with M I.

Other operating expenses

Other operating expenses consist of additional operating costs not covered above, including office supplies, software licenses, utilities, state and local franchise and sales taxes, litigation settlements, executive travel and insurance, among others.

Other Income (Expense)

Interest and other income

Interest and other income consists mainly of interest received pursuant to notes receivable from independent sales agents.

Interest and other expense

Interest and other expense consists mainly of interest on outstanding debt, amortization of deferred financing fees and original issue discounts, and certain expenses related to debt extinguishment, including the write-off of unamortized deferred financing fees and original issue discount relating to the extinguished debt.

Change in fair value of warrants

Changes in fair value of warrants issued to Goldman Sachs.

Equity in loss and impairment of unconsolidated entities

Equity in loss and impairment of unconsolidated entities consists of the Company's share of the income or loss of its equity method investment as well as any impairment charges related to such investments.

Results of Operations

The following table presents the components of our consolidated income statement, including income for operations, for the six-month periods ended June 30, 2018 and June 30, 2017.

	Six Months Ended June 30, 2018	% of Revenue	Six Months Ended June 30, 2017	% of Revenue	Change	% Change
<i>(dollars in thousands, except percentages)</i>						
REVENUE:						
Merchant card fees revenue	\$ 204,746	92.9%	\$ 182,223	93.6%	\$ 22,523	12.4%
Outsourced services revenue	12,162	5.5%	11,041	5.7%	1,121	10.2%
Other revenue	3,450	1.6%	1,439	0.7%	2,011	139.7%
Total revenue	220,358	100.0%	194,703	100.0%	25,655	13.2%
OPERATING EXPENSES:						
Costs of merchant card fees	158,400	71.9%	139,260	71.5%	19,140	13.7%
Other costs of services	9,043	4.1%	7,288	3.7%	1,755	24.1%
Salary and employee benefits	18,414	8.4%	16,236	8.3%	2,178	13.4%
Depreciation and amortization	7,780	3.5%	7,652	3.9%	128	1.7%
Selling, general and administrative	6,582	3.0%	4,212	2.2%	2,370	56.3%
Transaction costs	3,671	1.7%	-	0.0%	3,671	n.m.
Change in fair value of contingent consideration	-	0.0%	(410)	(0.2)%	410	(100.0)%
Other operating expenses	5,385	2.4%	5,631	2.9%	(246)	(4.4)%
Total operating expenses	209,275	95.0%	179,869	92.4%	29,406	16.3%
Income from operations	11,083	5.0%	14,834	7.6%	(3,751)	(25.3)%
OTHER INCOME (EXPENSES):						
Interest and other income	377	0.2%	247	0.1%	130	52.6%
Interest and other expense	(15,882)	(7.2)%	(13,935)	(7.2)%	(1,947)	14.0%
Change in fair value of warrants	(3,530)	(1.6)%	(527)	(0.3)%	(3,003)	569.8%
Equity in loss and impairment of unconsolidated entities	(853)	(0.4)%	(158)	(0.1)%	(695)	n.m.
Total other expenses	(19,888)	(9.0)%	(14,373)	(7.4)%	(5,515)	38.4%
Net (loss) income	\$ (8,805)	(4.0)%	\$ 461	0.2%	\$ (9,266)	n.m.

The following table presents our segment operating income (loss) and selected performance measures for the periods indicated:

	Six Months Ended June 30,			
	2018	2017	\$/# Change	% Change
<i>(in thousands of dollars, except transaction volume and percentages)</i>				
Consumer Payments:				
Segment revenue	\$ 206,738	\$ 182,816	\$ 23,922	13.1%
Segment operating expense	(195,304)	(169,107)	(26,197)	15.5%
Segment operating income	11,434	13,709	(2,275)	(16.6)%
Segment operating margin	5.5%	7.5%		
Key Indicators:				
Merchant bankcard processing dollar value(1)	18,904,722	16,906,962	1,997,760	11.8%
Merchant bankcard transaction volume(1)	230,426	213,877	16,549	7.7%
Commercial Payments and Managed Services:				
Segment revenue	\$ 13,620	\$ 11,887	\$ 1,733	14.6%
Segment operating expense	(13,971)	(10,762)	(3,209)	29.8%
Segment operating (loss) income	(350)	1,125	(1,475)	n.m.

n.m. = not meaningful.

(1) Bankcard processing dollar values and transaction volumes presented in this table exclude data attributable to our Commercial Payments and Managed Services segment, related mainly to our CPX business.

Revenue

For the six months ended June 30, 2018, our consolidated revenue increased by \$25.7 million, or 13.2%, from the prior year, to \$220.4 million. This increase was driven primarily by a \$23.9 million, or 13.1%, increase in revenue from our Consumer Payments segment as revenue increased to \$206.7 million. Commercial Payments and Managed Services segment revenue increased by \$1.7 million, or 14.6%.

The increase in Consumer Payments revenue was attributable primarily to an 11.8% increase in merchant bankcard processing dollar value and a 7.7% increase in the number of merchant bankcard transactions, attributable mainly to higher consumer spending trends in 2018 as well as positive net onboarding of new merchants. The increase in merchant processing dollar value was also impacted by a 4% increase in average transaction dollar value.

The increase in Commercial Payments and Managed Services revenue was attributable primarily to an increase in headcount in our in-house sales force dedicated to selling merchant financing products on behalf of our financial institution partners, for which we record revenue on a cost-plus basis. Additionally, CPX merchant bankcard processing dollar value and the number of merchant bankcard transactions increased 38.1% and 30.5%, respectively.

Operating expenses

Our consolidated operating expenses increased \$29.4 million, or 16.3%, from \$179.9 million for the six months ended June 30, 2017 to \$209.3 million for the six months ended June 30, 2018. This increase was driven primarily by a \$19.1 million, or 13.7%, increase in costs of merchant card fees, attributable primarily to growth in processing volume. SG&A expenses increased by \$2.4 million, or 56.3%, primarily due to overall growth in our business operations and higher consulting fees. We incurred transaction costs of \$3.7 million for the six months ended June 30, 2018 (and none for the prior-year period), due to legal, accounting and other advisory and consulting fees related to the business combination. Salary and employee benefits increased \$2.2 million, or 13.4%, as headcount increased from 459 to 532, driven by expansion of our in-house sales force and CPX ramp up, and other costs of services increased by \$1.8 million, or 24.1%.

Income from operations

Consolidated income from operations decreased \$3.8 million, or 25.3%, from \$14.8 million for the six months ended June 30, 2017 to \$11.1 million for the six months ended June 30, 2018. Our consolidated operating margin for the six months ended June 30, 2018 was 5.0% compared to 7.6% for the prior-year period. While our bankcard processing dollar value and number of bankcard transactions increased by 11.9% and 7.7%, respectively, our consolidated operating income was negatively impacted by higher operating expenses, as discussed above, associated with the ramp up our CPX business, higher SG&A, and non-recurring costs in connection with our business combination with M I Acquisitions.

Our Consumer Payments segment contributed \$11.4 million in segment operating income for the six months ended June 30, 2018, a \$2.3 million, or 16.6%, decrease from \$13.7 million segment operating income for the six months ended June 30, 2017. The decrease from the prior year period was due mainly to higher overhead allocations caused by costs of the business combination. These declines were partially offset by the margin impact of the aforementioned revenue increase despite a slight increase in costs of merchant card fees as a percentage of revenue, driven by merchant mix, to 71.9% for the six months ended June 30, 2018 from 71.5% for the six months ended June 30, 2017. Our Commercial Payments and Managed Services segment incurred a \$0.4 million segment operating loss for the six months ended June 30, 2018, compared to \$1.1 million in segment operating income for the six months ended June 30, 2017. This was principally the result of increased headcount related to CPX ramp up, as we commenced hiring management and staff for that segment beginning in the middle of 2017.

Other income (expenses)

Other expenses increased \$5.5 million, or 38.4%, from \$14.4 million for the six months ended June 30, 2017 to \$19.9 million for the six months ended June 30, 2018. Interest expense on outstanding debt increased by \$2.2 million in the 2018 period primarily due to higher outstanding borrowings attributable mainly to the January 2018 debt upsizing, partially offset by modest decreases in amortization of deferred financing costs and debt modification costs. The fair value of the GS Warrant liability increased to \$12.8 million at June 30, 2018, resulting in a \$3.5 million change in fair value adjustment and contributed \$3.0 million to the increase in other expenses during the 2018 period. We recognized a \$0.8 million impairment of our previous equity method investment in PayRight in the 2018 period in conjunction with our purchase of substantially all of the net assets of PayRight.

Net loss

Our consolidated net loss for the six months ended June 30, 2018 was \$8.8 million compared to \$0.5 million net income reported for the six months ended June 30, 2017. The change between periods was due mainly to the costs related to the business combination and increased other expenses, as discussed above.

Certain Non-GAAP Measures

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

EBITDA, Adjusted EBITDA and Earnout Adjusted EBITDA

Included in this presentation are discussions and reconciliations of earnings before interest, income tax and depreciation and amortization (“EBITDA”) and EBITDA adjusted for certain non-cash, non-recurring or non-core expenses (“Adjusted EBITDA”) to net income in accordance with GAAP. Adjusted EBITDA excludes certain non-cash and other expense, litigation settlement costs, certain legal services costs, professional and consulting fees and expenses, severance, separation and employee settlements, share-based compensation and one-time transaction-related expenses and certain adjustments. We believe these non-GAAP measures illustrate the underlying financial and business trends relating to our results of operations and comparability between current and prior periods. We also use these non-GAAP measures to establish and monitor operational goals.

In addition, our financial covenants under our debt agreements and the earnout incentive plan pursuant to the 2018 business combination with M I, are based on a measure similar to Adjusted EBITDA (“Earnout Adjusted EBITDA”). The calculations of Earnout Adjusted EBITDA under our debt agreements and the earnout incentive plan include adjustments for, among other things, pro forma effects related to acquired merchant portfolios and residual streams and run rate adjustments for certain contracted savings on an annualized basis, which are not included as adjustments to Adjusted EBITDA.

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

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

	Six Months Ended June 30,	
	2018	2017
	(dollars in thousands)	
Net (loss) income (GAAP)	\$ (8,805)	\$ 461
Adjusted for:		
Add: Interest expense, net(1)	14,559	13,785
Add: Depreciation and amortization	7,780	7,652
EBITDA (non-GAAP)	13,534	21,898
Further adjusted for:		
Add: Non-cash and certain other expense(2)	5,716	421
Add: Litigation settlement costs	(82)	5
Add: Certain legal services(3)	3,264	1,506
Add: Professional and consulting fees and expenses(4)	4,229	675
Add: Severance, separation and employee settlements	140	139
Add: Share-based compensation	795	532
Add: Other non-recurring expenses and adjustments	55	-
Adjusted EBITDA (non-GAAP)	27,651	25,176
Further adjusted for:		
Add: Pro forma impacts for acquisitions	4,353	703
Add: Contracted revenue and savings	698	1,743
Add: Corporate income tax expense	147	157
Earnout Adjusted EBITDA (non-GAAP)	\$ 32,849	\$ 27,779

- (1) Interest expense, net does not include the loss on debt modification and the discount associated with the GS Subordinated Term Loan which are included in interest expense and other line in the unaudited condensed consolidated statements of operations.
- (2) Primarily non-cash fair value and other adjustments, including for warrants and earnout obligations, equity in loss and impairment of unconsolidated entities and, to a lesser extent, certain non-recurring transaction and integration-related costs.
- (3) Legal expenses related to business and asset acquisition activity, legal settlements and other litigation expenses.
- (4) Primarily transaction-related, capital markets, accounting advisory, IT consulting and sponsor management fees and expenses, as well as a consulting arrangement with a non-independent director.

Liquidity and Capital Resources

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

Our principal uses of cash are to pay commissions to our distribution partners and internal sales staff, merchant portfolio acquisitions and distribution partner advances, operating expenses, interest expense, investments in technology infrastructure and acquisitions.

Our working capital, defined as current assets less current liabilities, was \$22.7 million at June 30, 2018 and \$39.5 million at December 31, 2017. As of June 30, 2018, we had cash totaling \$12.7 million compared to \$28.0 million at December 31, 2017. These balances do not include restricted cash, which reflects cash accounts holding reserves for potential losses and customer settlement funds, of \$17.2 million at June 30, 2018 and \$16.2 million at December 31, 2017.

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

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

Six Months Ended June 30,
2018 **2017**
(dollar amounts in thousands)

Net cash provided by (used in):			
Operating activities	\$	14,920	\$ 13,326
Investing activities		(14,258)	(4,929)
Financing activities		(14,980)	(23,882)
Net decrease in cash and restricted cash	\$	<u>(14,318)</u>	<u>\$ (15,485)</u>

Cash Flow Provided By Operating Activities

Net cash provided by operating activities was \$14.9 million and \$13.3 million for the six months ended June 30, 2018 and 2017, respectively. The \$1.6 million, or 12.0%, decrease was principally the result of changes in net (loss) income and working capital, including a \$9.3 million decrease in net income from \$0.5 million net income for the six months ended June 30, 2017 to an \$8.8 million net loss for the six months ended June 30, 2018. Working capital increased by \$7.6 million for the six months ended June 30, 2018 when compared to the same period in 2017, including a \$9.9 million increase from cash collected from accounts receivables and a decrease of \$3.5 million of cash used for payments of prepaid expenses and other current assets.

Cash Flow Used In Investing Activities

Net cash used in investing activities was \$14.3 million and \$4.9 million for the six months ended June 30, 2018 and 2017, respectively. Cash flow used in investing activities includes the acquisitions of merchant portfolio, purchases of property, equipment and software and current year acquisitions (net of cash acquired). For the six months ended June 30, 2018, we invested \$8.2 million in merchant portfolio acquisitions, a \$5.7 million increase from the six months ended June 30, 2017. Net cash used for purchases of property, plant and equipment for the six months ended June 30, 2018 was \$5.7 million, which is an increase of \$3.3 million from the six months ended June 30, 2017. The increase in purchases was driven primarily by equipment purchases for MX Connect and CPX, capitalization of internally developed software and improvements to the legal and CPX office space. Additionally, we used \$0.3 million net cash for the current year acquisition of PayRight.

Cash Flow Used In Financing Activities

Net cash used in financing activities was \$15.0 million and \$23.9 million for the six months ended June 30, 2018 and 2017, respectively. Cash flow used in financing activities for the six months ended June 30, 2018 was primarily driven by the Class A Common Unit redemptions of \$74.2 million, cash distributions to members of \$6.3 million and repayments on debt and debt issuance cost of \$1.7 million, partially offset by proceeds from the issuance of long-term debt of \$67.1 million. Cash flows used in financing activities for the six months ended June 30, 2017 was driven by equity redemptions of \$203.0 million, repayment of long term debt of \$89.7 million, and debt issuance costs of \$4.6 million, partially offset by the proceeds from the issuance of long term debt of \$276.3 million.

Long-Term Debt

As of June 30, 2018, we had outstanding long-term debt of \$349.0 million (compared to \$275.5 million at December 31, 2017), an increase of \$73.5 million, consisting of outstanding debt of \$264.2 million under the Senior Secured Credit Facility (net of \$2.7 million in current portion of long-term debt) and \$87.5 million under the Subordinated Term Loan (including accrued payment-in-kind ("PIK") interest through June 30, 2018). Proceeds from the January 11, 2018 debt upsizing were used to redeem Class A Common Units. We have a \$25.0 million revolving credit facility with SunTrust Bank, which was undrawn and fully available as of June 30, 2018 and December 31, 2017.

Outstanding borrowings under the Senior Secured Credit Facility bear interest at the London Interbank Offered Rate (LIBOR) with a floor of 1.0%, plus an applicable margin. The margin stood at 5.0% as of June 30, 2018, which was a reduction from 6% as of December 31, 2017 due to amendments made in connection with the January 2018 debt upsizing. The Senior Secured Credit Facility is secured by a pledge of substantially all of our assets, all of the capital stock of our subsidiaries, and 65% of our outstanding voting stock and all of our outstanding non-voting stock. The Subordinated Term Loan provides for cash and PIK interest components. Cash interest is payable at an annual rate of 5.0% while PIK interest resets on a quarterly basis based on our Total Net Leverage Ratio, as defined in the credit agreement relating Subordinated Term Loan, with a floor of 5.0%. The Subordinated Term Loan is secured by a subordinate pledge of substantially all of our assets. As of June 30, 2018, outstanding amount on the Subordinated Term Loan totaled \$87.5 million, a \$2.4 million increase from December 31, 2017 attributable to the accrual of PIK interest. The outstanding principal amounts under the Senior Secured Credit Facility and the Subordinated Term Loan mature in January 2023 and July 2023, respectively. See Note 7 to our unaudited consolidated financial statements included elsewhere in the Form 8-K. The \$25 million revolving credit facility expires in January 2022. The PIK interest payable on the Subordinated Term Loan decreased from 6.25% as of December 31, 2017 to 5.5% in January 2018 (which remained the applicable PIK rate as of June 30, 2018) due to our improved Total Net Leverage Ratio, as defined in the credit agreement.

The Senior Secured Credit Facility and the Subordinated Term Loan contain representations and warranties, financial and collateral requirements, mandatory payment events, and events of default and affirmative and covenants, including without limitation, covenants that restrict among other things, the ability to create liens, merge or consolidate, dispose of assets, incur additional indebtedness, make certain investments or acquisitions, enter into certain transactions (including with affiliates), and to enter into certain leases. The financial covenants include requirements to maintain certain leverage and fixed charge coverage ratios.

As of June 30, 2018, financial covenants under the Senior Secured Credit Facility required the Total Net Leverage Ratio, as defined in the agreement, not to exceed 7.00:1.00 and a First Lien Net Leverage Ratio, as defined in the agreement, not to exceed 4.25:1.00. The Net Leverage Ratios are determined using the outstanding debt balance and Earnout Adjusted EBITDA, as defined. For a reconciliation of Earnout Adjusted EBITDA to net income, see above under “—Certain Non-GAAP Measures” We are required to make quarterly principal payments of \$0.7 million under the Senior Secured Credit Facility as well as additional mandatory prepayments based on Excess Cash Flow, as defined in the credit agreement. At March 31, 2018, we were obligated to make a mandatory prepayment based on Excess Cash Flow of \$5.6 million, but obtained a limited waiver and consent in April 2018, which waived the mandatory prepayment. See Note 7 to the unaudited condensed consolidated financial statements included elsewhere in the Form 8-K. The Subordinated Term Loan contains financial covenants similar to the Senior Secured Credit Facility. As of June 30, 2018, we were in compliance with our financial covenants.

Off-Balance Sheet Arrangements

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

Commitments and Contractual Obligations

There have been no significant changes to our contractual obligations and commitments compared to those disclosed in “Management’s Discussion and Analysis of Financial Condition and Results of Operations of Priority” included in M I Acquisitions’ definitive proxy statement filed with the Securities and Exchange Commission on July 5, 2018.

Related Party Transactions

We have a management services agreement and an annual bonus payout with PSD Partners, which is owned by Tom Priore, our Executive Chairman and a member of Priority Investments Holdings, LLC, which is in turn the member owner of Priority Incentive Equity Holdings, LLC. For the six months ended June 30, 2018 and 2017, we incurred a total of \$0.6 million and \$0.4 million, respectively, for costs related to management service fees, annual bonus payout and occupancy fees.

In addition, during January and February 2018, we entered into a series of redemptions with respect to our then outstanding Class A Common Units whereby we redeemed approximately \$74.1 million of such Class A Common Units, including approximately \$25.9 million from certain of our directors and executive officers who were also equity holders at that time. In addition, in connection with the redemption we entered into a consulting agreement with Comvest Advisors, LLC, an affiliate of which had its remaining Class A Common Units fully redeemed, pursuant to which we agreed to pay \$1 million in consulting fees to it in January 2018.

Critical Accounting Policies

Our unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim periods, which often require the judgment of management in the selection and application of certain accounting principles and methods. We discuss our critical accounting policies in “Management’s Discussion and Analysis of Financial Condition and Results of Operations of Priority” included in M I Acquisitions’ definitive proxy statement filed with the Securities and Exchange Commission on July 5, 2018. There have been no significant changes to our critical accounting policies from those previously disclosed in the aforementioned proxy statement.

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

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board or other standards setting bodies that may affect our current and/or future financial statements. See “Note 1—Nature of Basis and Summary of Significant Accounting Policies” in the notes to the accompanying unaudited condensed consolidated financial statements included elsewhere in the Form 8-K for a discussion of recently adopted accounting pronouncements and recently issued accounting pronouncements not yet adopted.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate risk

Priority’s Senior Secured Credit Facility bears interest at a rate based on LIBOR plus a fixed margin. As of June 30, 2018, Priority had \$264.2 million in outstanding borrowings under Priority’s Senior Secured Credit Facility. The applicable LIBOR rate stood at 1.99% at June 30, 2018. A hypothetical 1.0% increase in the applicable LIBOR rate on Priority’s outstanding indebtedness under the Senior Secured Credit Facility for the six months ended June 30, 2018 would have increased cash interest expense on Priority’s indebtedness by approximately \$1.1 million, while a hypothetical 1.0% decrease in the applicable LIBOR rate would have decreased cash interest expense on Priority’s indebtedness by approximately \$1.0 million. For 2018, the applicable LIBOR rate on Priority’s outstanding indebtedness under the Senior Secured Credit Facility would increase cash interest expense on Priority’s indebtedness by approximately \$2.4 million per annum, while a hypothetical 1.0% decrease in the applicable LIBOR rate would decrease cash interest expense on Priority’s indebtedness by approximately \$2.3 million per annum. There have been no significant changes to our outstanding indebtedness compared to those disclosed in “Management’s Discussion and Analysis of Financial Condition and Results of Operations of Priority” included in M I Acquisitions’ definitive proxy statement filed with the Securities and Exchange Commission on July 5, 2018.

Priority does not currently hedge against interest rate risk.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION***Introduction***

Capitalized terms used and not otherwise defined herein have the meanings ascribed to them in the Current Report on Form 8-K to which this pro forma financial information is being attached (the “Form 8-K”).

The following unaudited pro forma condensed combined balance sheet as of June 30, 2018 assumes that the Business Combination and the related proposed equity commitments had occurred on June 30, 2018. The unaudited pro forma condensed combined statements of operations for the six months ended June 30, 2018 and year ended December 31, 2017 present pro forma effects of the Business Combination and the related proposed equity commitments as if they had been completed on January 1, 2017.

The pro forma combined financial statements do not necessarily reflect what the combined company’s financial condition or results of operations would have been had the acquisition occurred on the dates indicated. The pro forma combined financial information also may not be useful in predicting the future financial condition and results of operations of the combined company. The actual financial position and results of operations may differ significantly from the pro forma amounts reflected herein due to a variety of factors.

The historical financial information of M I Acquisitions was derived from the unaudited and audited financial statements of M I Acquisitions as of and for the six months ended June 30, 2018 and for the year ended December 31, 2017 incorporated by reference in the Form 8-K.. The historical financial information of Priority as of and for the six months ended June 30, 2018 was derived from the unaudited condensed consolidated financial statements of Priority as of and for the six months ended June 30, 2018 included in the Form 8-K. The historical financial information of Priority as of and for the year ended December 31, 2017 was derived from the audited consolidated financial statements of Priority incorporated by reference in the Form 8-K. This information should be read together with M I Acquisitions’ and Priority’s unaudited and audited financial statements and related notes, the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations of M I Acquisitions,” and the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations of Priority,” which are incorporated by reference in the Form 8-K.

The Business Combination is accounted for as a reverse merger, with no goodwill or other intangible assets recorded, in accordance with GAAP. Under this method of accounting, M I Acquisitions is treated as the “acquired” company for financial reporting purposes. Accordingly, for accounting purposes, the Business Combination is treated as the equivalent of Priority issuing stock for the net assets of M I Acquisitions, accompanied by a recapitalization. The net assets of M I Acquisitions will be stated at historical cost, with no goodwill or other intangible assets recorded. Operations prior to the Business Combination will be those of Priority.

Priority has been determined to be the accounting acquirer based on evaluation of the following facts and circumstances:

- The Priority stockholder group has the greatest voting interest in the combined entity of 92% after redemptions;
- The largest individual minority shareholder comes from Priority;
- The combined company’s board of directors will initially consist of five directors, all of which will be selected by Priority;
- Priority will hold C-suite management roles for the combined company.

Other factors were considered, including size of the entities and the location of the combined company’s headquarters, noting that the preponderance of evidence as described above is indicative that Priority is the accounting acquirer in the Business Combination.

Description of the Business Combination

On July 25, 2018, M I Acquisitions and Priority consummated the Business Combination, under which M I Acquisitions acquired controlling interest in Priority.

Priority is a leading provider of merchant acquiring and commercial payment solutions, offering unique product capabilities to small and mid-sized businesses (“SMB”), enterprises and distribution partners in the United States. Priority was founded in 2005 with a mission to build a merchant inspired payments platform that would advance the goals of its SMB and enterprise business partners. Priority has grown from the 38th largest U.S. merchant acquirer to become the 13th largest as of 2017, measured by Visa and MasterCard purchase volume according to The Nilson Report. Priority is currently the 6th largest non-bank merchant acquirer in the United States. Priority processed over 230 million and 439 million transactions and over \$19 billion and \$34 billion in bankcard payment volume across approximately 175,000 merchants for the six months ended June 30, 2018 and for the year ended December 31, 2017, respectively. Headquartered in Alpharetta, GA, Priority has approximately 530 employees as of June 30, 2018 and is led by an experienced group of payments executives.

Concurrently with the closing of the Business Combination, the Company and Goldman Sachs agreed to cancel the Goldman Sachs Warrant (“GS Warrant”) and Goldman Sachs was paid cash of \$12.7 million for the GS Warrant. The GS Warrant was a seven-year, zero exercise price warrant issued by Priority to Goldman Sachs in connection with the refinancing of Priority’s credit facility on January 3, 2017, as subsequently adjusted as a result of anti-dilution provisions in the GS Warrant agreement triggered by Class A unit redemption of Priority, that entitled Goldman Sachs to exercise to receive 2.2% of Priority’s outstanding Class A Common Units at any time prior to expiration (the “GS Warrant”).

Pursuant to the Purchase Agreement, M I Acquisitions acquired 100% of the outstanding shares and equity interests of Priority in exchange for the issuance of 60.5 million M I Acquisitions shares. Concurrently with the Purchase Agreement, the Founders and Priority entered into the Founders Share Agreement which is incorporated by reference in the Form 8-K, pursuant to which Priority purchased 421,107 of the units issued to the Founders in a private placement immediately prior to M I Acquisitions' initial public offering, and 453,210 shares of common stock of M I Acquisitions issued to the Founders, for an aggregate purchase price of approximately \$2.1 million at the closing of the acquisition. In addition, pursuant to the Founders Share Agreement, the Founders forfeited 174,863 founder's shares at the closing of the acquisition, which shares may be reissued to the Founders if one of the earn-outs described herein (and relating to the Purchase Agreement consideration) is achieved.

The following represents the Merger Consideration:

in millions, except per share amount

Enterprise Value ⁽¹⁾	\$	947.8
Plus: Incremental Enterprise Value ⁽²⁾		13.1
Minus: Closing Indebtedness ⁽³⁾		(351.7)
Plus: Closing Cash ⁽³⁾		14.4
Priority Equity Value (\$) – at Closing	\$	623.6
Divided by: \$10.30/Share ⁽¹⁾	\$	10.30
Share Consideration – at Closing	\$	60.5

(1) Values obtained from the amended and restated Purchase Agreement.

(2) Amount derived based on calculation per the amended and restated Purchase Agreement.

(3) Closing Indebtedness and Closing Cash are estimates of the amounts calculated per the amended and restated Purchase Agreement at the Business Combination consummation date.

An additional 9.8 million shares of M I Acquisitions common stock may be issued as earn-out consideration to the Sellers, or at their election, to members of Priority's management or other service providers post-business combination pursuant to the Earn-out Incentive Plan — 4.9 million shares for the first earn-out and 4.9 million shares for the second earn-out. For the first earn-out, Earn-out Adjusted EBITDA of M I Acquisitions must be no less than \$82.5 million for the year ending December 31, 2018 and the M I Acquisitions stock price must have traded in excess of \$12.00 for any 20 trading days within any consecutive 30-day trading period at any time on or before December 31, 2019. For the second earn-out, the Earn-out Adjusted EBITDA of M I Acquisitions must be no less than \$91.5 million for the year ending December 31, 2019 and the M I Acquisitions stock price must have traded in excess of \$14.00 for any 20 trading days within any consecutive 30-day trading period at any time between January 1, 2019 and December 31, 2020. In the event that the first earn-out targets are not met, the entire 9.8 million shares may be issued if the second earn-out targets are met.

The unaudited pro forma condensed combined financial information has been prepared reflecting adjustments for the consummation of the Business Combination based on currently available information and certain assumptions that Priority believes are reasonable under the circumstances. The unaudited condensed pro forma adjustments may be revised as additional information becomes available. Therefore, it is likely that the actual adjustments will differ from the pro forma adjustments and it is possible the differences may be material. Management believes that its assumptions provide a reasonable basis for presenting all of the significant effects of the Business Combination based on information currently available to management and that the pro forma adjustments give appropriate effect to those assumptions and are properly applied in the unaudited pro forma condensed combined financial information.

The following summarizes the pro forma common stock shares outstanding after giving effect to the Business Combination and the related equity commitments:

	Six months ended June 30, 2018	
	Pro Forma Combined	%
M I Merger Consideration shares ⁽¹⁾	60,546,395	
M I Founder shares held by the Sellers	453,210	
M I Private Placement shares held by the Sellers	421,107	
Priority shares	61,420,712	92%
Shares held by current M I public shareholders	5,310,109	
Less: public shares redeemed June 15, 2018 ⁽²⁾	(377,231)	
Less: public shares redeemed ⁽³⁾	(6,000)	
M I shares	4,926,878	7%
Founder shares	1,327,527	
Less Founder shares bought by the Sellers	(453,210)	
Less Founder shares forfeited	(174,863)	
Founders shares	699,454	1%
Pro Forma Shares Outstanding	67,047,044	100%

(1) Refer to the Consideration Shares table herein.

(2) On June 15, 2018, M I public shareholders redeemed 377,231 shares for \$3,963,539 (\$10.507 per share) after the vote to extend the date to close the transaction to September 17, 2018.

(3) The number of public shares redeemed at the Closing Date for \$10.533 per share.

The following unaudited pro forma condensed combined balance sheet as of June 30, 2018 and the unaudited pro forma condensed combined statements of operations for the six months ended June 30, 2018 and the year ended December 31, 2017 are based on the historical financial statements of M I Acquisitions and Priority. The unaudited pro forma adjustments are based on information currently available, assumptions, and estimates underlying the unaudited pro forma adjustments are described in the accompanying notes. Actual results may differ materially from the assumptions used to present the accompanying unaudited pro forma condensed combined financial information.

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
AS OF JUNE 30, 2018
(in thousands)

	As of June 30, 2018			As of June 30, 2018
	M I (Historical)	Priority (Historical)	Pro Forma Adjustments	Pro Forma Combined
Assets				
Current assets				
Cash and cash equivalents	\$ 1	\$ 12,652	\$ 51,896[A][D] (12,666)[B] (2,118)[B] (1,062)[C] (28)[D] (133)[E] (12,773)[J]	\$ 35,769
Restricted cash	—	17,189	—	17,189
Accounts receivable, net of allowance for doubtful accounts	—	40,104	—	40,104
Due from related parties	—	269	—	269
Prepaid expenses and other current assets	28	3,988	—	4,016
Current portion of notes receivable	—	3,078	—	3,078
Settlement assets	—	3,634	—	3,634
Total current assets	29	80,914	23,116	104,059
Cash and cash equivalents held in trust	51,905	—	(51,905)[A]	—
Notes receivable, less current portion	—	3,604	—	3,604
Property, equipment, and software, net	—	16,049	—	16,049
Goodwill	—	102,030	—	102,030
Intangible assets, net	—	45,092	—	45,092
Other assets	—	1,692	—	1,692
Total assets	\$ 51,934	\$ 249,381	\$ (28,789)	\$ 272,526
Liabilities and Stockholders' Equity (Deficit)				
Liabilities				
Current liabilities				
Accounts payable and accrued expenses	\$ 816	\$ 21,406	\$ (4,351)[B][I]	\$ 17,871
Offering costs payable	12	—	—	12
Notes payable	370	—	(28)[A][D]	342
Note payable – related parties	133	—	(133)[E]	—
Accrued residual commissions	—	21,311	—	21,311
Customer deposits	—	3,295	—	3,295
Current portion of notes payable	—	2,682	—	2,682
Settlement obligations	—	9,483	—	9,483
Total current liabilities	1,331	58,177	(4,512)	54,996
Long-term debt, net of discounts and deferred financing costs	—	341,352	—	341,352
Warrant liability	—	12,773	(12,773)[J]	—
Deferred underwriting fee payable	1,062	—	(1,062)[C]	—
Other liabilities	—	6,485	—	6,485
Total liabilities	2,393	418,787	(18,347)	402,833

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
AS OF JUNE 30, 2018
(in thousands)

	As of June 30, 2018			As of June 30, 2018
	M I (Historical)	Priority (Historical)	Pro Forma Adjustments	Pro Forma Combined
Common stock subject to possible conversion (4,239,522 shares at conversion value as of June 30, 2018)	44,541	—	(44,541)[F]	—
Stockholders' Equity (Deficit)				
Preferred stock	—	—	—	—
Common stock	2	—	4[F]	67
			61[G]	
Additional paid-in capital	5,550	—	44,537[F]	49,466
			(61)[G]	
			(552)[H]	
			(8)[A][F]	
Accumulated deficit	(552)	—	552[H]	(179,840)
			(10,639)[B]	
			(2,118)[B]	
			(169,406)[G]	
			2,323[I]	
Total stockholders' equity (deficit)	5,000	—	(135,307)	(130,307)
Members' deficit		(169,406)	169,406[G]	—
Total liabilities and stockholders' equity (deficit)	\$ 51,934	\$ 249,381	\$ (28,789)	\$ 272,526

See accompanying notes to unaudited pro forma condensed combined financial information.

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2018
(in thousands, except share and per share data)

	Six months ended June 30, 2018			
	M I (Historical)	Priority (Historical)	Pro Forma Adjustments	Pro Forma Combined
Revenues				
Merchant card fees revenue	\$ —	\$ 204,746	\$ —	\$ 204,746
Outsourced services revenue	—	12,162	—	12,162
Other revenues	—	3,450	—	3,450
Total revenue, net	—	220,358	—	220,358
Operating expenses				
Costs of merchant card fees	—	158,400	—	158,400
Other costs of services	—	9,043	—	9,043
Salary and employee benefits	—	18,414	—	18,414
Depreciation and amortization	—	7,780	—	7,780
Selling, general and administrative	—	6,582	—	6,582
Transaction costs	—	3,671	(3,671)(CC)	—
Administration fee - related party	60	—	—	60
Operating costs	643	—	(524)(CC)	119
Other operating expenses	—	5,385	—	5,385
Total operating expenses	703	209,275	(4,195)	(205,783)
(Loss) income from operations	(703)	11,083	4,195	14,575
Other income (expense)				
Interest and other income	393	377	(393)(AA)	377
Interest and other expense	—	(15,882)	—	(15,882)
Change in fair value of warrants	—	(3,530)	—	(3,530)
Equity in loss and impairment of unconsolidated entities	—	(853)	—	(853)
Total other income (expense)	393	(19,888)	(393)	(19,888)
Loss before taxes	(310)	(8,805)	3,802	(5,313)
Income tax benefit	—	—	1,443(BB)	1,443
Net loss	\$ (310)	\$ (8,805)	\$ 5,245	\$ (3,870)
Net loss per shares of common stock – basic and diluted	\$ (0.28)			\$ (0.06)
Weighted average shares of common stock outstanding – basic and diluted	2,352,922			67,047,044

See accompanying notes to unaudited pro forma condensed combined financial information.

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR YEAR ENDED DECEMBER 31, 2017
(in thousands, except share and per share data)

	Year ended December 31, 2017			
	M I (Historical)	Priority (Historical)	Pro Forma Adjustments	Pro Forma Combined
Revenues				
Merchant card fees revenue	\$ —	\$ 398,988	\$ —	\$ 398,988
Outsourced services revenue	—	23,308	—	23,308
Other revenues	—	3,323	—	3,323
Total revenue, net	—	425,619	—	425,619
Operating expenses (income)				
Cost of merchant card fees	—	305,461	—	305,461
Other costs of services	—	15,743	—	15,743
Salary and employee benefits	—	32,357	—	32,357
Depreciation and amortization	—	14,674	—	14,674
Selling, general and administrative	—	9,088	—	9,088
Administration fee - related party	120	—	—	120
Operating costs	832	—	—	832
Change in fair value of contingent consideration	—	(410)	—	(410)
Other operating expenses	—	13,457	—	13,457
Total operating expenses (income)	952	390,370	—	391,322
(Loss) income from operations	(952)	35,249	—	34,297
Other (expense) income				
Interest and other income	399	637	(399)(AA)	637
Interest and other expense	—	(31,159)	—	(31,159)
Equity in loss of unconsolidated entities	—	(133)	—	(133)
Settlement income	428	—	—	428
Total other (expense) income	827	(30,655)	(399)	(30,227)
(Loss) income before taxes	(125)	4,594	(399)	4,070
Income tax (expense) benefit	—	—	(1,530)(BB)	(1,530)
Net (loss) income	\$ (125)	\$ 4,594	\$ (1,929)	\$ 2,540
Net (loss) income per shares of common stock – basic and diluted	\$ (0.19)			\$ 0.04
Weighted average shares of common stock outstanding – basic and diluted		2,330,884		67,047,044

See accompanying notes to unaudited pro forma condensed combined financial information.

**NOTES TO UNAUDITED PRO FORMA
CONDENSED COMBINED FINANCIAL INFORMATION**

1. Basis of Presentation

The Business Combination is accounted for as a reverse merger, with no goodwill or other intangible assets recorded, in accordance with GAAP. Under this method of accounting, M I Acquisitions is treated as the “acquired” company for financial reporting purposes. This determination was primarily based on Priority comprising the ongoing operations of the combined company, Priority’s senior management comprising the senior management of the combined company, and Priority’s stockholders having a majority of the voting power of the combined company. Accordingly, for accounting purposes, the Business Combination was treated as the equivalent of Priority issuing stock for the net assets of M I Acquisitions, accompanied by a recapitalization. The net assets of M I Acquisitions will be stated at historical cost, with no goodwill or other intangible assets recorded. Operations prior to the Business Combination will be those of Priority.

The unaudited pro forma condensed combined balance sheet as of June 30, 2018 assumes that the Business Combination and the related proposed equity commitments occurred on June 30, 2018. The unaudited pro forma condensed combined statements of operations for the six months ended June 30, 2018 and the year ended December 31, 2017 present pro forma effect to the Business Combination and the related proposed equity commitments as if they had been completed on January 1, 2017. These periods are presented on the basis of Priority as the accounting acquirer.

The unaudited pro forma condensed combined balance sheet as of June 30, 2018 has been prepared using and should be read in conjunction with the following:

- M I Acquisitions’ unaudited balance sheet as of June 30, 2018 and the related notes for the six months ended June 30, 2018, incorporated by reference in the Form 8-K;
- Priority’s unaudited consolidated balance sheet as of June 30, 2018 and the related notes for the six months ended June 30, 2018, included the Form 8-K.

The unaudited pro forma condensed combined statement of operations for the six months ended June 30, 2018 has been prepared using and should be read in conjunction with the following:

- M I Acquisitions’ unaudited statement of operations for the six months ended June 30, 2018 and the related notes, incorporated by reference in the Form 8-K; and
- Priority’s unaudited consolidated statement of operations for the six months ended June 30, 2018 and the related notes, included in the Form 8-K.

The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2017 has been prepared using and should be read in conjunction with the following:

- M I Acquisitions’ audited statement of operations for the year ended December 31, 2017 and the related notes, incorporated by reference in the Form 8-Kd; and
- Priority’s audited consolidated statement of operations for the year ended December 31, 2017 and the related notes, incorporated by reference in the Form 8-K.

Management has made significant estimates and assumptions in its determination of the pro forma adjustments. As the unaudited pro forma condensed combined financial information has been prepared based on these preliminary estimates, the final amounts recorded may differ materially from the information presented.

The unaudited pro forma condensed combined financial information does not give effect to any anticipated synergies, operating efficiencies, tax savings, or cost savings that may be associated with the Business Combination. The unaudited pro forma condensed combined financial information does not give effect to any compensation expense related to the additional earn-out of 9.8 million shares that may be associated with the Business Combination as the combined company is currently evaluating the valuation of the earn-out and other terms to determine the accounting treatment following the consummation of the Business Combination.

The pro forma adjustments reflecting the consummation of the Business Combination and the completion of related proposed equity commitments are based on certain currently available information and certain assumptions and methodologies that Priority believes are reasonable under the circumstances. The unaudited condensed pro forma adjustments, which are described in the accompanying notes, may be revised as additional information becomes available and is evaluated. Therefore, it is likely that the actual adjustments will differ from the pro forma adjustments and it is possible the differences may be material. Priority believes that its assumptions and methodologies provide a reasonable basis for presenting all of the significant effects of the Business Combination and related proposed equity commitments contemplated based on information available to management at the time and that the pro forma adjustments give appropriate effect to those assumptions and are properly applied in the unaudited pro forma condensed combined financial information.

The unaudited pro forma condensed combined financial information is not necessarily indicative of what the actual results of operations and financial position would have been had the Business Combination taken place on the dates indicated, nor are they indicative of the future consolidated results of operations or financial position of the combined company. They should be read in conjunction with the historical financial statements and notes thereto of M I Acquisitions and Priority.

2. Accounting Policies

After consummation of the Business Combination, Priority will perform a comprehensive review of its accounting policies. As a result of the review, management may identify differences in the accounting policies of Priority which, when conformed, could have a material impact on the financial statements of the combined company. Based on its initial analysis, management did not identify any differences that would have a material impact on the unaudited pro forma condensed combined financial information. As a result, the unaudited pro forma condensed combined financial information does not assume any differences in accounting policies.

3. Adjustments to Unaudited Pro Forma Condensed Combined Financial Information

The unaudited pro forma condensed combined financial information has been prepared to illustrate the effect of the Business Combination and has been prepared for informational purposes only.

The historical financial statements have been adjusted in the unaudited pro forma condensed combined financial information to give pro forma effect to events that are (1) directly attributable to the Business Combination, (2) factually supportable, and (3) with respect to the statements of operations, expected to have a continuing impact on the results of the combined company. Priority and M I Acquisitions had no historical relationships prior to the Business Combination. Accordingly, no pro forma adjustments were required to eliminate activities between the companies.

The pro forma combined consolidated provision for income taxes does not necessarily reflect the amounts that would have resulted had the combined company filed consolidated income tax returns during the periods presented.

The pro forma basic and diluted earnings per share amounts presented in the unaudited pro forma condensed combined consolidated statements of operations are based upon the number of Priority's shares outstanding, assuming the Business Combination had occurred on January 1, 2017 and related proposed equity commitments.

Adjustments to Unaudited Pro Forma Condensed Combined Balance Sheet

The adjustments included in the unaudited pro forma condensed combined balance sheet as of June 30, 2018 are as follows:

- (A) Reflects the net reclassification of \$51.9 million of cash and cash equivalents held in the M I Acquisitions trust account that became available following the Business Combination after giving effect to the redemption of 6,000 shares for \$0.06 million (\$10.533 per share) by M I Acquisitions' public shareholders after the vote to approve the transaction offset by \$0.05 million of interest income and other items. Shares subject to possible redemption that were not redeemed were rolled over into M I Acquisitions shares.
- (B) Reflects settlement of \$14.8 million (of which \$2.1 million relates to the purchase of M I Founder shares and units by Priority pursuant to the Founders Share Agreement) to cash, accounts payable and accrued expenses, and accumulated deficit for transaction costs incurred in relation to the Business Combination.
- (C) Reflects the settlement of \$1.1 million of deferred underwriters' fees incurred during the M I IPO that were due upon completion of the Business Combination.
- (D) Reflects the settlement of \$0.03 million of promissory notes issued July 1, 2015 by M I and payable upon close of the Business Combination.
- (E) Reflects the settlement of \$0.1 million of promissory notes issued March 13, 2018 by M I to its sponsors in order to extend the period of time to complete the Business Combination from March 19, 2018 to April 19, 2018.
- (F) Reflects the reclassification of \$44.5 million of common stock subject to possible redemption to permanent equity which is offset in permanent equity by the redemption of 6,000 shares for \$0.06 million (\$10.533 per share) by M I Acquisitions public shareholders after the vote to approve the transaction \$0.05 million of interest income and other items, and \$0.1 million of other reductions.

(G) Represents the re-capitalization of common stock of Priority.

(H) Elimination of M I Acquisitions' accumulated deficit.

(I) Reflects the accrued income taxes that results from the step-up, for tax purposes, of certain assets of Priority and to record the liability for taxes payable using an effective tax rate of 38% as of December 31, 2017 offset by income tax benefit using a 24% effective tax rate as of June 30, 2018. The tax impacts of the Business Combination were estimated on the applicable law in effect on June 30, 2018, inclusive of the effects of the Tax Cuts and Jobs Act ("Tax Act") which was signed into law on December 22, 2017. GAAP requires companies to recognize the effects of changes in tax laws and rates on deferred tax assets and liabilities and the retroactive effects of changes in tax laws in the period in which the new legislation is enacted.

(J) Reflects the cancellation of the GS Warrant and payment of approximately \$12.7 million cash to Goldman Sachs for the instruments.

Adjustments to Unaudited Pro Forma Condensed Combined Statements of Operations

The pro forma adjustments included in the unaudited pro forma condensed combined statements of operations for the six months ended June 30, 2018 and year ended December 31, 2017 are as follows:

(AA) Elimination of interest income on the trust account

(BB) Reflects an income tax benefit at 27% effective rate on the combined pro forma net loss for the six months ended June 30, 2018 and provision on the combined pro forma income at 38% effective tax rate for the year ended December 31, 2017. The tax impacts of the Business Combination were estimated based on the applicable law in effect on June 30, 2018 and December 31, 2017, respectively, inclusive of the effects of the Tax Act which was signed into law on December 22, 2017.

(CC) Reflects the elimination of \$4.2 million in nonrecurring transaction costs incurred for the six months ended June 30, 2018 that are directly related to the Business Combination.

4. (Loss) Earnings per Share

Represents the (loss) earnings per share calculated using the historical weighted average Priority Holdings, LLC units and the issuance of additional shares in connection with the Business Combination, assuming the shares were outstanding since January 1, 2017. As the Business Combination and related proposed equity transactions are being reflected as if they had occurred at the beginning of the periods presented, the calculation of weighted average shares outstanding for basic and diluted net income (loss) per share assumes that the shares issuable relating to the Business Combination have been outstanding for the entire periods presented. On a pro forma basis, no potentially dilutive shares were outstanding during the six months ended June 30, 2018 or the year ended December 31, 2017. Therefore, basic and diluted weighted average shares were the same for the period presented.

	Pro Forma Combined	
	Six months ended June 30,	
	2018	
Pro Forma Basic and Diluted Loss Per Share		
Pro Forma Net Loss Attributable to Common Shareholders	\$	(3,870)
Basic and Diluted Weighted Average Shares Outstanding		67,047,044
Pro Forma Basic and Diluted Loss Per Share	\$	(0.06)
		Year ended December 31,
		2017
Pro Forma Basic and Diluted Income Per Share		
Pro Forma Net Income Attributable to Common Shareholders	\$	2,540
Basic and Diluted Weighted Average Shares Outstanding		67,047,044
Pro Forma Basic and Diluted Income Per Share	\$	0.04
Pro Forma Weighted Average Shares – Basic and Diluted		
M I Merger Consideration Shares		60,546,395
MI Founder Shares Held by the Sellers		453,210
MI Private Placement Shares Held by the Sellers		421,107
Founders Shares		699,454
Shares Held by Former M I Shareholders		4,926,878
Pro Forma Weighted Average Shares – Basic and Diluted		67,047,044

M I Acquisitions had 5,731,216 Warrants sold during the IPO to purchase up to a total of 5,731,216 common shares. The Warrants are exercisable at \$11.50 per share amounts which exceeds the current market price of common stock and the approximate per share redemption price. These warrants are considered anti-dilutive and excluded from the earnings per share calculation when the exercise price exceeds the average market value of the common stock price during the applicable period. M I Acquisitions sold to the IPO underwriters, Chardan Capital Markets, LLC, for \$100, a unit purchase option to purchase up to a total of 300,000 units exercisable at \$12.00 per unit (or an aggregate exercise price of \$3,600,000) commencing on the later of the consummation of a Business Combination and six months from September 13, 2016. The unit purchase option expires five years from September 13, 2016. The units issuable upon exercise of this option are identical to the Units offered in the IPO. M I Acquisitions agreed to grant to the holders of the unit purchase option, demand and “piggy back” registration rights for periods of five and seven years, respectively, from September 13, 2016, including securities directly and indirectly issuable upon exercise of the unit purchase option. Priority will have no obligation to net cash settle the exercise of the unit purchase option or the Warrants underlying the unit purchase option. The holder of the unit purchase option will not be entitled to exercise the unit purchase option or the Warrants underlying the unit purchase option unless a registration statement covering the securities underlying the unit purchase option is effective or an exemption from registration is available. If the holder is unable to exercise the unit purchase option or underlying Warrants, the unit purchase option or Warrants, as applicable, will expire worthless. This unit purchase option is considered anti-dilutive and excluded from the earnings per share calculation when the exercise price exceeds the average market value of the common stock price during the applicable period.