



## **Government Brands Holdings, LLC and Subsidiaries**

**Consolidated Financial Statements**  
Years Ended December 31, 2019 and 2018

## **Government Brands Holdings, LLC and Subsidiaries**

---

Consolidated Financial Statements  
Years Ended December 31, 2019 and 2018

# Government Brands Holdings, LLC and Subsidiaries

## Contents

---

<b>Independent Auditor's Report</b>	2-3
<b>Consolidated Financial Statements</b>	
Balance Sheets	4
Statements of Operations	5
Statements of Members' Equity	6
Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8-36



Tel: 404-688-6841

Fax: 404-688-1075

[www.bdo.com](http://www.bdo.com)

1100 Peachtree Street NE, Suite 700

Atlanta, GA 30309

## **Independent Auditors' Report**

Board of Directors  
Government Holdings, LLC and Subsidiaries  
Alpharetta, Georgia

We have audited the accompanying consolidated financial statements of Government Brands Holdings, LLC and its Subsidiaries (the "Company"), which comprise the consolidated balance sheet as of December 31, 2019, and the related consolidated statements of operations, members' equity and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Consolidated Financial Statements***

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

### ***Auditors' Responsibility***

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

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

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.



### ***Opinion***

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

### ***Emphasis of Matter - Restatement of 2018 Financial Statements***

As discussed in Note 1 to the consolidated financial statements, the 2018 consolidated financial statements of the Company have been restated to correct misstatements. Our opinion on the 2019 consolidated financial statements of the Company is not modified with respect to this matter.

### ***Other Matter***

The consolidated financial statements of Government Brands Holdings, LLC as of and for the year ended December 31, 2018, before restatement for the matter described in the Emphasis of Matter paragraph, were audited by other auditors, whose report dated May 30, 2019 expressed an unmodified opinion on those statements.

As part of our audit of the 2019 consolidated financial statements, we also audited the adjustments described in Note 1 that were applied to restate the 2018 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2018 consolidated financial statements of the Company other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2018 consolidated financial statements as a whole.

***BDO USA, LLP***

Atlanta, Georgia  
July 17, 2020

## **Consolidated Financial Statements**

---

# Government Brands Holdings, LLC and Subsidiaries

## Consolidated Balance Sheet

<i>December 31,</i>	<b>2019</b>	<b>(Restated) 2018</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash		
Operating cash	\$ 12,718,341	\$ 6,729,535
Restricted cash	26,373,924	16,174,994
<b>Total Cash</b>	<b>39,092,265</b>	<b>22,904,529</b>
Accounts receivable, net	10,084,481	4,447,504
Merchant receivable	37,533,988	37,581,565
Other current assets	1,544,209	749,150
<b>Total Current Assets</b>	<b>88,254,943</b>	<b>65,682,748</b>
<b>Noncurrent Assets</b>		
Property and equipment, net	3,189,549	1,015,061
Goodwill and intangible assets, net	269,056,584	223,889,678
Other assets	1,960,274	373,604
<b>Total Noncurrent Assets</b>	<b>274,206,407</b>	<b>225,278,343</b>
<b>Total Assets</b>	<b>\$ 362,461,350</b>	<b>\$ 290,961,091</b>
<b>Liabilities and Members' Equity</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 4,397,721	\$ 1,873,279
Other current liabilities	8,808,181	5,916,873
Pass-through liabilities	63,216,066	51,048,707
Deferred revenue	9,125,683	3,961,697
Current portion of long-term debt	1,287,500	11,068,215
<b>Total Current Liabilities</b>	<b>86,835,150</b>	<b>73,868,771</b>
<b>Noncurrent Liabilities</b>		
Contingent consideration	-	2,085,989
Deferred Tax Liability	503,075	-
Long-term debt, net	107,717,385	52,319,039
<b>Total Noncurrent Liabilities</b>	<b>108,220,460</b>	<b>54,405,028</b>
<b>Total Liabilities</b>	<b>195,055,610</b>	<b>128,273,799</b>
<b>Total Members' Equity</b>	<b>167,405,740</b>	<b>162,687,292</b>
<b>Total Liabilities and Members' Equity</b>	<b>\$ 362,461,350</b>	<b>\$ 290,961,091</b>

*See accompanying independent auditor's report and notes to these consolidated financial statements.*

# Government Brands Holdings, LLC and Subsidiaries

## Consolidated Statement of Operations

<i>Years ended December 31,</i>	2019	(Restated) 2018
<b>Net Revenue</b>	<b>\$ 66,079,502</b>	<b>\$ 26,417,434</b>
Selling, general and administrative expenses	(64,261,362)	(30,776,135)
Transaction cost	(9,798,374)	(13,028,859)
Amortization and depreciation	(30,110,709)	(17,679,582)
<b>Operating Loss</b>	<b>(38,090,943)</b>	<b>(35,067,142)</b>
<b>Interest Expense</b>	<b>(8,577,426)</b>	<b>(5,050,020)</b>
<b>Loss before income taxes</b>	<b>(46,668,370)</b>	<b>(40,117,162)</b>
<b>Income tax expense</b>	<b>(766,723)</b>	<b>-</b>
<b>Net Loss</b>	<b>\$ (47,435,093)</b>	<b>\$ (40,117,162)</b>

*See accompanying independent auditor's report and notes to these consolidated financial statements.*



# Government Brands Holdings, LLC and Subsidiaries

## Consolidated Statement of Members' Equity

	Member's Equity	Accumulated Deficit	Total
Balances at January 1, 2018 - restated	\$ 8,224,007	\$ (583,613)	\$ 7,640,394
Member contributed capital	174,297,759	-	174,297,759
Equity issued for acquisitions	17,276,484	-	-
Equity-based compensation	3,589,817	-	3,589,817
Net Loss	-	(40,117,162)	(40,117,162)
Balances at December 31, 2018 - restated	203,388,067	(40,700,775)	162,687,292
Member contributed capital	44,189,927	-	44,189,927
Equity issued for acquisitions	7,131,215	-	7,131,215
Equity-based compensation	832,399	-	832,399
Net Loss	-	(47,435,093)	(47,435,093)
<b>Balance at December 31, 2019</b>	<b>\$ 255,541,608</b>	<b>\$ (88,135,868)</b>	<b>\$ 167,405,740</b>

*See accompanying independent auditors' report and notes to these consolidated financial statements.*

# Government Brands Holdings, LLC and Subsidiaries

## Consolidated Statements of Cash Flows

<i>Years ended December 31,</i>	2019	(Restated) 2018
<b>Cash Flow from Operating Activities</b>		
Net loss	\$ (47,435,093)	\$ (40,117,162)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	30,110,709	17,679,582
Amortization and write off of debt issuance costs	1,840,919	286,749
Non-cash interest expense	555,205	1,379,734
Equity-based compensation	832,399	3,589,817
Deferred taxes	503,075	-
Changes in operating assets and liabilities, net of effects		
Accounts receivable	(2,923,247)	(1,792,000)
Merchant receivable	124,994	(1,802,333)
Prepaid expenses and other assets	65,422	(159,245)
Other assets	(1,454,691)	(304,004)
Accounts payable	2,265,168	529,811
Pass-through liabilities	12,049,258	5,972,005
Accrued expenses	1,185,587	(3,918,957)
Deferred revenue	162,614	1,272,820
<b>Net Cash Flow from Operating Activities</b>	<b>(2,117,681)</b>	<b>(17,383,183)</b>
<b>Cash Flow from Investing Activities</b>		
Purchase of subsidiaries, net of cash acquired	(65,539,984)	(196,660,746)
Purchases of property and equipment	(1,274,064)	(293,909)
<b>Net Cash Flow from Investing Activities</b>	<b>(66,814,048)</b>	<b>(196,954,655)</b>
<b>Cash Flows From Financing Activities</b>		
Debt borrowings	120,516,133	113,500,000
Principal repayments of debt	(74,471,473)	(50,000,000)
Contingent consideration	(2,085,989)	-
Payments on capital lease financing	(11,663)	50,770
Debt issuance costs	(3,017,471)	(1,830,000)
Member contributions	44,189,928	174,345,686
<b>Net cash provided by financing activities</b>	<b>85,119,465</b>	<b>236,066,456</b>
<b>Net Change in Cash</b>	<b>16,187,736</b>	<b>21,728,618</b>
Cash, beginning of year	22,904,529	1,175,911
<b>Cash, end of year</b>	<b>\$ 39,092,265</b>	<b>\$ 22,904,529</b>
<b>Supplemental Disclosure of Noncash Activities</b>		
Business acquisitions financed by issuance of equity	\$ 7,131,215	\$ 17,276,484
Deferred purchase liabilities related to business acquisition	\$ -	\$ 2,662,000
Cash paid for interest	\$ 6,367,188	\$ 3,090,027
Capital lease financing of property and equipment	\$ 205,981	\$ -

*See accompanying independent auditor's report and notes to these consolidated financial statements.*

# Government Brands Holdings, LLC and Subsidiaries

## Notes to Consolidated Financial Statements

---

### 1. Nature of Operations and Basis of Presentation

Government Brands Holdings, LLC and subsidiaries (the Company) is a leading technology solutions provider for government entities that was formed on November 27, 2017 in the state of Delaware and began operations on December 22, 2017 in connection with the acquisition of eGovernment Solutions, LLC. During the years ended December 31, 2019 and 2018, eleven and seven, respectively, acquisitions were completed to enhance operations of the Company, as discussed further in Note 3. The Company offers financial technology and software solutions for many aspects of government operations and management. The Company's software platforms include a web-based Citizen Response System (CRM), web-based and on-premise Court Management Systems (CMS), website design with content management, hosting services, property tax systems, permitting/licensing/compliance systems, online dispute resolution (ODR), payment processing, and many other applications needed by government organizations across North America.

#### *Basis of Presentation*

These consolidated financial statements include the accounts of the Company as of December 31, 2019 and 2018, and the results of operations and cash flows for the years then ended.

The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and all intercompany balances and transactions have been eliminated in consolidation.

#### *Restatement of Previously Issued Consolidated Financial Statements*

The Company has restated its previously issued consolidated financial statements for the year ended December 31, 2018 and all related disclosures. The restatement of the Company's consolidated financial statements followed an internal review of the Company's accounting records that was undertaken by management. This review by management resulted in the identification of the following accounting errors which have been corrected and are reflected in the Company's consolidated financial statements and accompanying notes included herein.

As part of the acquisition of eGovernment Solutions in December 2017, additional contributed member's equity and transaction costs were identified that were not recorded at the purchase date. The total cumulative impact of these errors as of January 1, 2018 is an increase to members' equity of \$1,129,318, an increase to goodwill of \$588,012, and an increase in transaction costs by \$541,306. In addition to the previously mentioned effects of the errors, the impact of these errors through December 31, 2018 is an increase in accumulated amortization of goodwill of \$58,801, and an increase in amortization expense of \$58,801.

In connection with the acquisition of Bill2Pay in December 2018, management identified restricted cash, merchant receivables, and pass-through liabilities that were not identified or recorded on the Company's balance sheet at December 31, 2018 and an overstatement of accounts receivable. The total cumulative impact of these errors as of December 31, 2018 is a decrease in accounts receivable by \$1,158,337, an increase in restricted cash by \$13,950,825, an increase in merchant receivable by \$32,135,200, an increase in pass through liabilities by \$45,076,702, and an increase in goodwill of \$149,014.

Management also identified an equity transaction that occurred during 2018 that was not recorded in the consolidated financial statements. The Company entered into a Contribution, Exchange and Transfer Agreement during April 2018 in which the Company issued 4,080,000 Series A Units in

# Government Brands Holdings, LLC and Subsidiaries

## Notes to Consolidated Financial Statements

exchange for 4,080,000 outstanding Series B Units that were originally issued in December 2017 in connection with the acquisition of eGovernment Solutions. The impact of this error through December 31, 2018 is an increase in equity-based compensation expense of \$1,975,993, an increase in members' equity by \$1,975,993, offset by an increase in the net loss for the same amount.

The cumulative impacts of these corrections to the impacted financial statement line items for 2018 are as follows:

### Consolidated Balance Sheet:

<i>As of December 31, 2018</i>	<i>Previously Reported</i>	<i>Restatement Adjustments</i>	<i>Restated</i>
<b>Assets</b>			
Current assets cash and cash equivalents			
Restricted cash	\$ 2,224,169	\$ 13,950,825	\$ 16,174,994
Total Cash	8,953,704	13,950,825	22,904,529
Accounts receivable, net	5,605,841	(1,158,337)	4,447,504
Merchant receivable	5,446,365	32,135,200	37,581,565
Total Current Assets	20,755,060	44,927,688	65,682,748
Noncurrent Assets			
Goodwill and intangible assets, net	223,211,453	678,225	223,889,678
Total Noncurrent Assets	224,600,118	678,225	225,278,343
<b>Total Assets</b>	<b>\$ 245,355,178</b>	<b>\$ 45,605,913</b>	<b>\$ 290,961,091</b>
<b>Liabilities and Members' Equity</b>			
Current liabilities			
Pass-through liabilities	\$ 5,972,005	\$ 45,076,702	\$ 51,048,707
Total Current Liabilities	28,792,069	45,076,702	73,868,771
Noncurrent Liabilities			
Total Liabilities	83,197,097	45,076,702	128,273,799
<b>Members' Equity</b>			
Members' equity/retained earnings	200,828,461	1,975,993	202,804,454
Net loss	(38,082,368)	(2,034,794)	(40,117,162)
Total Members' Equity	162,746,093	(58,801)	162,687,292
<b>Total Liabilities and Members' Equity</b>	<b>\$ 245,943,190</b>	<b>\$ 45,017,901</b>	<b>\$ 290,961,091</b>

# Government Brands Holdings, LLC and Subsidiaries

## Notes to Consolidated Financial Statements

### Consolidated Statement of Operations

<i>Year ended December 31, 2018</i>	<i>Previously Reported</i>	<i>Restatement Adjustments</i>	<i>Restated</i>
Selling, general and administrative expenses	(28,800,142)	(1,975,993)	(30,776,135)
Amortization and depreciation	(17,620,781)	(58,801)	(17,679,582)
<b>Operating Loss</b>	<b>(33,032,348)</b>	<b>(2,034,794)</b>	<b>(35,067,142)</b>
<b>Net Loss</b>	<b>\$ (38,082,368)</b>	<b>\$ (2,034,794)</b>	<b>\$ (40,117,162)</b>

### Consolidated Statement of Members' Equity

	<i>Previously Reported</i>	<i>Restatement Adjustments</i>	<i>Restated</i>
Members' equity	\$ 7,094,689	\$ 1,129,318	\$ 8,224,007
Accumulated deficit	(42,307)	(541,306)	(583,613)
<b>Members' Equity Balances at January 1, 2018</b>	<b>7,052,382</b>	<b>588,012</b>	<b>7,640,394</b>

	<i>Previously Reported</i>	<i>Restatement Adjustments</i>	<i>Restated</i>
Equity-based compensation	\$ 1,613,824	\$ 1,975,993	\$ 3,589,817
Accumulated deficit	(38,082,368)	(2,034,794)	(40,117,162)
<b>Members' Equity Balances at December 31, 2018</b>	<b>(36,468,544)</b>	<b>(58,801)</b>	<b>(36,527,345)</b>

### Consolidated Statement of Cash Flows

<i>Year ended December 31, 2018</i>	<i>Previously Reported</i>	<i>Restatement Adjustments</i>	<i>Restated</i>
Cash flows from operating activities			
Net loss	\$ (38,082,368)	\$ (2,034,794)	\$ (40,117,162)
Depreciation and amortization	17,620,781	58,801	17,679,582
Equity-based compensation	1,613,824	1,975,993	3,589,817
Cash flows from investing activities			
Purchase of subsidiaries, net of cash acquired	(227,888,056)	31,227,310	(196,660,746)
<b>Net cash from investing activities</b>	<b>(228,181,965)</b>	<b>31,227,310</b>	<b>(196,954,655)</b>
Cash flows from financing activities			
Member contributions	191,622,170	(17,276,484)	174,345,686
<b>Net cash from financing activities</b>	<b>253,342,940</b>	<b>(17,276,484)</b>	<b>236,066,456</b>
<b>Supplemental Disclosure of Noncash Activities</b>			
Business acquisitions financed by issuance of equity	\$ 191,622,170	\$ (174,345,686)	\$ 17,276,484

# Government Brands Holdings, LLC and Subsidiaries

## Notes to Consolidated Financial Statements

---

### ***Liquidity***

Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 205-40, *Disclosures of Uncertainties about an Entity’s Ability to Continue as a Going Concern*, requires that the Company evaluate whether there is substantial doubt about its ability to meet its financial obligations when they become due during the twelve month assessment period from the date the Company’s consolidated financial statements are issued. As disclosed below, the Company has completed its evaluation in accordance with the provisions of ASC 205-40.

As of and for the year ended December 31, 2019, the Company had operating cash of \$12,718,341, an unused line of credit of \$7,500,000, and had negative cash flows from operations of \$2,415,370. Based on the Company’s evaluation, it determined that there is not substantial doubt regarding the Company’s ability to continue as a going concern through at least one year from the date of the issuance of these consolidated financial statements. See footnote 15 for discussion of the COVID-19 outbreak in 2020.

## **2. Summary of Significant Accounting Policies**

### ***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 liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates, contingent considerations and assumptions include the fair value of intangible assets, useful lives of tangible and intangible assets, and allowance for doubtful accounts. Estimates are based on assumptions that we believe are reasonable under the circumstances. Actual results may differ given the inherent uncertainty of estimates.

### ***Business Combinations***

The Company applies the provisions of Accounting Standards Codification (ASC) 805, *Business Combinations*, in accounting for its acquisitions. This standard required the Company to recognize separately from goodwill the assets acquired, and liabilities assumed, at the acquisition date fair value. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net of the acquisition date fair values of the assets acquired and liabilities assumed. While best estimates and assumptions to accurately value assets acquired, and liabilities assumed at the acquisition date are used, these estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, adjustments may be made to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of the assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded in operations.

Business acquisition transaction costs are expensed as incurred. Contingent consideration is valued at the time of acquisition and accrued on the balance sheet as short-term or long-term liabilities per the terms of the agreement.

# Government Brands Holdings, LLC and Subsidiaries

## Notes to Consolidated Financial Statements

---

### ***Revenue Recognition and Deferred Revenues***

The Company elected ASC Topic 606, *Revenue from Contracts with Customers* (“ASC 606”) as its initial revenue recognition policy upon its formation on November 27, 2017. The Company also elected ASC 340-40 Subtopic, *Other Assets and Deferred Costs - Contracts with Customers* (“ASC 340-40”) as its initial policy with respect to the capitalization of certain contract costs. The guidance in ASC 606 aligns revenue recognition with the delivery of the Company’s services and provides financial statement readers with enhanced disclosures. In accordance with ASC 606, revenue is recognized when a customer obtains control of promised goods or services. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for these goods or services. To achieve this core principle, the Company applies the following five steps:

- (1) Identify the contract with a customer.
- (2) Identify the performance obligations in the contract.
- (3) Determine the transaction price.
- (4) Allocate the transaction price to performance obligation in the contract.
- (5) Recognize revenues when or as the Company satisfies a performance obligation.

The Company generally satisfies performance obligations over time as discussed in further detail below. Revenue is recognized over time if (1) the customer simultaneously receives and consumes the benefits provided by the Company’s performance, (2) the Company’s performance creates or enhances an asset that the customer controls as the asset is created or enhanced, or (3) the Company’s performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date. If the Company does not satisfy a performance obligation over time, revenue is recognized at the point in time the related performance obligation is satisfied by transferring a promised good or service to a customer.

### **Key Revenue Streams**

#### ***Payment Processing Services Revenue***

The Company recognizes revenue over time from its contractual agreements to provide continuous access to its hosted technology platform to enable government agencies, educational institutions, utilities and other entities to process payments from end users through a variety of methods, including point of sale terminals, online, and interactive voice response. Transactions are processed through the technology platform by third party payment networks, and the Company collects a convenience fee from end users for each transaction processed.

The Company’s promise to stand ready to provide continuous access to its payment processing platform to process an unlimited number of transactions over the contract period is a single performance obligation. Convenience fees are priced at either a percentage of the transaction amount or a specified fee per transaction depending on the card and payment type. As the underlying fees are not known until a transaction occurs, the consideration is determined to be variable consideration that relates directly to the Company’s efforts to satisfy its performance obligation to provide payment processing services; therefore, consideration received is allocated to a Series of distinct days of service that are substantially the same with the same pattern of transfer to the customer.

# Government Brands Holdings, LLC and Subsidiaries

## Notes to Consolidated Financial Statements

---

In order to provide our payment services, we route and clear each transaction through the applicable payment network. We obtain authorization for the transaction and request funds settlement from the card issuing financial institution through the payment network. Convenience fees are received net of processing fees charged by the third-party payment networks. The Company has determined that its promise to arrange for the processing of payment transactions is distinct from the services provided by the third-party network. The Company does not have the ability to direct the use of the processing services and obtain substantially all of the benefits of the processing services before they are transferred to the customer; therefore, the Company does not control the payment processing services prior to being transferred to the customer. On that basis, revenues from payment processing services are presented net of fees charged by third-party payment networks.

### ***Subscription Revenue, Professional Services, and Other Revenue***

The Company offers a variety of hosted subscription-based software solutions to provide state, count, and local governments, utilities, county trustees, and other governmental agencies with the ability to interact with and manage requests from end users, manage departmental workflows, facilitate local and county property tax management, and manage website content. Subscription-based revenue primarily consists of subscription fees for access to the Company's hosted software solutions and related support (SaaS). Subscription fees for SaaS solutions generally have terms from one to five years and provide for the Company to deliver when-and-if available updates to the hosted software. Fees can be invoiced to customers monthly, quarterly, or annually based on the contract terms. None of the Company's SaaS contracts as of December 31, 2019 and 2018 contained a significant financing component.

The Company's promise in its SaaS contracts to stand ready to deliver maintenance and support to its SaaS solutions are substantially the same as, and have the same pattern of transfer as the Company's obligation to provide access to the software (including updates); therefore, these are considered a single performance obligation for which revenue is recognized ratably over the contract term, beginning on the date access is provided. Unearned subscription-based revenues are included in deferred revenue.

Professional services and other revenue consist primarily of implementation services, data conversion/cleansing, training, and design services related to the Company's software solutions. These services do not result in significant customization or modification of other promised goods or services, are not highly interdependent or interrelated to other promised goods or services and do not provide a significant integration service. As a result, these services have been deemed to be distinct and represent separate performance obligations. Distinct professional services and other revenue are recognized over time as the services are performed using an input method based on hours incurred compared to expected hours.

In certain circumstances, professional services are highly interdependent or interrelated to other promised goods and services and have been determined to be non-distinct from those promised goods or services. Such non-distinct promises are combined into a single performance obligation to be recognized over the period of performance.



# Government Brands Holdings, LLC and Subsidiaries

## Notes to Consolidated Financial Statements

---

The following table summarizes the company revenue:

<i>December 31,</i>	<b>2019</b>	<b>2,018</b>
Payment processing, net	<b>\$ 41,437,104</b>	<b>\$ 22,757,591</b>
Subscription and Other Revenue	<b>24,642,398</b>	<b>3,659,843</b>

### ***Contracts with Multiple Performance Obligations***

As indicated above, most of the Company's contracts with customers contain multiple promises for separately priced services consisting of (i) payment processing services or SaaS subscriptions and (ii) professional services for implementation and other services that are distinct and accounted for separately. The transaction prices for these separate performance obligations are generally reflective of SSP based on the Company's reasonably established range of SSP for such performance obligations. As such, no allocation is required in these situations. If any performance obligations are priced outside of the established SSP range, then the Company will reallocate the total transaction price to each performance obligation based on the relative SSP for each.

### ***Variable Consideration***

Revenue is recorded at the net sales price, which is the transaction price, and includes estimates of variable consideration. The amount of variable consideration that is included in the transaction price is constrained and is included in the net sales price only to the extent that it is probable that a significant reversal in the amount of cumulative revenue will not occur when the uncertainty is resolved.

The Company does not offer rights of return or retrospective rebates in the normal course of business.

### ***Material Rights***

The Company's contracts with customers may include renewal or other options at fixed prices. Determining whether the renewal or other options are considered distinct performance obligations that provide the customer with a material right and therefore should be accounted for separately requires significant judgment. Judgment is required to determine the standalone selling price for each renewal option to determine whether the renewal option pricing is reflective of standalone selling price or is reflective of a discount that would provide the customer with a material right. Based on the Company's assessment of standalone selling price, the Company determined that there were no significant material rights to customers requiring separate valuation.

### ***Cost to Obtain and Fulfill a Contract***

The Company capitalizes commission expenses paid to internal sales personnel that are incremental to obtaining customer contracts, including directly related fringe benefits and payroll taxes, which are the Company's only contract acquisition costs under ASC 340-40. These costs are deferred and are recorded in prepaid expenses and other assets in the Company's consolidated balance sheet. The judgments made in determining the amount of costs incurred include whether the commissions are in fact incremental and would not have occurred absent the customer contract. Costs to obtain a contract are amortized as sales and marketing expense on a straight-line basis over the expected period of benefit, which often extends beyond the contract term as the Company does not pay a

# Government Brands Holdings, LLC and Subsidiaries

## Notes to Consolidated Financial Statements

commission upon renewal of its contracts. The Company's capitalized commissions average asset life is 5 years during the year ended December 31, 2019.

The Company has elected to apply the practical expedient and recognize the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets that the Company otherwise would have recognized is one year or less. Therefore, the Company would recognize an asset for the incremental costs of obtaining a contract with a customer, if the Company expects the benefit of those costs to be longer than one year. The Company did not have any significant contract acquisition costs prior to January 1, 2018.

The following table summarizes the activity of deferred incremental costs of obtaining a contract:

<i>December 31,</i>	<b>2019</b>	<b>2018</b>
Beginning Balance	\$ 210,798	\$ -
Capital of contract acquisition costs	694,907	215,083
Amortization of contract acquisition costs	(107,182)	(4,285)
Ending balance	\$ 798,523	\$ 210,798

The Company's policy is to capitalize incremental costs incurred to fulfill its contracts that i) relate directly to the contract ii) are expected to generate resources that will be used to satisfy the Company's performance obligation under the contract and iii) are expected to be recovered through revenue generated under the contract. Prior to January 1, 2018, these costs were immaterial.

Capitalized fulfillment costs as of December 31, 2019 and 2018 primarily relate to certain direct labor costs of performing non-distinct professional services and are amortized as cost in Selling, General & Administrative expenses on a straight-line basis over the expected period of benefit. The unamortized portion of contract fulfillment costs is included in other assets in the Company's consolidated balance sheet. The Company's capitalized fulfillment average asset life is 5 years during the year ended December 31, 2019.

The following table summarizes the activity of deferred costs to fulfill its contracts:

<i>December 31,</i>	<b>2019</b>	<b>2018</b>
Beginning Balance	\$ 111,887	\$ -
Capitalization of contract fulfillment costs	979,648	115,745
Amortization of contract fulfillment costs	(39,894)	(3,858)
Ending Balance	\$ 1,051,641	\$ 111,887

The Company has determined that the expected period of benefit for capitalized contract costs is 5 years based on evaluation of a number of factors, including customer attrition rates, weighted average useful lives of its customer relationship and developed technology intangible assets, and overall market factors, including overall competitive environment and technology life of competitors. The Company periodically reviews its capitalized costs for impairment. As of December 31, 2019 and 2018, the Company had not identified any potential indicators of impairment.

# Government Brands Holdings, LLC and Subsidiaries

## Notes to Consolidated Financial Statements

---

### ***Deferred Revenue***

Payment terms and conditions vary by contract type, although terms generally require upfront payment. The Company excludes government assessed and imposed taxes on revenue generating activities that are invoiced to customers from revenue.

Deferred revenue consists of amounts that have been invoiced but that have not been recognized as revenue. Deferred revenue that will be realized during the succeeding 12-month period is recorded as current, and the remaining deferred revenue is recorded as noncurrent. The Company recognized \$3,853,718 during the year ended December 31, 2019, from the satisfaction of performance obligations that were deferred as of December 31, 2018.

### ***Restricted Cash***

Restricted cash is clients' funds held at a major financial institution in the U.S. that will be distributed to the clients according to their payment schedule. The restricted cash accounts are segregated from the Company's operating cash accounts.

### ***Merchant Receivables and Pass-through Liabilities***

Merchant receivables are restricted funds in transit from a third-party payment processor. The receivable is used to fund our pass-through liabilities. Pass-through liabilities consist of the client obligations that arise from payment processing transactions.

### ***Accounts Receivable***

Accounts receivable are recorded at the invoiced amount and do not bear interest. The Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable. In establishing the required allowance, management considers historical losses, the Company's customers' financial condition, the value of receivables in dispute, the current receivable aging, and payment patterns. The Company routinely reviews its allowance for doubtful accounts. Past due balances 31 days past due and over a specified amount are reviewed individually for collectability. All other balances are reviewed on a pooled basis. Accounts are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is remote. The Allowance for doubtful accounts as of December 31, 2019 and 2018 is \$673,036 and \$174,379, respectively.

### ***Property and Equipment***

Property and equipment are stated at cost, except for assets acquired under business combinations, which are recorded at fair value at the date of acquisition. Additions and improvements that significantly extend the useful life of assets are capitalized. Maintenance and repair costs are expensed as incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of property and equipment are as follows: furniture and fixtures are over 7 years; computer software is 3 years; computer and office equipment, and vehicles are over 5 years.

# Government Brands Holdings, LLC and Subsidiaries

## Notes to Consolidated Financial Statements

---

### ***Leases***

The Company reviews all leases for capital or operating classification at their inception. The Company generally enters into lease arrangements as an operating lease for their facilities and certain office equipment. For leases that contain rent escalations, the Company records the total rent expense during the lease term on a straight-line basis over the term of the lease. Differences between the rents paid and the straight-line rent are recorded as a deferred rent liability on the balance sheet. Additionally, rent incentives, such as free rent or leasehold allowances, are recorded as deferred rent liabilities. The deferred rent liability accounts are classified as short-term or long-term in the accompanying consolidated balance sheet based upon the period when reversal of the liability is expected to occur. The Company classifies the amortization of lease incentives as a reduction of selling, general and administrative expenses in the Consolidated Statement of Operations and Comprehensive Income.

### ***Goodwill and Intangible Assets***

Goodwill represents the excess of the purchase price over the identifiable net assets from the businesses that the Company acquired. The Company applies the accounting alternative provided by Accounting Standards Update (ASU) 2014-02, *Intangibles - Goodwill and Other (Topic 350): Accounting for Goodwill* and elected to amortize goodwill on a straight-line basis over a period of ten years. Under ASU 2014-02, the Company evaluates goodwill for impairment only when a triggering event occurs indicating the fair value of the Company may be less than the carrying value. When a triggering event occurs, the Company performs a qualitative assessment to determine if a quantitative test is needed. If that assessment demonstrates that it is more likely than not that an impairment does not exist, no further testing is required. If impairment of goodwill is more likely than not, a quantitative test is required that compares the fair value of the Company with the current amount on the balance sheet. The amount by which the current amount on the balance sheet exceeds fair value is recorded as an impairment loss, up to the full amount of goodwill.

The Company's intangible technology assets are subject to amortization and are amortized using the straight-line method over an estimated five-year life. The Company's tradename assets are subject to amortization and are amortized using the straight-line method over an estimated ten-year life. All intangible assets with definite lives are tested for impairment if conditions exist that indicate the carrying value may not be recoverable. When a triggering event occurs, the Company performs a qualitative assessment to determine if a quantitative test is needed. If that assessment demonstrates that it is more likely than not that an impairment does not exist, no further testing is required. If impairment of the intangible asset is more likely than not, a quantitative test is required that compares the fair value of the Company with the current amount on the balance sheet. The amount by which the current amount on the balance sheet exceeds fair value is recorded as an impairment loss, up to the full amount of the asset.

### ***Equity-Based Compensation***

The Company accounts for its management incentive units as equity-based compensation awards to employees and directors in accordance with the provisions of ASC 718, *Compensation - Stock Compensation*. Equity-based compensation cost is measured at the grant date based on the estimated fair value of the award. Equity-based compensation expense is recognized on a straight-line basis over the vesting period. At the end of each period, the actual forfeiture rate is recognized as they occur. Equity-based compensation cost is recorded in the applicable financial statement line item in Selling, General & Administrative Expense.

# Government Brands Holdings, LLC and Subsidiaries

## Notes to Consolidated Financial Statements

---

There are significant judgments and estimates inherent in the determination of fair value. These judgments and estimates include determinations of an appropriate valuation method and the selection of appropriate inputs to be used in the valuation model.

### *Income Taxes*

The Company is a limited liability company taxed as a partnership. The Company is generally not directly subject to income taxes under the provisions of the Internal Revenue Code and most applicable state laws. Therefore, taxable income or loss is reported to the LLC members for inclusion in its respective tax returns.

The Company's wholly owned subsidiaries are treated as disregarded entities for income tax purposes, with the exception of Government Brands Holdco, Inc., Sturgis, Qscend, SCA, Syscon, CII, ICON, Data Design, GCS Software, GovTech and Mo'Mix as further discussed below, and their taxable income or losses will be included in the Company's Corporate income tax returns.

The Company's taxable subsidiaries account for income taxes in accordance with income tax accounting guidance (ASC 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50%; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment.

The Company recognizes accrued interest and penalties associated with uncertain tax positions as part of its tax provision. As of December 31, 2019, and 2018, there were no accrued interest and penalties associated with uncertain tax positions. Management believes there are no material amounts of uncertain tax positions as of December 31, 2019 and 2018.

No interest or penalties have been recognized in the Statement of Operations. There are no uncertain tax positions which are expected to increase or decrease in the next twelve months.

# Government Brands Holdings, LLC and Subsidiaries

## Notes to Consolidated Financial Statements

---

### ***Impairment of Long-Lived Assets***

In accordance with ASC 360, *Property, Plant, and Equipment*, long-lived assets, such as property and equipment and internally developed software subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset or asset group to estimated undiscounted future cash flows expected to be generated by the asset or asset group. If the carrying amount of an asset or asset group exceeds its estimated undiscounted future cash flows, an impairment charge is recognized for the amount in which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are separately presented in the consolidated balance sheet and reported at the lower of the carrying amount or fair value less costs to sell and are no longer depreciated. The assets and liabilities of a disposal group classified as held-for-sale are presented separately in the appropriate asset and liability.

### ***Advertising Costs***

Advertising costs are expensed as incurred and totaled approximately \$946,566 and \$54,301 for the years ended December 31, 2019 and 2018, respectively.

### ***Fair Value Measurements***

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Authoritative guidance for fair value measurements establishes a three-level hierarchy that prioritizes the inputs to valuation models based upon the degree to which they are observable. The three levels of the fair value measurement hierarchy are as follows:

- Level 1 Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.
- Level 2 Inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 Inputs are unobservable input for which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The Company's cash, accounts receivable, accounts payable, accrued expenses, and current portion of accrued contingent considerations and notes payable are considered financial instruments. These assets and liabilities' carrying amounts approximate their fair value due to their short-term nature. The estimated carrying value of the notes payable to sellers approximates its fair value as the notes payable were recently obtained and the effective interest rates approximate current market rates.

The Company does not have any assets or liabilities measured at fair value on a recurring basis.

### ***Concentration of Credit Risk***

Financial instruments that potentially subject the Company to concentrations of risk consist principally of cash, and accounts receivable. The Company's cash are primarily invested in deposits at a major financial institution in the U.S. At times, deposit balances may exceed the Federal Deposit Insurance Corporation (FDIC) insured limit. Management believes that the financial

# Government Brands Holdings, LLC and Subsidiaries

## Notes to Consolidated Financial Statements

---

institution is financially sound and, accordingly, believes that minimal credit risk exists. The Company has not experienced any losses on its deposits of cash.

Most of the Company's customers are in the United States. No customer accounted for more than 10% of the Company's revenue during the year ended December 31, 2019 and 2018 or accounts receivable at December 31, 2019 and 2018.

### ***Debt Modifications and Extinguishments***

In accordance with ASC Topic No. 470-50, Debt - *Modifications and Extinguishments* Topic No. 470), the transactions noted below are determined to be an extinguishment of the existing debt and an issuance of new debt. As a result, the Company recorded a loss on the extinguishment of debt in the amount of \$3,158,680 in the line item *Selling, General and Administrative Expenses* in its Consolidated Statements of Operations. Of the \$3,158,680 loss on the extinguishment of debt, \$1,543,308 was for early breakage fees that the Company paid to the holders of its previous notes. The Company also wrote off \$1,345,667 which represented the deferred financing fees related to the extinguished debt facilities. The remaining loss on extinguishment charges were due to general and legal costs to the prior Note holders.

### ***Recent Accounting Pronouncements***

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, *Leases*. The guidance in ASU No. 2016-02 supersedes the lease recognition requirements in ASC Topic 840, *Leases* (FAS 13). ASU 2016-02 requires an entity to recognize lease assets and lease liabilities on the balance sheet and to disclose key information about the entity's leasing arrangements. The update will be applied on a modified retrospective approach. The standard is effective for nonpublic entities annual periods beginning after December 15, 2021, with early adoption permitted. The Company is currently evaluating the impact of this guidance on the financial statements.

In February 2016, the FASB issued Accounting Standards Update No. 2016-13, *Financial Instruments - Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 requires an entity to recognize expected credit losses at asset origination. The standard is effective for nonpublic entities annual periods beginning after December 15, 2023, with early adoption permitted. The Company is currently evaluating the impact of this guidance on the financial statements.

The Company does not expect the adoption of any other recently issued accounting standards to have a material impact on its consolidated results of operations, financial position or cash flows.

### **3. Business Acquisitions**

The following describes the Company's business acquisitions, all of which were acquired to enhance the operations of the Company, during the year ended December 31, 2019 and 2018. In connection with various acquisitions, the Company issued equity (in the form of Series A and B Units) to certain sellers as additional consideration in such acquisitions.

# Government Brands Holdings, LLC and Subsidiaries

## Notes to Consolidated Financial Statements

---

### 2018 Acquisitions

#### *nCourt, LLC*

Effective February 22, 2018, the Company acquired substantially all the issued and outstanding stock of nCourt, LLC (nCourt), for the purchase price of \$130,464,499 as presented in the Consideration Paid and Purchase Price Allocation table below. nCourt provides a SaaS payment platform to governmental entities to collect citations, e-filings, miscellaneous court fees, taxes, etc. The Company incurred transaction costs of \$5,238,450 related to this acquisition which were expensed as incurred and recorded as transaction cost in the statement of operations.

A negative net working capital adjustment of \$107,284 related to the working capital estimate was accounted for in full during 2018.

#### *Value Payment Systems, LLC*

Effective March 6, 2018 the Company acquired substantially all the issued and outstanding stock of Value Payment Systems, LLC (VPS) for the purchase price of \$48,515,399 as presented in the Consideration Paid and Purchase Price Allocation table below. VPS provides payment solutions through their proprietary technology enabling payments between consumers and government agencies, education, utility and other entities. The Company incurred transaction costs of \$2,499,180 related to the VPS acquisition which were expensed as incurred and recorded as transaction cost in the statements of operations.

In connection with the VPS acquisition, the Company issued a Note payable for \$7,500,000, which bears interest at an annual rate of 7.0%. The Company will not make any principal or interest payments until the maturity date on October 1, 2023 at which time all principal and interest amounts will be due and payable.

#### *Sturgis Web Services Corporation*

Effective May 29, 2018, the Company acquired substantially all the issued and outstanding stock of Sturgis Web Services Corporation (Sturgis) for the purchase price of \$15,281,843 as presented in the Consideration Paid and Purchase Price Allocation table below. Sturgis provides website hosting services and payment processing capabilities primarily to local taxing authorities. The Company incurred transaction costs of \$1,839,558 related to this acquisition which were expensed as incurred and recorded as transaction cost in the statements of operations. During 2019, the Company finalized the purchase accounting related to income taxes and recorded a deferred tax liability and goodwill of \$265,899.

#### *Qscend Technologies, Inc.*

Effective July 5, 2018 the Company acquired substantially all the issued and outstanding stock of Qscend Technologies, Inc. (Qscend) for the purchase price of \$5,392,023 as presented in the Consideration Paid and Purchase Price Allocation table below. Qscend offers web-based Citizen Request Management (CRM) software to local and county governments. The Company incurred transaction costs of \$732,598 related to the Qscend acquisition which were expensed as incurred and recorded as transaction cost in the statements of operations. During 2019, the Company finalized the purchase accounting related to income taxes and recorded a deferred tax asset and reduction of goodwill of \$65,234.



# Government Brands Holdings, LLC and Subsidiaries

## Notes to Consolidated Financial Statements

---

As part of the purchase amount the Company recorded \$194,000 in accrued contingent consideration related to an earnout payment if certain EBITDA conditions are met. As of December 31, 2019 and 2018, the outstanding balance totals \$0 and \$194,000. The contingent consideration was partially earned and \$284,617 was paid out by the company in 2019.

### ***GovOffice***

Effective July 31, 2018, the Company acquired all of the assets of GovOffice from Avenet, LLC for the purchase price of \$3,993,717 as presented in the Consideration Paid and Purchase Price Allocation table below. GovOffice offers website design, content management, hosting, maintenance and support services. The Company incurred transaction costs of \$576,352 related to the GovOffice acquisition which were expensed as incurred and recorded as transaction cost in the statements of operations.

As part of the purchase amount the Company recorded \$468,000 in accrued contingent consideration related to an earnout payment if certain revenue conditions are met. As of December 31, 2019 and 2018, the outstanding balance totals \$500,000 and \$468,000, respectively. The balance is expected to be paid in 2020.

### ***Software Consulting Associates, Inc.***

Effective October 12, 2018, the Company acquired substantially all the issued and outstanding stock of Software Consulting Associates, Inc. (SCA) for the purchase price of \$7,312,414 as presented in the Consideration Paid and Purchase Price Allocation table below. SCA offers a web- based GIS centric parcel management software solution for permitting, code enforcement, planning, zoning, inspections, licensing, and work orders. The Company incurred transaction costs of \$778,658 related to the SCA acquisition which were expensed as incurred and recorded as transaction cost in the statements of operations. During 2019, the Company finalized the purchase accounting related to income taxes and recorded a deferred tax liability and goodwill of \$73,183, and a reduction in accounts receivable and corresponding increase in goodwill of \$180,000.

### ***Bill2Pay, LLC***

Effective December 12, 2019 and 2018, the Company acquired substantially all the issued and outstanding stock of Bill2Pay, LLC (B2P) for the purchase price of \$25,430,000 as presented in the Consideration Paid and Purchase Price Allocation table below. B2P provides payment solutions to clients in government and private industries offering electronic bill presentment, payment processing, lockbox processing, and prepaid debt cards. The Company incurred transaction costs of \$1,113,725 related to the B2P acquisition which were expensed as incurred and recorded as transaction cost in the statements of operations. There were no adjustments related to working capital paid during 2019 and 2018.

In addition, as part of the purchase amount the Company recorded \$2,000,000 in accrued contingent consideration related to an earnout payment if certain revenue conditions are met. As of December 31, 2019 and 2018, the outstanding balance totals \$0 and \$2,000,000. The contingent consideration was partially earned and \$2,000,000 was paid out by the company in 2019.

# Government Brands Holdings, LLC and Subsidiaries

## Notes to Consolidated Financial Statements

The consideration paid for these acquisitions, as well as the amounts of estimated fair value of assets acquired and liabilities assumed at each acquisition date, are summarized as follows:

2018	nCourt	VPS	Sturgis	Qscend	GovOffice	SCA	B2P
Cash	\$ 124,464,499	\$ 44,215,319	\$ 13,855,439	\$ 4,398,023	\$ 2,025,717	\$ 6,312,414	\$ 21,180,000
Accrued contingent consideration	-	-	-	194,000	468,000	-	2,000,000
Series A rollover equity	6,000,000	4,300,080	1,426,404	800,000	1,500,000	1,000,000	2,250,000
Consideration paid	130,464,499	48,515,399	15,281,843	5,392,023	3,993,717	7,312,414	25,430,000
Current assets	5,407,147	3,144,319	534,897	518,081	155,361	644,251	3,456,675
Property and equipment	276,337	191,069	7,409	21,009	411	14,649	206,856
Deferred tax asset	-	-	-	65,234	-	-	-
Other assets	51,577	17,200	-	823	-	-	-
Total tangibles	5,735,061	3,352,588	542,306	605,147	155,772	658,900	3,663,531
Trademarks or tradename	7,460,000	1,820,000	460,000	390,000	310,000	380,000	2,330,000
Internally developed software	3,450,000	1,810,000	500,000	260,000	230,000	278,000	1,730,000
Goodwill	119,386,578	43,224,103	14,151,351	5,447,415	3,924,670	6,983,681	18,714,383
Total intangibles	130,296,578	46,854,103	15,111,351	6,097,415	4,464,670	7,641,681	22,774,383
Accounts payable accrued	5,567,140	1,691,291	1,914	350,540	66,724	19,984	45,935,602
Deferred revenue	-	-	104,000	960,000	560,000	895,000	-
Deferred income tax	-	-	265,899	-	-	73,183	-
Total liabilities	5,567,140	1,691,291	371,813	1,310,540	626,724	988,167	45,935,602
Consideration paid	\$ 130,464,499	\$ 48,515,399	\$ 15,281,843	\$ 5,392,023	\$ 3,993,717	\$ 7,312,414	\$ 25,430,000

### 2019 Acquisitions

#### *SysCon, Inc*

Effective January 2, 2019, the Company acquired substantially all the issued and outstanding stock of Syscon for the purchase price of \$6,252,818 as presented in the Consideration Paid and Purchase Price Allocation table below. Syscon is a provider of Windows-based client/server document management solutions, and services that meet the needs of municipal and county governments. The Company incurred transaction costs of \$749,293 related to this acquisition which were expensed as incurred and recorded as transaction cost in the statements of operations.

A positive net working capital adjustment of \$65,166 related to the net working capital estimate and an excess cash adjustment of \$92,835 were accounted for in full during 2019.

#### *Court Innovations Incorporated*

Effective February 15, 2019, the Company acquired substantially all the issued and outstanding stock of Court Innovations Incorporated (CII), for the purchase price of \$2,759,982 as presented in the Consideration Paid and Purchase Price Allocation table below. CII provides courts and government agencies an online dispute resolution (ODR) platform to increase access to justice, saving time and money for people and courts. The Company incurred transaction costs of \$449,380 related to this acquisition which were expensed as incurred and recorded as transaction cost in the statements of operations.

A positive net working capital adjustment of \$6,697 related to the net working capital estimate was accounted for in full during 2019.

# Government Brands Holdings, LLC and Subsidiaries

## Notes to Consolidated Financial Statements

---

### ***ICON Software Inc.***

Effective March 21, 2019, the Company acquired substantially all the issued and outstanding stock of ICON Software Inc., for the purchase price of \$3,747,565 as presented in the Consideration Paid and Purchase Price Allocation table below. ICON provides government agencies and courts case management software, payment processing for e-filing and citations, and e-filing and e-warrant records management. The Company incurred transaction costs of \$571,107 related to this acquisition which were expensed as incurred and recorded as transaction cost in the statements of operations.

A positive net working capital adjustment of \$46,157 related to the net working capital estimate was accounted for in full during 2019.

### **Pioneer Technology Group, LLC**

Effective April 4, 2019, the Company acquired substantially all the issued and outstanding stock of Pioneer Technology Group for the purchase price of \$43,081,868 as presented in the Consideration Paid and Purchase Price Allocation table below. Pioneer Technology Group provides Court Case Management and Land Recordation software and services that meet the needs of municipal and county governments. The Company incurred transaction costs of \$2,540,643 related to this acquisition which were expensed as incurred and recorded as transaction cost in the statements of operations.

A negative net working capital adjustment of \$292,156 related to the net working capital estimate was accounted for in full during 2019.

### **GovPSA**

Effective June 25, 2019, the Company acquired specific assets from Government Product Software of America, LLC (GovPSA) for the purchase price of \$846,750 as presented in the Consideration Paid and Purchase Price Allocation table below. GovPSA provided a SaaS payment platform to governmental entities to collect citations, court fees, utilities, taxes, etc. The GovPSA SaaS platform was taken out of service and all customers moved to the nCourt platform. The Company incurred transaction costs of \$354,138 related to this acquisition which were expensed as incurred and recorded as transaction cost in the statements of operations.

### **Data Design, Inc**

Effective July 16, 2019, the Company acquired substantially all the issued and outstanding stock of Data Design for the purchase price of \$1,257,275.53 as presented in the Consideration Paid and Purchase Price Allocation table below. Data Design is a provider of Windows-based client/server property tax assessment and collection software that meet the needs of the Property Valuation Administrators' offices and Sheriffs' in KY and WV. The Company incurred transaction costs of \$302,938 related to this acquisition which were expensed as incurred and recorded as transaction cost in the statements of operations.

An excess cash adjustment of \$7,275 was accounted for in full during 2019.

# Government Brands Holdings, LLC and Subsidiaries

## Notes to Consolidated Financial Statements

---

### **GCS Software, Inc.**

Effective August 1, 2019, the Company acquired substantially all the issued and outstanding stock of GCS Software for the purchase price of \$7,008,863 as presented in the Consideration Paid and Purchase Price Allocation table below. GCS Software provides integrated land records management software, property tax assessment software, and services that meet the needs of municipal and county governments of WI. The Company incurred transaction costs of \$511,779 related to this acquisition which were expensed as incurred and recorded as transaction cost in the statements of operations.

### **GovTech Services, Inc.**

Effective October 4, 2019, the Company acquired substantially all the issued and outstanding stock of GovTech Services for the purchase price of \$5,338,446 as presented in the Consideration Paid and Purchase Price Allocation table below. GovTech Services (GTS) provides cloud-based software program that allows individual citizens to make property tax payments and allows mortgage processors to pay property taxes in mass. GTS also facilitates the annual Iowa tax lien sale through a dedicated portal. The Company incurred transaction costs of \$489,575 related to this acquisition which were expensed as incurred and recorded as transaction cost in the statements of operations.

A negative net working capital adjustment of \$5,443 related to the working capital estimate was accounted for in full during 2019.

### **WarrantNow**

Effective November 1, 2019, the Company acquired specific assets from Johnson Apply Engineering, LLC for the purchase price of \$594,643 as presented in the Consideration Paid and Purchase Price Allocation table below. Johnson Apply Engineering, LLC had one product, WarrantNow, that allows officers and judges to complete the warrant process online or on a mobile device in a matter of minutes. The WarrantNow SaaS platform was moved into Pioneer and is managed as a product line within Pioneer. The Company incurred transaction costs of \$267,926 related to this acquisition which were expensed as incurred and recorded as transaction cost in the statements of operations.

### **PCI LLC**

Effective November 27, 2019, the Company acquired substantially all the issued and outstanding stock of PCI LLC for the purchase price of \$4,974,454 as presented in the Consideration Paid and Purchase Price Allocation table below. PCI provides leading software services for the calculation and collection of real property and personal property taxes in Virginia and South Carolina. The Company incurred transaction costs of \$433,635 related to this acquisition which were expensed as incurred and recorded as transaction cost in the statements of operations.

A negative net working capital adjustment of \$711,483 related to the net working capital estimate and an excess cash adjustment of \$515,577 was accounted for in full during 2019.

### **Mo'Mix Solutions**

Effective December 23, 2019, the Company acquired substantially all the issued and outstanding stock of Mo'Mix Solutions for the purchase price of \$1,588,720 as presented in the Consideration Paid and Purchase Price Allocation table below. Mo'Mix provides strategic planning, ERP & Budget implementations, business intelligence, and custom product development. The Company incurred

# Government Brands Holdings, LLC and Subsidiaries

## Notes to Consolidated Financial Statements

transaction costs of \$317,812 related to this acquisition which were expensed as incurred and recorded as transaction cost in the statements of operations.

The consideration paid for these acquisitions, as well as the amounts of estimated fair value of assets acquired and liabilities assumed at each acquisition date, are summarized as follows:

2019	Syscon	CII	Icon	Pioneer	GovPSA	Data Design
Cash	\$6,008,001	\$2,006,697	\$2,994,280	\$41,232,343	\$599,750	\$1,257,276
Series A rollover equity	-	-	-	1,849,525	-	-
Series B rollover equity	244,817	753,285	753,285	-	247,000	-
<b>Total consideration paid</b>	<b>6,252,818</b>	<b>2,759,982</b>	<b>3,747,565</b>	<b>43,081,868</b>	<b>846,750</b>	<b>1,257,276</b>
Current assets	550,729	131,454	365,997	5,087,271	-	95,341
Property and equipment	27,219	16,681	31,214	1,197,343	-	-
Deferred tax assets	-	377,257	-	-	-	29,286
Other assets	-	-	-	12,559	-	-
<b>Total tangibles</b>	<b>577,948</b>	<b>525,392</b>	<b>397,211</b>	<b>6,297,173</b>	<b>-</b>	<b>124,627</b>
Trademarks tradename	480,000	230,000	320,000	3,050,000	-	-
Internally developed software	420,000	150,000	170,000	1,360,000	-	-
Goodwill	5,306,936	1,987,065	3,585,605	35,803,570	846,750	1,157,646
<b>Total intangibles</b>	<b>6,206,936</b>	<b>2,367,065</b>	<b>4,075,605</b>	<b>40,213,570</b>	<b>846,750</b>	<b>1,157,646</b>
Accounts payable and accrued expenses	291,831	58,119	80,268	388,875	-	312
Deferred revenue	-	74,356	376,000	3,040,000	-	24,685
Deferred tax liabilities	240,235	-	268,983	-	-	-
<b>Total liabilities</b>	<b>532,066</b>	<b>132,475</b>	<b>725,251</b>	<b>3,428,875</b>	<b>-</b>	<b>24,997</b>
<b>Total consideration</b>	<b>\$6,252,818</b>	<b>\$2,759,982</b>	<b>\$3,747,565</b>	<b>\$43,081,868</b>	<b>\$846,750</b>	<b>\$1,257,276</b>

2019	GCS Software	GovTech	WarrantNow	PCI	Mo'mix
Cash	\$ 6,000,000	\$3,993,295	\$ 425,000	\$4,554,094	\$1,000,000
Series A rollover equity	-	-	-	-	-
Series B rollover equity	1,008,863	1,345,151	169,643	420,360	339,286
<b>Total consideration paid</b>	<b>7,008,863</b>	<b>5,338,446</b>	<b>594,643</b>	<b>4,974,454</b>	<b>1,339,286</b>
Current assets	137,335	673,648	22,864	878,410	172,195
Property and equipment	59,803	48,449	-	43,319	-
Other assets	-	-	-	119,420	-
Deferred tax assets	-	-	-	-	83,677
<b>Total tangibles</b>	<b>197,138</b>	<b>722,097</b>	<b>22,864</b>	<b>1,041,149</b>	<b>255,872</b>
Trademarks tradename	320,000	330,000	-	420,000	-
Internally developed software	230,000	350,000	-	360,000	-
Goodwill	6,392,662	4,579,926	588,729	4,178,166	1,287,226
<b>Total intangibles</b>	<b>6,942,662</b>	<b>5,259,926</b>	<b>588,729</b>	<b>4,958,166</b>	<b>1,287,226</b>
Accounts payable and accruals	11,545	622,237	-	202,524	30,691
Deferred revenue	22,852	-	16,950	822,337	173,121
Deferred tax liabilities	96,540	211,156	-	-	-
<b>Total liabilities</b>	<b>130,937</b>	<b>833,393</b>	<b>16,950</b>	<b>1,024,861</b>	<b>203,812</b>
<b>Total consideration</b>	<b>\$ 7,008,863</b>	<b>\$5,148,630</b>	<b>\$ 594,643</b>	<b>\$4,974,454</b>	<b>\$1,339,286</b>

# Government Brands Holdings, LLC and Subsidiaries

## Notes to Consolidated Financial Statements

Current assets acquired as part of the Pioneer acquisition consists of \$3,473,287 in cash and \$1,722,326 in accounts receivable. The Company has completed its purchase accounting for all acquisitions completed as of December 31, 2019.

### *Subsequent Business Acquisitions*

#### **MuniSight LTD**

Effective February 28, 2020, the Company acquired substantially all the issued and outstanding stock of MuniSight for the purchase price of \$5,237,453. MuniSight is the provider of software platform that allows small urban and rural municipalities in Canada to manage their assets GIS, tax, and infestation data. The Company incurred transaction costs of \$542,546 related to this acquisition.

#### **NewVision Systems Corporation**

Effective April 27, 2020, the Company acquired substantially all the issued and outstanding stock of NewVision for the purchase price of \$3,686,538. NewVision is a provider of an official records system that includes advanced optical character recognition (“OCR”) and redaction technology as well as providing various licensing/permitting systems to meet the needs of different agency clerks. The Company incurred transaction costs of \$491,034 related to this acquisition.

All the acquired businesses are in line with the overall business plan of the Company, which includes continuing to expand the services and products offered to government entities. The estimated fair value of assets acquired, and liabilities assumed has not yet been completed; however, consistent with previous acquisitions, it is anticipated that a large part of the estimated fair value of assets acquired will consist of intangible assets and goodwill.

## **4. Goodwill and Intangible Assets**

The Company’s goodwill and intangible assets, all of which have finite lives, consist of the following as of December 31, 2019 and 2018:

2018	Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Goodwill	10 years	\$ 219,077,430	\$ 15,578,319	\$ 203,499,111
Intangible assets				
Internally developed software	5 years	8,638,000	1,039,100	7,598,900
Trademarks and trade names	10 years	13,670,000	878,333	12,791,667
Total intangible assets		22,308,000	1,917,433	20,390,567
Total goodwill and intangible assets		\$ 241,385,430	\$ 17,495,752	\$ 223,889,678

# Government Brands Holdings, LLC and Subsidiaries

## Notes to Consolidated Financial Statements

2019	Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Goodwill	10 years	\$ 285,586,294	\$ 41,237,677	\$ 244,348,617
Intangible assets				
Internally developed software	5 years	11,658,000	3,111,533	8,546,467
Trademarks and trade names	10 years	18,710,000	2,548,500	16,161,500
Total intangible assets		30,368,000	5,660,033	24,707,967
Total goodwill and intangible assets		\$ 315,954,294	\$ 46,897,710	\$ 269,056,584

Amortization expense for the next five years for the goodwill and intangible assets listed above is estimated to be as follows for years ending:

<i>December 31,</i>	Amount
2020	\$ 32,761,228
2021	32,761,228
2022	32,761,228
2023	31,722,128
2024	30,688,795
Thereafter	108,361,977

Amortization of goodwill and intangible assets totaled \$29,461,265 and \$17,443,306 for the years ended December 31, 2019 and 2018 and included as amortization and depreciation within the statements of operations.

## 5. Long Term Debt

### *Notes Payable*

On March 6, 2018, the Company issued a promissory note in connection with the acquisition of VPS (see Note 3) for an amount equal to \$7,500,000 bearing interest at a rate equal to 7% per annum that commenced on the date of the note and continues on the outstanding principal until the note is paid in full. The Company will not make any principal or interest payments until the maturity date on October 1, 2023, at which time all principal and interest amounts will be due and payable. The interest is paid-in-kind and added to the outstanding principal balance at the end of each fiscal year. The balance of the promissory note totaled \$8,485,016 and \$7,931,506 as of December 31, 2019 and 2018, respectively and is recorded in long-term debt.

On December 12, 2018, the Company entered into a related party agreement with Providence Equity Partners, LLC who is an owner of the Company, that issued a convertible promissory note in an amount equal to \$11,000,000 bearing interest at a rate equal to Libor + 9.25% per annum that commenced on the date of the note and continued on the outstanding principal until the note was paid in full or converted. The Company was not required to make any principal or interest payments until the maturity date on March 12, 2019. The funds were used to complete the Bill2Pay acquisition. On April 1, 2019, the Company signed an amendment extending the maturity date to June 10, 2019 with no prepayment penalty and all other terms remaining the same. On July 8, 2019, the Company paid the balance of the promissory note including accrued interest in full totaling \$11,742,806.

# Government Brands Holdings, LLC and Subsidiaries

## Notes to Consolidated Financial Statements

---

On January 2, 2019, the Company entered into a related party agreement with Providence Equity Partners, LLC who is an owner of the Company, that issued a convertible promissory note in an amount equal to \$3,000,000 bearing interest at a rate equal to Libor + 9.25% per annum that commenced on the date of the note and continued on the outstanding principal until the note was paid in full or converted. The Company was not required to make any principal or interest payments until the maturity date on April 2, 2019. The funds were used to complete the Syscon acquisition. On March 11, 2019, the Company signed an amendment extending the maturity date to September 29, 2019 with no prepayment penalty and all other terms remaining the same. On July 8, 2019, the Company paid the balance of the promissory note including accrued interest in full totaling \$3,182,130.

On April 4, 2019, the Company entered into a related party agreement with Providence Equity Partners, LLC who is an owner of the Company, that issued a convertible promissory note in an amount equal to \$10,000,000 bearing interest at a rate equal to Libor + 9.25% per annum that commenced on the date of the note and continued on the outstanding principal until the note was paid in full or converted. The Company was not required to make any principal or interest payments until the maturity date on July 3, 2019. The funds were used to complete the Pioneer acquisition. On July 8, 2019, the Company paid the balance of the promissory note including accrued interest in full totaling \$10,308,420.

### ***TPG Specialty Lending, Inc***

On March 15, 2018, the Company entered into a financing agreement with TPG SPECIALTY LENDING, INC ("TSL") to extend certain credit facilities to the Company in an aggregate principal amount not exceeding \$40,000,000, consisting of (a) \$35,000,000 aggregate principal amount of term loans and (b) up to \$5,000,000 aggregate principal amount of revolving credit facility maturing on March 15, 2023. The facilities were collateralized by all assets of the Company including 65% of all voting stock and 100% of all nonvoting stock. The term loans were used to assist in funding the acquisition activity of the Company. The interest rate on the term loans was Libor + 6.75% + 2.50% PIK until June 30, 2019 when it changed to Libor + 9.25% if the debt leverage was greater than 6:1 or Libor + 8.25%, if the debt leverage was lower than 6:1. There was a 2.00% fee on new commitments, a 50 basis-point fee on the unused portion of the revolving credit facility, and a \$50,000 annual administration fee. The facility also had a call protection requiring an additional 3% to be paid on top of the outstanding balance, if the facility was repaid prior to June 30, 2020. The call protection dropped 1% per year starting June 30, 2020.

On May 21, 2018, the Company entered into Amendment No. 1 on the financing agreement. The Amendment No. 1 primarily increased the amount of the term loan by an additional \$10,000,000, which was used in the consideration paid for the acquisition of Value Payment Systems.

On December 12, 2018, the Company entered into Amendment No. 2 on the financing agreement. There were no changes to material terms of the financing agreement in Amendment No. 2. The primary purpose of Amendment No. 2 was to allow the acquisition of Bill2Pay, LLC and change several administrative/reporting requirements.

This facility included certain financial and non-financial loan covenants and was in compliance with these covenants as of December 31, 2018.

On July 8, 2019, the Company refinanced its previous term loans with the proceeds of a new term loan facility (see Antares Capital, LP agreement below). As a result, the Company recorded a loss on the extinguishment of debt in the amount of \$3,158,680 which is included in selling, general and



# Government Brands Holdings, LLC and Subsidiaries

## Notes to Consolidated Financial Statements

administrative expenses in the accompanying Consolidated Statements of Operations. Of the \$3,158,680 loss on the extinguishment of debt, \$1,543,308 was for early breakage fees that the Company paid to the holders of its previous notes. The Company also wrote off \$1,345,667 which represented the deferred financing fees related to the extinguished debt facilities. The remaining loss on extinguishment charges were due to general and legal costs to the prior note holders.

### *Antares Capital, LP*

On July 8, 2019, the Company entered into a financing agreement with ANTARES CAPITAL, LP (“Antares”) to extend certain credit facilities to the Company in an aggregate principal amount not exceeding \$137,500,000, consisting of (a) 80,000,000 initial aggregate term loan, (b) 7,500,000 aggregate principal amount of revolving credit facility, and (c) 50,000,000 in aggregate delayed draw term loan commitments that mature on July 9, 2025. The term loan and delayed draw term loan require that .25% of the initial aggregate principal amount be repaid in quarterly installments beginning on the last day of December 2019. The facilities are collateralized by all assets of the Company. The term loan was used to refinance the convertible promissory notes and long-term debt held by the Company on the date of the loan. The delayed term loans may be used in funding acquisitions and costs related thereto of the Company. The interest rate on the terms loans and delayed draw term loans is LIBOR + 5.25%. There is a 50 basis-point fee on the unused portion of the revolving credit facility and a 100 basis-point fee on the unused portion of the delayed draw term loan. The Company is required to maintain certain financial and non-financial covenants and was in compliance with all covenants as of December 31, 2019. total amounts outstanding on the term loan and delayed draw term loans was \$103,000,000 as of December 31, 2019. No amounts were outstanding on the revolving credit facility as of December 31, 2019.

Future minimum principal repayments on the term loan and delayed draw term are as follows at December 31, 2019.

<i>December 31,</i>	Amount
2020	\$ 1,287,500
2021	1,013,381
2022	1,003,285
2023	993,290
2024	983,394
Thereafter	\$ 97,719,150

### *Debt Issuance Costs*

The Company capitalized applicable debt issuance costs and amortizes these costs over the term of the underlying debt using the effective interest method in interest expense. The unamortized portion of debt issuance costs are included in long-term debt in the Company’s consolidated balance sheets. There was \$2,719,802 and \$1,543,250 of capitalized debt issuance costs at December 31, 2019 and 2018, respectively.

### *Capital Lease Financing*

The company entered into lease obligations that are classified as capital leases and the lease liability are included in long-term debt in the Company’s consolidated balance sheets. There was \$239,671 and \$50,770 of capital lease liability at December 31, 2019 and 2018, respectively.

# Government Brands Holdings, LLC and Subsidiaries

## Notes to Consolidated Financial Statements

### 7. Members' Equity

Government Brands Holdings, LLC (the "Company") was formed on November 27, 2017. The Company's Amended and Restated Limited Liability Company Agreement, dated as of February 21, 2018 (as amended, the "Operating Agreement"), initially authorized the issuance of 217,000,000 Units, which were further classified as (i) 150,000,000 Series A Units, (ii) 25,000,000 Series B Units, (iii) 21,000,000 Common Units, and (iv) 21,000,000 Management Incentive Units ("MIU"). As of May 4, 2018, the number of authorized Series A Units was increased to 200,000,000. As of April 29, 2019, the number of authorized MIU was increased to 23,000,000.

As of December 31, 2019 and 2018, the Company had issued and outstanding the following numbers of units:

<i>December 31,</i>	<b>2019</b>	<b>2018</b>
<b>Units</b>		
Series A Units	247,509,033	201,418,805
Series B Units	14,005,357	-
Common Units	-	-
Management Incentive Units	22,325,467	20,580,467

Holders of Series A Units and Series B Units are each entitled to one (1) vote per Series A Unit or Series B Unit, as applicable. Such holders shall vote together and not as separate classes (unless expressly specified in the Operating Agreement). Common Units and MIU are nonvoting (unless expressly specified in the Operating Agreement). The holders of a majority in interest of the outstanding Series A Units are entitled to appoint two (2) members of the Board of Managers of the Company (who in turn each have one (1) vote on matters submitted to the Board of Managers).

MIU are profits interests granted in exchange for services provided to the Company or its subsidiaries. MIU are subject to vesting requirements as set forth in the respective grant agreements (and may be subject to forfeiture upon the terms set forth in the respective grant agreements).

The Company has a call right with respect to MIUs held by employees of the Company or its subsidiaries in the event of termination of such employee's service.

### ***Liquidation Preferences***

Upon the occurrence of a liquidation event, the holders of Series A Units shall be entitled to receive, on a pro rata basis, prior and in preference to any distribution of any of the assets of the Company to the holders of Series B Units, Common Units or MIU, an amount per Series A Unit equal to the original issue price of such Series A Unit plus an 8% per annum preferred return (compounded annually), less prior distributions.

Following full distribution of the Series A liquidation preference and preferred return, the holders of Series B Units shall be entitled to receive, on a pro rata basis, prior and in preference to any distribution to the holders of Common Units or MIU, an amount per Series B Unit equal to the original issue price of such Series B Unit plus an 8% per annum preferred return (compounded annually), less prior distributions.

# Government Brands Holdings, LLC and Subsidiaries

## Notes to Consolidated Financial Statements

Following full distribution of the Series B liquidation preference and preferred return, the holders of Common Units and MIU shall be entitled to receive, on a pro rata basis, an amount per Common Unit or MIU, as applicable, equal to the amount such holders would have been entitled to receive had the aggregate amount of the Series A preferred return and the Series B preferred return been distributed to all holders of Units pro rata. Thereafter, any remaining assets shall be distributed, pro rata, to all holders of Units in proportion to their ownership interest in the Company.

Notwithstanding the foregoing, holders of MIU shall not be entitled to receive any distributions until such MIU have become vested and aggregate distributions of the Company have exceed the then-applicable hurdle amount.

### *Equity Incentive Plan*

All MIUs are profits interests and have been issued for services performed for the Company. On December 31, 2019 and 2018, there were 674,533 and 419,533 MIU available for the Company to issue. The fair value of each MIU is estimated on the date of the grant using an option pricing model taking into consideration the equity preferences and hurdle rates and has been recorded by the Company as an equity-based expense over the service period.

Profit interests in the form of MIU activity during the year ended December 31, 2019 and 2018 is as follows:

	Number of Units	Weighted Avg. Grant Date Value
<b>2019</b>		
Nonvested Units at December 31, 2018	14,567,467	\$ 0.22
Granted	2,215,000	0.21
Canceled	(470,000)	0.22
Vested	(4,533,429)	0.22
Nonvested Units at December 31, 2019	11,779,038	\$ 0.22
<b>2018</b>		
Granted	30,561,745	\$ 0.22
Canceled	(9,981,278)	0.22
Vested	(6,013,000)	0.22
Nonvested Units at December 31, 2018	14,567,467	\$ 0.22

The total fair value of units vested for the year ended December 31, 2019 and 2018 was \$997,354 and \$1,318,015. Total compensation recognized for the year ended December 31, 2019 and 2018 was \$832,399 and \$1,613,824. At December 31, 2019 and 2018, there was \$2,472,838 and \$2,933,706 of total unrecognized compensation costs related to unvested MIU issued under the Equity Incentive Plan, which is expected to be recognized over a weighted-average period of 4.0 years.

# Government Brands Holdings, LLC and Subsidiaries

## Notes to Consolidated Financial Statements

### 8. Property and Equipment

Depreciation expense for the years ending December 31, 2019 and 2018 was \$708,245 and \$177,475, respectively, was recorded as amortization and depreciation within the statements of operations. Property and equipment consist of the following as of December 31, 2019 and 2018:

<i>December 31,</i>	<b>2019</b>	<b>2018</b>
Furniture and fixtures	\$ 1,030,023	\$ 325,554
Computer equipment and software	1,880,956	1,498,295
Office equipment	97,331	212,858
Automobiles	74,028	-
Leasehold improvements	1,129,871	34,914
Total cost	4,212,209	2,071,621
Accumulated depreciation	1,022,660	1,056,560
Property and equipment, net	\$ 3,189,549	\$ 1,015,061

### 9. Leases

The Company leases certain facilities under agreements classified as operating leases through 2027. Certain leases contain renewal options for various periods and are solely executable at the desire of the Company. Future minimum lease payments on operating leases with noncancelable lease terms in excess of one year are as follows at December 31, 2019:

<i>December 31,</i>	<b>Amount</b>
2020	\$ 1,637,750
2021	1,530,463
2022	1,209,180
2023	1,105,969
2024	1,135,320
Thereafter	\$ 3,346,567

Rent expense totaled \$1,596,915 and \$623,016 for the year ended December 31, 2019 and 2018.

### 10. Other Current Liabilities

Other current liabilities primarily consist of accrued payroll costs including commission and bonus expense, merchant fees, and professional fees incurred at year end. As of December 31, 2019, current liabilities also include the current portion of accrued contingent consideration of \$500,000 related to the acquisition of GovOffice.

# Government Brands Holdings, LLC and Subsidiaries

## Notes to Consolidated Financial Statements

### 11. Income Taxes

The components of the provision for income tax expense for the year ended December 31, 2019 were as follows:

	Federal	State	Total
Current Expense	\$ 620,980	\$ 243,209	\$ 864,189
Deferred Expense	(75,528)	(21,938)	(97,466)
Total Provision	\$ 545,452	\$ 221,271	\$ 766,723

The total tax expense for the year ended December 31, 2019 differs from the amount of income tax expected by applying the U.S. federal income tax rate of 21% to pre-tax income of the Corporate subsidiaries primarily due to non-deductible goodwill amortization, transfer pricing adjustments and state income taxes.

Pursuant to ASC 740-10-30-2, deferred tax assets and liabilities are measured using current period enacted rates applicable to taxable income in the years in which those temporary differences are expected to be resolved or settled.

Temporary differences and carryforwards that give rise to deferred tax assets and liabilities at December 31, 2019 were as follows:

Deferred tax assets (liabilities)	
NOLs & Credits	\$ 687,020
Accruals and Reserves	76,490
Deferred Revenue	220,990
Intangible Assets	(1,270,099)
481(a) Adjustments	(203,126)
Fixed Assets	(14,941)
Other	591
Net deferred tax asset (liability)	\$ (503,075)

The Company has available at December 31, 2019 approximately \$2,700,000 of federal NOL carryforwards and approximately \$2,300,000 of state NOL carryforwards that may be applied against future taxable income.

### 12. Credit Risks, and Commitments

While the Company's policies do not require collateral on accounts receivable, the Company performs periodic credit evaluations of its customers' financial conditions. Conditions or occurrences within the Company's industry could affect the Company's credit risk associated with nonpayment by its customers.

# Government Brands Holdings, LLC and Subsidiaries

## Notes to Consolidated Financial Statements

---

### 13. Employee Benefit Plans

We maintain a defined contribution retirement plan (the "Plan") in accordance with Section 401(k) of the Internal Revenue Code, which allows eligible participating employees to defer a portion of their annual compensation and contribute such amount to one or more investment funds. The Plan provides for a discretionary matching contribution by the Company as determined by management and approved by the Board of Directors each plan year. The Company's current practice is to match 100% of the annual employee's contribution, but not exceeding 4% of the employee's annual compensation. Discretionary matching contributions made by the Company to a participant's account are vested immediately. The Company contributed to the Plan approximately \$152,199 in 2019.

### 14. Related Parties

GSV Acquisitions, LLC is part of Greater Sum Ventures, an owner of the Company, and received total fees of \$4,265,504 from the Company for executing the sourcing, due diligence, and closing of acquisitions.

Intuition, LLC, a part owner of the Company, received total fees of \$1,008,106 from the Company for transition services regarding Bill2Pay integration of accounting, IT, and infrastructure.

Providence Equity Partners, LLC is an owner of the Company and was the holder of the \$11,000,000 Note issued to the Company on December 12, 2018, the \$3,000,000 Note issued January 2, 2019, and the \$10,000,000 Note issued April 4, 2019. All Notes were paid in full as part of the July 8, 2019 financing with Antares Capital LP.

J. Scott Slusser, EVP of Revenue Optimization for the Company, and Jeffrey C. Gardner, Chief Operating Officer of the Company, are both party to the \$7,500,000 Note issued to the Company on March 6, 2018 and detailed in Note 5.

Keith LeBeau, Randy Sturgis, Bob Wilson, Marty Hahn, Stephen Rumsey, and Richard Bendure were General Managers of the entities they sold to the Company at December 31, 2019 and 2018. Each of them own property that is leased to the Company and have signed arms-length lease terms for each site with the Company. Rent expense for the year for each leased property has been included within total rent expense in Note 9.

At December 31, 2018, there was a note receivable from David Winters, Chief Financial Officer, in exchange for Series A Units which was paid in full March 18, 2019.

### 15. Subsequent Events

Events that have taken place subsequent to the financial statement date of December 31, 2019, but before the financial statements have been issued have been evaluated for their impact on the financial statements through July 17, 2020.

Acquisitions that have taken place since December 31, 2019 are discussed in Note 3 above.

# Government Brands Holdings, LLC and Subsidiaries

## Notes to Consolidated Financial Statements

---

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Company’s financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. The adverse economic effects of the COVID-19 outbreak have decreased demand for the Company’s services based on the restrictions in place by governments trying to curb the outbreak and changes in patient behavior. This may lead to the Company not achieving its sales goals in fiscal year 2020 and the Company’s overall liquidity goals. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Company is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2020. Although the Company cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time, if the pandemic continues, it may have an adverse effect on the Company’s results of future operations, financial position, and liquidity in fiscal year 2020. The Company withdrew the amount available on its revolving facility of \$7,500,000 in March 2020 as a precautionary measure.

On March 27, 2020, the U.S government established the “Coronavirus Aid, Relief, and Economic Security (CARES) Act.” The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions, and technical corrections to tax depreciation methods for qualified improvement property. It also appropriated funds for the SBA Paycheck Protection Program loans that are forgivable in certain situations to promote continued employment, as well as Economic Injury Disaster Loans to provide liquidity to small businesses harmed by COVID-19. There is no assurance we are eligible for these funds or will be able to obtain them. We continue to examine the impact that the CARES Act may have on our business. Currently, we are unable to determine the impact that the CARES Act will have on our financial condition, results of operations, or liquidity.