



**Consolidated Financial Statements  
December 31, 2020 and 2019**

## Contents

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## Report of Independent Auditors

To the Management and the Board of Directors of Aventiv Technologies, LLC

We have audited the accompanying consolidated financial statements of Aventiv Technologies, LLC and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations, member's equity and cash flows for the years then ended.

### *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 audits. We conducted our audits 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.

### *Opinion*

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

*PricewaterhouseCoopers LLP*

March 26, 2021

**Aventiv Technologies, LLC****Consolidated Balance Sheets  
December 31, 2020 and 2019  
(dollars in thousands)**

<b>ASSETS</b>	<b>2020</b>	<b>2019</b>
Current assets:		
Cash and cash equivalents	\$ 10,863	\$ 8,334
Restricted cash	16,368	11,162
Investments	504	-
Accounts and other receivables, net	43,824	34,428
Inventory	2,097	9,837
Prepaid expenses and other current assets	24,570	20,778
Total current assets	<u>98,226</u>	<u>84,539</u>
Operating lease right-of-use assets, net	34,057	43,079
Property and equipment, net	209,315	205,733
Intangibles and other assets, net	723,284	753,626
Goodwill, net	1,018,119	1,018,119
Total assets	<u>\$ 2,083,001</u>	<u>\$ 2,105,096</u>
<b>LIABILITIES AND MEMBER'S EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 13,507	\$ 19,848
Accrued liabilities	91,724	61,980
Operating lease liabilities	6,494	7,053
Deferred revenue and customer advances	42,807	34,918
Current portion of long-term debt	10,880	10,880
Total current liabilities	<u>165,412</u>	<u>134,679</u>
Deferred income taxes	111,343	109,145
Long-term debt	1,356,046	1,389,923
Operating lease liabilities, long-term	30,224	36,452
Other long-term liabilities	20,635	11,255
Total liabilities	<u>1,683,660</u>	<u>1,681,454</u>
Commitments and contingencies (see Note 7)		
Member's equity:		
Member's capital	437,467	445,501
Retained deficit	(38,126)	(21,859)
Total member's equity	<u>399,341</u>	<u>423,642</u>
Total liabilities and member's equity	<u>\$ 2,083,001</u>	<u>\$ 2,105,096</u>

The accompanying notes are an integral part of these consolidated financial statements.

**Aventiv Technologies, LLC**

**Consolidated Statements of Operations**  
**Years Ended December 31, 2020 and 2019**  
**(dollars in thousands)**

	<b>2020</b>	<b>2019</b>
<b>Revenue:</b>		
Communication, media, and other services	\$ 579,718	\$ 516,256
Payment services	153,710	150,996
Electronic monitoring services	34,049	30,695
<b>Total revenue</b>	<u>767,477</u>	<u>697,947</u>
<b>Operating costs and expenses:</b>		
Cost of service (exclusive of depreciation and amortization shown separately below)	358,045	331,470
Selling, general, and administrative expenses	200,148	214,157
Depreciation, amortization, and impairment expense	128,912	109,094
Transaction expenses	-	3,973
<b>Total operating costs and expenses</b>	<u>687,105</u>	<u>658,694</u>
<b>Operating income</b>	80,372	39,253
Interest and other expenses, net	99,021	111,172
<b>Loss before income taxes</b>	<u>(18,649)</u>	<u>(71,919)</u>
Income tax benefit	(2,382)	(18,506)
<b>Net loss</b>	<u>\$ (16,267)</u>	<u>\$ (53,413)</u>

The accompanying notes are an integral part of these consolidated financial statements.

**Aventiv Technologies, LLC**

**Consolidated Statements of Member's Equity**  
**Years Ended December 31, 2020 and 2019**  
**(dollars in thousands)**

	Member's Capital	Retained Earnings/ (Deficit)	Total Member's Equity
Balance, December 31, 2018	\$ 445,501	\$ 34,395	\$ 479,896
Cumulative effect of accounting change	-	(1,562)	(1,562)
Dividend paid	-	(1,279)	(1,279)
Net loss	-	(53,413)	(53,413)
Balance, December 31, 2019	\$ 445,501	\$ (21,859)	\$ 423,642
Cash distribution to parent	(2,300)	-	(2,300)
Tax effect of purchase of outstanding debt by entity under common control	(5,734)	-	(5,734)
Net loss	-	(16,267)	(16,267)
Balance, December 31, 2020	<u>\$ 437,467</u>	<u>\$ (38,126)</u>	<u>\$ 399,341</u>

The accompanying notes are an integral part of these consolidated financial statements.

**Aventiv Technologies, LLC**

**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2020 and 2019**  
**(dollars in thousands)**

	2020	2019
<b>Cash flows from operating activities:</b>		
Net loss	\$ (16,267)	\$ (53,413)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, amortization, and impairment expense	128,912	109,094
Deferred income taxes	(3,536)	(19,360)
Amortization of deferred financing costs and discounts	5,003	4,000
Change in fair value of derivatives	8	770
Other operating activities, net	586	(313)
Increase/(decrease) in operating assets and liabilities:		
Accounts and other receivables, net	(9,397)	1,488
Prepaid expenses and other current assets	(3,291)	(3,329)
Inventory	7,740	1,629
Other assets	(6,359)	(6,326)
Accounts payable	(6,334)	(7,518)
Accrued and other liabilities	36,421	(2,764)
Net cash provided by operating activities	<u>133,486</u>	<u>23,958</u>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(49,514)	(91,012)
Additions to capitalized software development costs and patents	(27,956)	(28,892)
Purchase of investments	(504)	-
Net cash used in investing activities	<u>(77,974)</u>	<u>(119,904)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from revolver	36,000	182,000
Repayments of revolver	(64,000)	(144,000)
Long-term debt borrowings, net of issuance costs	-	64,271
Payments on long-term debt	(10,880)	(10,711)
Proceeds from financing obligations	-	9,214
Repayment of financing obligations	(3,316)	(690)
Repayment of finance lease obligations	(3,281)	(3,176)
Cash distribution to parent	(2,300)	-
Payment of dividend to parent	-	(1,279)
Net cash provided by (used in) financing activities	<u>(47,777)</u>	<u>95,629</u>
Increase/(decrease) in cash and cash equivalents, and restricted cash	7,735	(317)
Cash and cash equivalents, and restricted cash:		
Beginning of period	19,496	19,813
End of period	<u>\$ 27,231</u>	<u>\$ 19,496</u>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for interest	<u>\$ 88,025</u>	<u>\$ 116,408</u>
Cash paid for income tax payment	<u>\$ 1,401</u>	<u>\$ 1,876</u>
Increase/(decrease) in noncash purchases of property and equipment	<u>\$ (7)</u>	<u>\$ 810</u>
Right of use assets obtained in exchange for new finance lease liabilities	<u>\$ 16,100</u>	<u>\$ 4,652</u>
Purchase of equipment under financing obligation	<u>\$ 1,052</u>	<u>\$ 9,214</u>
Purchase of software under financing obligation	<u>\$ 2,210</u>	<u>\$ -</u>

See accompanying notes to consolidated financial statements.

The accompanying notes are an integral part of these consolidated financial statements.

## Aventiv Technologies, LLC

### Notes to Consolidated Financial Statements

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#### Note 1. Business and Summary of Significant Accounting Policies

Aventiv Technologies, LLC (Aventiv), together with its subsidiaries (collectively, the Company), is based in Dallas, Texas and is a leading provider of civil and criminal justice technology solutions that improve public safety and modernize the incarceration experience for approximately 3,500 correctional facilities and over 1,200,000 incarcerated people across North America. As one of the largest communication and media providers for the United States' incarcerated population, the Company's product and service combinations deliver unique, full criminal lifecycle solutions from pre-incarceration incident management through post-incarceration monitoring.

On October 10, 2019, Aventiv announced the change of its name from Securus Technologies Holdings, LLC to Aventiv Technologies, LLC as part of its rebranding initiatives to reflect the Company's continuing transformation from a traditional corrections telecommunications service provider to a diversified technology company providing innovative solutions to customers across multiple sectors.

**Principles of consolidation and basis of presentation:** The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) and include the accounts of Aventiv and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

In 2020, the Company changed its presentation of revenue on the Consolidated Statements of Operations to combine its Inmate telecommunication and investigative products and Media and communication services revenue into one category, Communications and media services, to more accurately reflect the way in which the Company provides its services to the incarcerated population. The 2019 financial information was reclassified to reflect this new format. There was no impact to Total revenue or Net loss on the Consolidated Statements of Operations.

**Accounting estimates:** The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant items subject to such estimates include the valuation allowances for receivables, the recoverability of property and equipment, goodwill, intangible and other assets, the carrying amount and estimated useful lives of contract costs, the carrying amount of operating lease right-to-use assets and operating lease liabilities, and deferred income taxes.

Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment. Management believes this approach to be reasonable under the circumstances. Management adjusts such estimates and assumptions when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in estimates will be accounted for prospectively.

**Cash and cash equivalents and restricted cash:** Cash equivalents consist of highly liquid investments, such as certificates of deposits, money market funds and short-term treasury instruments, with original maturities of 90 days or less. Restricted cash accounts hold amounts designated for regulatory requirements mandated as part of the Company's payment services operations or for the benefit of certain customers in the event the Company does not perform under the provisions of the respective underlying contracts with these customers.

**Investments:** The Company's investments consist of one year and two year certificates of deposits (CD's), which will be held to maturity. These CD's are recorded at cost, for which the Company earns simple interest income, which is recorded in Interest and other expenses, net, in the Consolidated Statement of Operations.

**Accounts receivable:** The Company extends credit to customers and other parties in the normal course of business. Trade accounts receivable are recorded at the invoice amount and do not bear interest. The Company's trade receivables are analyzed for collectability based on the age of individual accounts, economic events or other factors



## Aventiv Technologies, LLC

### Notes to Consolidated Financial Statements

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and an allowance for doubtful accounts is recorded when necessary. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses.

**Fair value of financial instruments:** The Company's financial instruments consist of cash and cash equivalents, restricted cash, investments, accounts receivable, interest rate caps, accounts payable, and long-term debt (including the current portion) as of December 31, 2020 and December 31, 2019. The Company is not required to disclose the fair value of financial instruments carried at amortized cost, including long-term debt.

**Concentrations of credit risk:** Financial instruments, which potentially expose the Company to concentrations of credit risk, consist primarily of cash and cash equivalents and accounts receivable. At December 31, 2020 and 2019, one credit card processor comprised approximately 18.6% and 16.3% of total trade accounts receivable, respectively. The Company does not require collateral on accounts receivable balances and provides allowances for potential credit losses. The Company's revenues are concentrated in the United States in the corrections industry.

A significant portion of the Company's inventory and electronic components used in our property and equipment are manufactured in China and other overseas countries where manufacturing plants have been and are continuing to operate under various restrictions and delays caused by the COVID-19 Coronavirus. However, Management does not believe that the delays in the shipments of such components will materially impact the Company's business operations.

**Inventory:** The Company's inventory consists of media tablets. Inventory is stated at the lower of average cost or net realizable value. Inventory is fully comprised of finished goods.

**Property and equipment:** All purchases of property and equipment are stated at cost and include costs necessary to place such property and equipment in service. Property and equipment acquired through business combinations are recorded at fair value as of their acquisition date. Major renewals and improvements that extend an asset's useful life are capitalized, while repairs and maintenance are charged to operations as incurred. Construction in progress represents the cost of material purchases and construction costs for telecommunications hardware systems and electronic tracking devices in various stages of completion.

Depreciation is computed on a straight-line basis using estimated useful lives of 2 to 8 years for telecommunications equipment, video connection equipment, electronic tracking devices, and office furniture and equipment. Media kiosks are depreciated on a straight-line basis using an estimated useful life of 5 to 7 years, and media tablets are depreciated on a straight-line basis using an estimated useful life of 18 months. Leasehold improvements are depreciated over the lesser of their useful life or lease term, and equipment acquired through finance lease arrangements are depreciated either over the lease term or over the asset's useful life in the event the lease includes a bargain purchase option that is likely to be exercised at the end of the lease.

**Business combinations:** Business acquisitions are accounted for under the acquisition method of accounting. Allocating the purchase price to the assets acquired and liabilities assumed requires the Company to estimate the fair value of various assets and liabilities as well as contingent consideration which requires determining the appropriate valuation model and estimated fair values. The Company primarily establishes fair value using the income approach which requires the use of many assumptions and estimates including future revenues and expenses, as well as discount factors and income tax rates.

**Goodwill, intangibles, and other assets:** Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations accounted for as acquisitions. There were no changes to goodwill during the years ended December 31, 2020 and 2019.

Intangible and other assets includes indefinite-lived tradenames, patents and trademarks, capitalized software development costs, acquired technology rights, acquired contract rights, costs to obtain and to fulfill customer contracts, an equity investment, and deposits and other long-term assets.

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### Notes to Consolidated Financial Statements

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The Company's capitalized software development cost consists of capitalized labor and other costs associated with software developed for internal use. Software is considered for internal use if acquired, internally developed, or modified solely to meet the entity's internal needs and if during the software's development or modification, no plan exists to market the software externally. Costs incurred during the application development stage are capitalized, which includes costs to design the software configuration and interfaces, coding, installation, and testing. Capitalization of cost begins when the preliminary project stage is completed and management with the relevant authority authorizes and commits to funding a computer software project and believes that it is probable that the project will be completed and the software will be used to perform the function intended. Capitalization ceases when the project is complete or it is no longer probable that the project will be completed. Costs related to training and maintenance are expensed as incurred. The Company capitalizes interest costs associated with capitalized software development cost based on the effective interest rate on aggregate borrowings.

The Company capitalizes costs incurred to obtain and costs incurred to fulfill a customer contract. Capitalized costs to obtain are comprised of sales commissions related to new contracts and up-front payments required by facility customers as part of awarding a contract, which are referred to in the industry as signing bonuses. Capitalized costs to fulfill are comprised of personnel and contractor costs incurred for the setup of new customers subsequent to the signing of the contract.

The Company defers implementation costs incurred in cloud computing arrangements that qualify as hosted arrangements. These types of arrangements are comprised of contracts with third party providers of online solutions used for sales functions. The long-term and short-term portions of these costs are included within Intangibles and other assets, net and within Prepaid expenses and other current assets on the Consolidated Balance Sheet, respectively, and are amortized as Selling, general, and administrative expenses on the Consolidated Statement of Operations over each hosting arrangement's term.

Intangible and other assets are amortized based on the useful life of each asset. Amortization of acquired technology is computed over useful asset lives which range from 6 to 17 years and in accordance with the pattern of the projected economic benefit of the asset. Amortization of acquired contracts, including customer relationships, license agreements and non-compete agreements, is computed over useful asset lives which range from 3 to 20 years and in accordance with the pattern in which the economic benefit is projected to be earned each year over the life of the contract. Amortization of capitalized software development costs is computed on a straight-line basis over 3 to 5 years. As of December 31, 2020 and December 31, 2019, the weighted average amortization period for all intangible assets subject to amortization was approximately 15.5 and 15.9 years, respectively.

**Impairment of Property and Equipment and intangibles subject to amortization:** Long-lived assets are grouped with other assets at the lowest level of identifiable cash flow streams and are reviewed for impairment as a group 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 value of the assets to the estimated undiscounted future cash flows expected to be generated by the assets. If the carrying value of the assets exceed their estimated future cash flows, an impairment charge is recognized for the amount by which the carrying value of the assets exceed the fair value of the assets. See Note 2 for further detail on impairments of the Company's intangible assets.

**Impairment of Goodwill and indefinite-lived intangibles:** The Company performs an annual qualitative assessment of goodwill and indefinite-lived intangibles as of October 1 of each year, or whenever events or circumstances indicate the fair value of the reporting unit is less than the carrying amount, to determine whether quantitative impairment testing is necessary. The Company performs its annual goodwill and indefinite-lived intangibles impairment test by comparing the fair value of a reporting unit to its carrying amount and recognizes an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, if necessary. The Company determined no goodwill impairment existed during the years ended December 31, 2020 and 2019.

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**Leases:** Effective January 1, 2019, the Company adopted Accounting Standards Update (ASU) 2016-02 (ASC 842), *Leases*, and all related amendments using the modified retrospective method. The Company recognized right-of-use assets for both operating and finance leases, and operating lease liabilities that represent the present value of its obligation to make payments over the lease term. The present value of the operating lease payments was calculated using the Company's incremental borrowing rate, which was based on the rate of interest required to borrow an amount equal to the lease payments on a collateralized basis over a similar term. The present value of the financing lease payments was calculated using the rate implicit in each financing lease agreement.

The Company elected to adopt the package of practical expedients that allowed it to carry forward the historical determination of contracts as leases and lease classification, and to not reassess initial direct costs for historical lease arrangements. The Company also adopted the hindsight application for evaluating the lives of its lease arrangements, elected to combine lease and non-lease components, and did not apply the recognition requirement of ASC 842 to short-term leases. The finance lease classification under ASC 842 includes leases previously classified as capital leases under ASC 840.

The adoption of ASC 842 resulted in the recognition of operating lease liabilities of \$46.4 million and operating right-of-use assets of \$46.2 million, with existing prepaid and deferred rent accruals recorded as an offset to the right-of-use assets. Further, based on the Company's election of the hindsight practical expedient, the Company reassessed the contractual terms for all leases, which resulted in the reduction of the Company's assets financed through capital leases under ASC 840 by \$2.1 million, and a cumulative impact to retained earnings of \$1.6 million, net of tax. The standard did not materially impact the Company's Consolidated Statement of Operations or the Consolidated Statement of Cash Flows. See Note 6 for additional detail on the Company's leases.

**Derivatives:** The Company uses derivatives instruments primarily to manage interest rate risk exposure and to add stability to interest expense, with the primary objective being to minimize interest rate risks associated with the Company's financing activities. These agreements involve the receipt of variable rate amounts from a counterparty if interest rates rise above the strike rate of the contract in exchange for an upfront premium. Upon the effective dates of each of the Company's derivative instruments, management has determined that all instruments would be a nondesignated hedge. Therefore, none would be monitored for effectiveness. Derivative financial instruments are recorded in the Consolidated Balance Sheets in intangible and other assets, net and are measured at fair value. Changes in market value of the derivative financial instruments are recorded in Interest and other expenses, net, in the Consolidated Statement of Operations.

During the years ended December 31, 2020 and 2019, the Company was party to two interest rate cap agreements: one with Goldman Sachs (GS) and another with Deutsche Bank (DB), each with a notional amount of \$350.0 million and a cap rate of 3.5%. The Company paid a premium of \$1.36 million and \$1.38 million, respectively, to enter into the GS and DB agreements, and the fair value of the GS and DB agreements were each and in aggregate zero and \$8 thousand at December 31, 2020 and 2019, respectively. Both cap agreements terminate on September 30, 2021.

**Revenue Recognition:** The Company earns revenue primarily from incarcerated individuals and other consumers who utilize the Company's services as outlined under multi-year contracts with government agencies for communication and media services, payment services, and electronic monitoring services. Revenue is recognized upon transfer of control of the promised products or services equal to an amount that reflects the consideration the Company expects to receive in exchange for those products or services.

#### *Nature of goods and services*

Specifically, revenues related to communication services, such as voice calls, emessages, and video connections, are recognized at the point in time the services are delivered. Revenues related to convenience fees are recorded as incurred. Revenues related to automated interactive voice response systems, investigative call analysis, and live call monitoring are recognized during the period in which the service is used based on call volume. Advance payments

## Aventiv Technologies, LLC

### Notes to Consolidated Financial Statements

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received to fund customer accounts are deferred until the services are delivered. Regulatory fees and taxes billed to customers are recorded on a net basis.

Revenues related to media services, such as tablets and downloads of music, movies, and games, are recognized upon delivery of the goods and services to the incarcerated person. Deferred revenue is recorded for payments received in advance for the sales of these services.

Communications and media breakage revenue is recorded upon the expiration of customer accounts, which is generally six months after last usage, or upon the passage of time where future redemption is unlikely, which is based on an analysis of the Company's historical redemption trends and is approximately six months from the original transaction date.

Revenues related to payment services are comprised of fees charged for the facilitation of online payments, which are recognized when the payments are processed. The arrangements under which these services are rendered are generated by multi-year contracts entered into between the Company and the facilities or government agencies.

Revenues related to electronic monitoring services are comprised of a subscription-based model. A flat, daily fee is charged by the Company to its customers in accordance with the number of electronic monitoring devices used by the customer, and the revenue is recognized on a daily basis as the services are performed.

#### *Performance obligations*

The Company identifies performance obligations in a contract based on the types of services that will be transferred to the customer that are identifiable from other promises in the contract, or distinct. If not considered distinct, the promised services are combined together and accounted for as a combined performance obligation. Determining the distinct performance obligations in a contract requires judgment. The Company allocates the transaction price of the contract to each distinct performance obligation based on a relative standalone selling price basis. Determining such standalone selling prices requires judgment and are based on multiple factors including historical selling prices and internal pricing policies. The majority of the Company's revenues are prepaid when cash is deposited into a customer's pre-established account, at which point revenue is deferred by the Company and then recognized upon delivery of the service.

**401(k) plan:** The Company sponsors a 401(k) savings plan for the benefit of eligible full-time employees. The plan is a qualified benefit plan in accordance with the Employee Retirement Income Security Act of 1974. Employees participating in the plan can generally contribute a portion of annual earnings not to exceed \$19,500, or \$26,000 for employees 50 years of age or older. The 401(k) plan provides for the Company to make discretionary matching contributions of 50% of an eligible employee's contribution for up to 6% of their salary. Matching contributions and plan expenses were \$2.0 million and \$2.4 million during the years ended December 31, 2020 and December 31, 2019, respectively.

**Transaction expenses:** The Company recorded approximately \$3.9 million of transaction expenses during the year ended December 31, 2019, all of which were costs incurred for due diligence services for the potential acquisition of Inmate Calling Solutions, LLC, for which the purchase agreement was terminated in 2019. There were no transaction expenses incurred during the year ended December 31, 2020.

**Income taxes:** The Company records deferred tax assets and liabilities at an amount equal to the expected future tax consequences of transactions and events. Deferred tax assets and liabilities are determined based on the future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which those differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in income tax rates is recognized in the results of operations in the period that includes the enactment date.

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A valuation allowance is provided when it is more likely than not that some portion or the entire net deferred tax asset will not be realized. The Company calculated the deferred tax liability, deferred tax asset, and the related valuation of net deferred tax assets, including net operating loss carryforwards, for the taxable temporary differences on a jurisdiction by jurisdiction basis. The valuation allowance represents the excess deferred tax assets including the net operating loss carryforwards, over the net deferred tax liabilities, excluding deferred liabilities that are not available to offset deferred tax assets.

The Company accounts for the uncertainty in income taxes on the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. The tax benefit from an uncertain tax position may be recognized only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities. The determination is based on the technical merits of the position and presumes that each uncertain tax position will be examined by the relevant taxing authority that has full knowledge of all relevant information. The Company's policy with respect to recognition of interest and penalties on uncertain tax position is to assess the likelihood, for each uncertain tax position, that any interest and penalties may be assessed by the relevant taxing authorities and, based on such assessment, record any significant interest and penalties as a component of income tax expense.

**Incentive Compensation Plan:** On April 30, 2018, SCRS Holding Corporation (SCRS) implemented a long term incentive compensation plan pursuant to which certain employees of the Company may be entitled to receive compensation in the event of certain Qualifying Events, as defined in the plan, and pursuant to certain conditions set forth in the plan. The Company's compensation committee administers the plan, which is designed to serve as an incentive to attract and retain qualified and competent employees. Performance units, which are granted to employees under individual grant agreements, mature over a 4.5 to 5 year period with any unvested units fully maturing upon a change of control or initial public offering. The maximum number of units that may be awarded under the Plan is 30.0 million units. Upon the occurrence of a Qualifying Event, participants will be entitled to receive a cash payment (or stock in the event of an IPO) for their share of the value of the Qualifying Event. The plan expires and terminates at the earlier of either a change of control or on April 30, 2026.

Compensation costs are recognized for an award based on the award's fair value remeasured at each reporting date until the date of the settlement. Change in the fair value of a liability that occurs during the requisite service period is recognized as compensation cost over that period. Any difference between the amount for which a liability award is settled and its fair value at the settlement date is an adjustment of compensation costs in the period of settlement. No Qualifying Events occurred and, therefore, no compensation costs were recorded under the plan during the years ended December 31, 2020 and 2019.

**Commitments and contingencies:** Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. Legal fees related to loss contingencies are expensed as services are rendered.

**Recently issued accounting pronouncements:** In August 2018, the FASB issued an update in which it adjusted the accounting policy for costs incurred for implementation of an entity's hosted arrangements. These types of arrangements include but are not limited to contracts with third party providers of online solutions used for project management, customer installation, and sales functions. The Company elected to adopt this update on January 1, 2020 using a prospective approach, under which it now defers its implementation costs to Prepaid expenses and other current assets on the Consolidated Balance Sheet and amortizes them as Selling, general, and administrative expenses on the Consolidated Statement of Operations over the hosting arrangement's term. The adoption of this update did not materially impact the Company's consolidated financial statements.

In November 2019, the FASB issued an update to introduce an 'expected credit loss' model for impairment of financial assets measured at amortized cost in replacement of the 'probable, incurred loss' model for such assets. This includes clarifications for treatments regarding recoveries of financial assets with credit deterioration, troubled

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### Notes to Consolidated Financial Statements

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debt restructurings, and financial assets secured by collateral maintenance provisions. This update is effective for public entities for fiscal years beginning after December 15, 2019. For all other entities, it is effective for fiscal years beginning after December 15, 2020. Early adoption is permitted, and the method of adoption is a modified retrospective approach, except for other-than temporary impairments on debt securities which is to receive a prospective transition approach. The adoption of this update did not materially impact the Company's consolidated financial statements.

In December 2019, the FASB issued an update to simplify the accounting for income taxes by removing certain exceptions and improving the consistency of the application of the principles outlined in ASC 740, *Income Taxes*. This update includes the removal of the exception to the incremental approach for intraperiod tax allocation when there is a loss from continuing operations with income from other items, the exception to the requirement to recognize a deferred tax liability for equity method investments of a foreign subsidiary, and the exception to calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year. Further, this update requires recognition of a franchise tax that is partially based on income as an income-based tax, evaluation when a step up in tax basis of goodwill should be considered part of the business combination rather than a separate transaction, and reflection of the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date, as well as removes the requirement to allocate the consolidated amount of current and deferred tax expense to a legal entity that is not subject to tax in its separate financial statements. This update is effective for public entities for fiscal years beginning after December 15, 2020. For all other entities, it is effective for fiscal years beginning after December 15, 2021. Early adoption is permitted, and all amendments within this update must be adopted at the same time. The method of adoption allowed varies between retrospective approach, modified retrospective approach, and prospective approach based on the nature of each amendment. The Company is evaluating the impact of this update on its consolidated financial statements for the interim and annual fiscal periods beginning in 2021.

In March 2020, the FASB issued an update to provide for a limited period of time alternatives to using the London Interbank Offered Rate (LIBOR), during which entities are allowed to use rates that are more observable or transaction based. This update provides exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met, but only applies to such transactions that reference LIBOR. The Company will not be electing to adopt this update, since it has multiple rates available for the calculation of interest on its debt and other financial instruments, and therefore is not reliant on LIBOR. As such, this update has no impact to the Company's consolidated financial statements.

#### Note 2. Certain Balance Sheet Components

Accounts and other receivables, net consisted of the following at December 31 (in thousands):

	2020	2019
Trade accounts receivable	\$ 45,765	\$ 35,004
Current portion of notes receivable	130	151
Income tax receivable	358	1,493
	46,253	36,648
Less allowance for doubtful accounts	(2,429)	(2,220)
	<u>\$ 43,824</u>	<u>\$ 34,428</u>

## Aventiv Technologies, LLC

### Notes to Consolidated Financial Statements

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Property and equipment, net consisted of the following at December 31 (in thousands):

	2020	2019
Media kiosks and tablets	\$ 144,721	\$ 115,460
Telecommunications equipment	64,585	52,683
Office furniture and equipment	41,612	34,802
Construction in progress	32,086	32,965
Video connection equipment	30,565	28,312
Electronic tracking devices	24,397	15,951
Leasehold improvements	14,724	14,545
	<u>352,690</u>	<u>294,718</u>
Less accumulated depreciation and amortization	(143,375)	(88,985)
	<u>\$ 209,315</u>	<u>\$ 205,733</u>

Depreciation expense for the years ended December 31, 2020 and 2019 was approximately \$62.2 million and \$44.6 million, respectively. Property and equipment acquired through finance leases (see Note 6) equaled \$30.8 million (\$19.0 million, net of accumulated depreciation of \$11.8 million) as of December 31, 2020 and \$15.8 million (\$8.2 million, net of accumulated depreciation of \$7.6 million) as of December 31, 2019.

Goodwill, net consisted of the following (in thousands):

Balance, December 31, 2018	
Goodwill	\$ 1,029,747
Accumulated impairment losses	(11,628)
	<u>\$ 1,018,119</u>
Changes to Goodwill	-
Balance, December 31, 2019	
Goodwill	\$ 1,029,747
Accumulated impairment losses	(11,628)
	<u>\$ 1,018,119</u>
Changes to Goodwill	-
Balance, December 31, 2020	
Goodwill	\$ 1,029,747
Accumulated impairment losses	(11,628)
	<u>\$ 1,018,119</u>

There were no changes to goodwill during the years ended December 31, 2020 and 2019.

**Aventiv Technologies, LLC**

**Notes to Consolidated Financial Statements**

Intangibles and other assets, net consisted of the following at December 31 (in thousands):

	Gross Carrying Value	Accumulated Amortization	Net	Weighted Average Life
<b>2020</b>				
Intangible assets:				
Indefinite-lived tradenames	\$ 108,130	\$ -	\$ 108,130	
Patents and trademarks	4,797	(1,303)	3,494	13.2
Capitalized software development costs	93,301	(31,840)	61,461	4.6
Acquired technology rights	172,872	(79,712)	93,160	9.4
Acquired contract rights	495,415	(64,189)	431,226	20.0
	<u>874,515</u>	<u>(177,044)</u>	<u>697,471</u>	
Other long-term assets:				
Costs to obtain customer contracts	\$ 10,195	\$ (3,216)	\$ 6,979	8.2
Costs to fulfill customer contracts	16,899	(2,602)	14,297	9.7
Deposits and other long-term assets	4,537	-	4,537	
	<u>31,631</u>	<u>(5,818)</u>	<u>25,813</u>	
Intangible and other assets, net	<u>\$ 906,146</u>	<u>\$ (182,862)</u>	<u>\$ 723,284</u>	
<b>2019</b>				
Intangible assets:				
Indefinite-lived tradenames	\$ 108,092	\$ -	\$ 108,092	
Patents and trademarks	4,211	(808)	3,403	12.7
Capitalized software development costs	64,943	(16,403)	48,540	4.6
Acquired technology rights	172,872	(55,628)	117,244	9.4
Acquired contract rights	495,415	(39,526)	455,889	20.0
	<u>845,533</u>	<u>(112,365)</u>	<u>733,168</u>	
Other long-term assets:				
Costs to obtain customer contracts	\$ 7,718	\$ (1,670)	\$ 6,048	8.1
Costs to fulfill customer contracts	11,207	(1,320)	9,887	9.8
Deposits and other long-term assets	3,914	-	3,914	
Equity investment	609	-	609	
	<u>23,448</u>	<u>(2,990)</u>	<u>20,458</u>	
Intangible and other assets, net	<u>\$ 868,981</u>	<u>\$ (115,355)</u>	<u>\$ 753,626</u>	

During the year ended December 31, 2020, the Company wrote off its equity investment upon the conclusion that it no longer had value. As a result, an impairment loss of \$0.6 million was recorded with earnings and losses from equity investment in Interest and other expenses, net in the Consolidated Statement of Operations. Furthermore, during the year ended December 31, 2019, as part of its rebranding initiative, the Company determined that one of its tradenames related to its payment service line of business would no longer be used and concluded that it therefore had no value. Accordingly, the Company recorded an impairment loss of \$3.6 million in depreciation, amortization, and impairment expense in the Consolidated Statement of Operations.



## Aventiv Technologies, LLC

### Notes to Consolidated Financial Statements

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Total capitalized costs to obtain were approximately \$8.7 million and \$7.3 million as of December 31, 2020 and 2019, respectively, while total capitalized costs to fulfill were approximately \$16.2 million and \$11.0 million as of December 31, 2020 and 2019, respectively. The long-term and short-term portions of these costs are included within Intangibles and other assets, net and within Prepaid expenses and other current assets on the Consolidated Balance Sheet, respectively. These contract costs are amortized over the contractual periods to which they pertain, including expected renewals. The costs comprised of sales commissions and customer setup are amortized into Selling, general and administrative expenses in the Consolidated Statement of Operations, while the costs related to the Company's signing bonuses are amortized into Cost of Service. The weighted average amortization period for the Company's costs to obtain was approximately 8.2 and 8.1 years as of December 31, 2020 and 2019, respectively, while the weighted average amortization period for the Company's costs to fulfill was approximately 9.7 and 9.8 years as of December 31, 2020 and 2019, respectively.

Amortization of intangible assets for the years ended December 31, 2020 and 2019 was approximately \$64.7 million and \$64.5 million, respectively. Estimated amortization expense related to intangible assets for each of the next five years through December 31, 2025 and thereafter is summarized as follows (in thousands):

2021	\$	69,567
2022		65,814
2023		57,892
2024		50,111
2025		42,738
Thereafter		303,219
	\$	<u>589,341</u>

Accrued liabilities consisted of the following at December 31 (in thousands):

	2020	2019
Accrued expenses	\$ 40,681	\$ 33,042
Accrued compensation	14,216	9,255
Amounts due to correctional facilities	16,317	11,149
Accrued taxes	5,413	3,792
Short-term portion of financing obligations, including leases	10,535	4,705
Accrued interest and other	4,562	37
	<u>\$ 91,724</u>	<u>\$ 61,980</u>

## Aventiv Technologies, LLC

### Notes to Consolidated Financial Statements

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#### Note 3. Debt

Debt consisted of the following at December 31 (in thousands):

	<u>2020</u>	<u>2019</u>
Revolving credit facility due November 2022	\$ 60,000	\$ 88,000
Secured first lien term loans due November 2024	1,055,395	1,066,275
Secured second lien loans due November 2025	<u>282,500</u>	<u>282,500</u>
	1,397,895	1,436,775
Less unamortized deferred financing costs	(3,953)	(4,531)
Less unamortized discount	<u>(27,016)</u>	<u>(31,441)</u>
	1,366,926	1,400,803
Less current portion of long-term debt	<u>(10,880)</u>	<u>(10,880)</u>
	<u>\$ 1,356,046</u>	<u>\$ 1,389,923</u>

Future maturities of debt for each of the following five years are as follows (in thousands):

2021	\$ 10,880
2022	70,880
2023	10,880
2024	1,022,755
2025	282,500
Thereafter	-
	<u>\$ 1,397,895</u>

The Company is party to a first and second lien credit agreement (collectively, the Secured Lien Credit Agreements), which provide for secured credit facilities and consist of the following as of December 31, 2020:

- A \$1.1 billion first lien term loan including a \$150.0 million revolving credit facility, which provides for a \$50.0 million sublimit for the issuance of letters of credit. The maturity date of the first lien term loan and of the revolving credit facility is November 1, 2024 and November 1, 2022, respectively.
- A \$282.5 million second lien term loan with a maturity date of November 1, 2025.

On April 30, 2019, the Company borrowed an additional \$67.0 million on its first lien term loan, net of approximately \$0.8 million of original issue discount and approximately \$1.7 million of debt issuance costs, which was used to pay down the Company's revolving credit facility as well as accrued interest of \$0.4 million.

The first lien term loan requires equal quarterly repayments equal to 0.25% of the original principal amount, and bears interest at an annual rate at the Company's option equal to either: (a) the Base Rate plus the Applicable Margin of 3.5%, or (b) the LIBO Rate plus the Applicable Margin of 4.5%. Advances under the revolving credit facility bear interest at an annual rate of the Base Rate plus Applicable Margin of 2.5%, or the LIBO Rate plus Applicable Margin of 3.5%. The Base Rate is the greatest of: (a) The Federal Funds Rate, as defined in the Secured Lien Credit Agreements, plus 0.50%, (b) the Prime Rate, as set by Deutsche Bank New York, in effect on such day,

## Aventiv Technologies, LLC

### Notes to Consolidated Financial Statements

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and (c) the LIBO Rate for an interest period of one month, plus 1.00%. The LIBO Rate must be at least 1.00% for the first lien term loan and 0.00% for the revolving credit facility. The letter of credit fees of 3.50% plus a fronting fee of 0.125% per annum are payable on a quarterly basis with respect to outstanding letters of credit, and the unused amount of the revolving credit facility is subject to commitment fees of 0.375% per annum. The effective interest rate on the first lien term loan was 6.2% and 6.9% at December 31, 2020 and 2019, respectively, payable quarterly in arrears.

The first lien term loan allows for voluntary prepayments at any time (subject to certain requirement and limitations for voluntary prepayments of first lien term loans), and requires mandatory prepayments of first lien term loans upon the occurrence of certain events, including certain sales of assets and receipt of certain insurance proceeds, subject to reinvestment rights, and the issuance of debt (other than debt permitted to be incurred under the credit agreement). To the extent the Company generates excess cash flow (as defined in the Secured Lien Credit Agreements) in any fiscal year, starting with the fiscal year ended December 31, 2018, the Company is required to prepay principal equal to 50% of such excess cash flow less voluntary repayments of the loans (Accelerated Payment) during such fiscal year if, as of the last day of the most recently ended fiscal year, the Consolidated First Lien Net Leverage Ratio (as defined in the Secured Lien Credit Agreements) is greater than 4.20:1.00. If the Consolidated First Lien Net Leverage ratio is less than or equal to 4.20:1.00 but greater than 3.70:1.00, the Company is required to prepay principal equal to 25% of such excess cash flow less voluntary repayments of the loans. No payment is required if the Consolidated First Lien Net Leverage ratio is less than or equal to 3.70:1.00.

The first lien credit agreement contains a springing financial covenant for the benefit of only the lenders under the revolving credit facility, which covenant requires that the Consolidated First Lien Net Leverage Ratio cannot be greater than 7.00:1.00 only if usage of the revolver exceeds 35% of the amount of the revolving credit facility commitment (excluding letters of credit) on any quarterly test date. The Company was in compliance with this covenant at both December 31, 2020 and December 31, 2019.

The Company draws from the revolving credit facility to cover normal business cash requirements. As of December 31, 2020, the Company had \$60.0 million outstanding on the revolving credit facility, no letters of credit outstanding, and \$90.0 million of borrowing availability under the revolving credit facility, which includes \$50.0 million of unused letter of credit availability.

The full principal balance of the second lien term loan is due in full on its maturity date, and bears interest at an annual rate at the Company's option equal to either: (a) the Base Rate plus the Applicable Margin of 7.25%, or (b) the LIBO Rate plus the Applicable Margin of 8.25%. The Base Rate is the greatest of: (a) The Federal Funds Rate, as defined in the Secured Lien Credit Agreements, plus 0.50%, (b) the Prime Rate, as set by Deutsche Bank New York, in effect on such day, and (c) the LIBO Rate for an interest period of one month, plus 1.00%. The LIBO Rate must be at least 1.00%. The effective interest rate at December 31, 2020 and 2019 was 10.0% and 10.9%, respectively, payable quarterly in arrears. The Secured Lien Credit Agreements allow for voluntary prepayments of the second lien term loan, and, subject to application to the first lien loans, requires the same Accelerated Payment of the second lien term loan as the Secured Lien Credit Agreements require of the first lien term loan.

All of Aventiv's material domestic subsidiaries, subject to certain exceptions, are jointly and severally liable for the secured revolving credit facility, first lien term loans and second lien term loans under the Secured Lien Credit Agreements.

The Secured Lien Credit Agreements contain operating covenants that limit the Company's ability to incur additional indebtedness, make certain payments including dividends to shareholders, divest company assets, make investments, acquisitions and loans, permit liens on their assets, merge, dissolve or engage in other fundamental changes, change the nature of its business and enter into transactions with affiliates, in each case, subject to customary limitations, cure rights and exceptions. In the event that the Company fails to comply with these covenants and restrictions, the Company may be in default, at which time payment of the long-term debt and unpaid interest may be accelerated by the Company's lenders and become immediately due and payable. As of both

## Aventiv Technologies, LLC

### Notes to Consolidated Financial Statements

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December 31, 2020 and December 31, 2019, the Company was in compliance with all covenants of the Secured Lien Credit Agreements.

The Secured Lien Credit Agreements provide an incremental basket to incur additional secured loans, along with related debt baskets which permit the incurrence of junior and unsecured loans and the issuance of notes, in an aggregate amount which is the greater of (I) (x) \$190 million and (y) the last four quarters of consolidated EBITDA, plus (II) an unlimited amount so long as (x) in the case of the incurrence of additional *pari passu* loans, the Consolidated First Lien Net Leverage Ratio, determined on a pro forma basis, does not exceed 4.70 to 1.00, and in the case of the incurrence of additional junior lien loans, so long as the Consolidated Senior Secured Net Leverage Ratio (as defined in the Secured Lien Credit Agreements) determined on a pro forma basis is no more than 6.10:1.00 or (y) the Fixed Charge Coverage Ratio (as defined in the Secured Lien Credit Agreements), determined on a pro forma basis, is not less than the Fixed Charge Coverage Ratio for the most recently ended quarter (less the amount of any previously issued incremental loans and notes allocated to this basket).

#### Note 4. Income Taxes

Income tax expense (benefit) was as follows (in thousands):

	2020	2019
Current:		
U.S. federal	\$ (340)	\$ (341)
U.S. state	1,487	1,178
Foreign	7	17
Total current	<u>1,154</u>	<u>854</u>
Deferred:		
U.S. federal	(4,433)	(14,885)
U.S. state	1,114	(3,766)
Foreign	(217)	(709)
Total deferred	<u>(3,536)</u>	<u>(19,360)</u>
Total income tax expense	<u>\$ (2,382)</u>	<u>\$ (18,506)</u>

## Aventiv Technologies, LLC

### Notes to Consolidated Financial Statements

Income taxes differed from the expected statutory income tax expense (benefit), by applying the U.S. federal income tax rate of 21% to pre-tax earnings/(loss) from continuing operations due to the following (in thousands):

	2020	2019
Expected statutory income tax expense (benefit)	\$ (3,916)	\$ (15,103)
State taxes, net of federal benefit	1,746	(2,652)
Rate changes	499	(389)
Transaction expenses	(867)	(808)
Amounts not deductible for income tax	168	273
Other	(12)	173
Total income tax benefit	<u>\$ (2,382)</u>	<u>\$ (18,506)</u>

The rate changes in the above table were state tax benefits from revaluing deferred tax liabilities due to changes in the deferred state tax rate.

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities as of December 31, 2020 and 2019 were as follows (in thousands):

	2020	2019
Net current deferred income tax assets (liabilities):		
Deferred income tax assets:		
Allowance for doubtful accounts	\$ 609	\$ 555
Accrued expenses	5,551	2,976
Deferred revenue	8,727	7,484
Net operating loss and tax credit carryforwards	36,036	39,253
Accrued interest	24,012	33,878
Operating lease liabilities	9,089	10,748
Transaction expenses	1,442	554
Other	(169)	272
Deferred income tax assets	<u>85,297</u>	<u>95,720</u>
Deferred income tax liabilities:		
Property and equipment principally due to differences in depreciation	(28,244)	(32,130)
Lease right-of-use assets	(8,287)	(11,011)
Intangible assets due to difference in book/tax basis	(141,023)	(149,091)
Goodwill	(19,086)	(12,633)
Deferred income tax liabilities	<u>(196,640)</u>	<u>(204,865)</u>
Net deferred income tax liabilities	<u>\$ (111,343)</u>	<u>\$ (109,145)</u>

## **Aventiv Technologies, LLC**

### **Notes to Consolidated Financial Statements**

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On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act) was signed into law making changes to the Internal Revenue Code. Changes included, but were not limited to, the ability to increase the interest deduction limitation from 30% to 50% of adjusted taxable income for 2019 and 2020, and it temporarily suspended the 80% taxable income limitation to allow net operating losses to fully offset taxable income for years before 2021. The CARES Act did not have a material impact to the Company's consolidated financial statements.

During the second quarter of 2020, an entity under common control with the Company purchased certain of the Company's outstanding debt at a discount. As a result of this transaction, the Company recognized the income tax effects of the transaction within equity.

At December 31, 2020, the Company had U.S. federal net operating loss carryforwards for tax purposes aggregating approximately \$151.8 million, \$114.3 million of which, if not utilized to reduce taxable income in future periods, will expire from 2020 through 2037. The remaining \$37.5 million in net operating loss carryforwards have an indefinite carryforward period. Approximately \$83.8 million of these net operating loss carryforwards are subject to certain rules under Internal Revenue Code (IRC) Section 382. The Company believes these IRC Section 382 limitations will not ultimately affect its ability to use substantially all of the net operating loss carryforwards for income tax purposes. The federal net operating loss carryforwards in the income tax returns filed included unrecognized tax benefits taken in prior years. The net operating losses for which a deferred tax asset is recognized for financial statement purposes are presented net of these unrecognized tax benefits. The Company had approximately \$97.3 million of interest expense incurred in 2018 and forward that was not deductible for Federal income tax purposes but can be carried forward indefinitely. The Company has not offset any of the net deferred tax assets, including net operating loss carryforwards, with a valuation allowance for the tax periods ended December 31, 2020 and 2019, respectively.

As of December 31, 2020 and 2019, the Company had gross unrecognized tax benefits of \$2.0 million. The Company does not believe it is reasonably possible that the total amount of unrecognized tax benefits will materially change in the next twelve months. The majority of the unrecognized tax benefits at December 31, 2020, if recognized, would affect the effective tax rate. The Company has recorded an immaterial amount of accrued interest and penalties as of December 31, 2020 and 2019, respectively.

Aventiv or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, Canada and various states. As of December 31, 2020, the Company has filed domestic income tax returns as part of a consolidated group at the SCRS Holding Corporation level and has open tax years for the U.S. federal return from 2007 forward with respect to its net operating loss carryforwards, where the IRS may not raise tax for these years, but can reduce net operating loss carryforwards. Otherwise, with few exceptions, the Company is no longer subject to federal, state, or local income tax examinations for years prior to 2016.

#### **Note 5. Related Party Transactions**

Under the Corporate Advisory Services Agreement between SCRS Acquisition Corporation, the parent of Aventiv, and Platinum Equity Advisors, LLC, an affiliate of the Company, the Company incurred expenses of \$10.2 million during each of the years ended December 31, 2020 and 2019, which were all charged to Selling, general, and administrative expenses.

## Aventiv Technologies, LLC

### Notes to Consolidated Financial Statements

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#### Note 6. Leases

The Company utilizes both operating and finance lease agreements to obtain right-of-use assets for its operations. As of December 31, 2020, the Company's leases have remaining lease terms of 1 to 9 years. The majority of the Company's operating lease agreements are for real estate used in operations, but also include company vehicles and office equipment. Some real estate operating leases contain renewal options that may be exercised, and some leases include options to terminate the leases within one year. The Company accounts for escalating rents on a straight-line basis over the life of the lease. Rent expense under operating lease agreements for the years ended December 31, 2020 and 2019 was approximately \$10.9 million and \$10.8 million, respectively. Finance lease arrangements are primarily for office furniture, select telecommunications equipment, and media kiosks and tablets. The current and non-current portions of these finance lease obligations are included in Accrued liabilities and in Other long-term liabilities on the Consolidated Balance Sheet, respectively. Of total future payments for finance lease agreements in effect at December 31, 2020 and 2019, \$2.1 million and \$0.6 million is comprised of interest, respectively.

Upon adoption of ASC 842 on January 1, 2019, the Company recognized right-of-use assets for both operating and finance leases, and operating lease liabilities that represent the present value of its obligation to make payments over the lease term. The present value of the operating lease payments was calculated using the Company's incremental borrowing rate as of the ASC 842 adoption date, which was based on the rate of interest required to borrow an amount equal to the lease payments on a collateralized basis over a similar term. The present value of payments for operating leases entered into subsequent to the adoption date is calculated using the Company's incremental borrowing rate at lease inception. The present value of the Company's finance lease payments is calculated using the rate implicit in each finance lease agreement. Since the adoption of ASC 842, the Company has obtained approximately \$0.4 million and \$16.1 million of operating right-of-use assets and of finance leases, respectively, in exchange for new lease liabilities during the year ended December 31, 2020, and approximately \$3.6 million and \$4.6 million of operating right-of-use assets and of financing leases, respectively, in exchange for new lease liabilities during the year ended December 31, 2019.

Supplemental information related to leases is as follows (in thousands):

	December 31, 2020	December 31, 2019
Operating Leases:		
Operating lease right-of-use assets, net	\$ 34,057	\$ 43,079
Operating lease liabilities - short term	\$ 6,494	\$ 7,053
Operating lease liabilities - long term	30,224	36,452
Total operating lease liabilities	\$ 36,718	\$ 43,505

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**Notes to Consolidated Financial Statements**

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
<b>Operating Leases:</b>		
Operating lease right-of-use assets, net	\$ 34,057	\$ 43,079
Operating lease liabilities - short term	\$ 6,494	\$ 7,053
Operating lease liabilities - long term	30,224	36,452
Total operating lease liabilities	<u>\$ 36,718</u>	<u>\$ 43,505</u>
	<b>December 31, 2020</b>	<b>December 31, 2019</b>
<b>Finance Leases:</b>		
Property, plant and equipment, at cost	\$ 30,847	\$ 15,822
Accumulated depreciation and amortization	(11,828)	(7,587)
Property, plant and equipment, net	<u>\$ 19,019</u>	<u>\$ 8,235</u>
Accrued liabilities	\$ 6,477	\$ 1,901
Other long-term liabilities	11,258	3,152
Total finance lease obligation	<u>\$ 17,735</u>	<u>\$ 5,053</u>
	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Amortization of right-of-use assets	\$ 4,586	\$ 2,475
Interest on lease obligation	1,423	145
Total finance lease cost	<u>\$ 6,009</u>	<u>\$ 2,620</u>
<b>Weighted-Average Remaining Lease Term:</b>		
Operating leases	6.7 yrs	7.1 yrs
Finance leases	2.6 yrs	2.8 yrs
<b>Weighted-Average Discount Rate:</b>		
Operating leases	7.0%	7.0%
Finance leases	8.6%	8.8%



## Aventiv Technologies, LLC

### Notes to Consolidated Financial Statements

Supplemental cash flow information related to leases is as follows (in thousands):

	December 31,	
	2020	2019
Cash paid for lease liabilities:		
Operating cash flows from operating leases	\$ 10,062	\$ 9,595
Operating cash flows from financing leases	707	104
Financing cash flows from financing leases	3,281	3,176
Total cash paid for lease liabilities	<u>\$ 14,051</u>	<u>\$ 12,875</u>

Future minimum maturities of lease obligations are as follows (in thousands):

	2020	
	Operating Leases	Finance Leases
2021	\$ 8,890	\$ 7,825
2022	7,245	7,817
2023	6,080	4,171
2024	5,671	25.96
2025	5,153	-
Thereafter	14,114	-
Total lease payments	<u>47,153</u>	<u>19,839</u>
Less imputed interest	<u>(10,435)</u>	<u>(2,104)</u>
Total	<u>\$ 36,718</u>	<u>\$ 17,735</u>

During the year ended December 31, 2020, the Company entered into a third party agreement under which it financed its purchase of \$2.2 million of software licensing. The software license did not qualify as a lease agreement given the nature of the asset acquired, and as a result, the short-term and long-term portions of the liabilities are recorded in Accrued liabilities and Other long-term liabilities on the Consolidated Balance Sheet, respectively.

During the years ended December 31, 2020 and 2019, the Company entered into multiple third party agreements (Sales Agreements) under which it sold portions of its telecommunication equipment, media kiosks and tablets, computer software and related maintenance agreements in exchange for total cash of \$1.1 million and \$9.2 million, respectively. In addition, the Company entered into corresponding lease agreements to lease back the same assets sold to the same third party under the Sales Agreements. Under these agreements, the Company effectively sold the assets and immediately leased them back in their entirety for continued use. These transactions are classified as financing obligations instead of sale leasebacks since the transactions under the Sales Agreements failed to qualify as a sale of the assets. As such, the proceeds were recorded as a financial liability, with the short-term and long-term portions recorded in Accrued liabilities and Other long-term liabilities on the Consolidated Balance Sheet, respectively.

During the year ended December 31, 2020, the Company wrote off its right-of-use asset for one of its office building operating leases after determining that the likelihood of subletting the space was remote, for which an impairment loss of \$2.0 million was recorded in Depreciation, amortization, and impairment expense in the Consolidated Statement of Operations.

## Aventiv Technologies, LLC

### Notes to Consolidated Financial Statements

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#### Note 7. Commitments and Contingencies

**Minimum guaranteed payments:** The Company is required to make the following minimum commission payments to certain of its correctional facility customers regardless of the level of revenues generated by the Company on those contracts, as follows (in thousands):

2021	\$	57,237
2022		36,552
2023		20,464
2024		16,996
2025		13,941
Thereafter		20,340
Total minimum commission payments	\$	<u>165,530</u>

**Employment agreements:** As of December 31, 2020 and December 31, 2019, the Company had employment agreements with certain key management personnel, which provided for minimum compensation levels and incentive bonuses along with provisions for termination of benefits in certain circumstances and for certain severance payments in the event of a change in control.

**Litigation and regulatory matters:** The Company has been, and expects to continue to be, subject to various legal and administrative proceedings or claims in the normal course of business. Various claims have been settled that were not material to its financial condition and results of operations. Additionally, the Company believes the ultimate disposition of open matters will not have a material effect on its financial condition, liquidity, or results of operations.

#### Note 8. Subsequent Events

The COVID-19 Coronavirus continues to affect global markets, supply chains, workforces, and communities. However, based on the nature of the Company's industry, the Company did not experience a significant adverse impact to its operations during the year ended December 31, 2020. Management believes the Company is taking appropriate actions to mitigate future impacts; however, the economic impact of COVID-19 is unknown and cannot be reasonably estimated at this time.

Management evaluated the disclosure of any material subsequent events through March 26, 2021, which was the date the financial statements were issued. As of March 26, 2021, there were no other subsequent events that required recognition or disclosure.