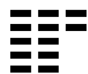 Brønnøysundregistrene

ÅRSREGNSKAPET FOR REGNSKAPSÅRET 2020 - GENERELL INFORMASJON

Enheten

Organisasjonsnummer:	939 118 756
Organisasjonsform:	Aksjeselskap
Foretaksnavn:	TENERITY AS
Forretningsadresse:	Kjørbokollen 30 1337 SANDVIKA

Regnskapsår

Årsregnskapets periode:	01.01.2020 - 31.12.2020

Konsern

Morselskap i konsern:	Ja
Konsernregnskap lagt ved:	Ja

Regnskapsregler

Regler for små foretak benyttet:	Nei
Benyttet ved utarbeidelsen av årsregnskapet til selskapet:	Regnskapslovens alminnelige regler
Benyttet ved utarbeidelsen av årsregnskapet til konsernet:	-

Årsregnskapet fastsatt av kompetent organ

Bekreftet av representant for selskapet:	Rikard David Holm Af Sandeberg
Dato for fastsettelse av årsregnskapet:	17.09.2021

Grunnlag for avgivelse

År 2020: Årsregnskapet er elektronisk innlevert
År 2019: Tall er hentet fra elektronisk innlevert årsregnskap fra 2020

Det er ikke krav til at årsregnskapet m.v. som sendes til Regnskapsregisteret er undertegnet. Kontrollen på at dette er utført ligger hos revisor/enhetens øverste organ. Sikkerheten ivaretas ved at innsender har rolle/rettighet for innsending av årsregnskapet via Altinn, og ved at det bekreftes at årsregnskapet er fastsatt av kompetent organ.

Brønnøysundregistrene, 19.07.2022

Resultatregnskap

Beløp i: NOK	Note	2020	2019
RESULTATREGNSKAP			
Inntekter			
Sales		21 719 928	29 187 533
Other revenue		29 918 000	38 651 724
Sum inntekter		**51 637 928**	**67 839 257**
Kostnader			
Endring i beholdning av varer under tilvirkning og ferdig tilvirkede varer		3 563 362	4 350 734
Personnel expenses	2	38 585 858	44 397 022
Depreciations	3, 4	2 018 091	1 833 389
Other operating expenses	2	10 133 251	14 295 914
Sum kostnader		**54 300 561**	**64 877 059**
Driftsresultat		**-2 662 633**	**2 962 197**
Finansinntekter og finanskostnader			
Annen renteinntekt		860	
Other financial income		21 662 216	68 699
Sum finansinntekter		**21 663 077**	**68 699**
Annen rentekostnad		19 744	73 680
Other financial expenses		9 545 994	2 435 295
Sum finanskostnader		**9 565 738**	**2 508 975**
Netto finans		**12 097 339**	**-2 440 276**
Ordinært resultat før skattekostnad		**9 434 706**	**521 921**
Tax on ordinary result	8		
Ordinært resultat etter skattekostnad		**9 434 706**	**521 921**
Årsresultat		**9 434 706**	**521 921**
Årsresultat etter minoritetsinteresser		**9 434 706**	**521 921**
Totalresultat		**9 434 706**	**521 921**

Resultatregnskap

Beløp i: NOK	Note	2020	2019
Overføringer og disponeringer			
Net income attributable to equity	7	9 434 706	521 921
Sum overføringer og disponeringer		**9 434 706**	**521 921**

Balanse

Beløp i: NOK	Note	2020	2019
BALANSE - EIENDELER			
Anleggsmidler			
Immaterielle eiendeler			
Acquired intangible assets	3	3 251 403	2 749 223
Sum immaterielle eiendeler		**3 251 403**	**2 749 223**
Varige driftsmidler			
Property, plant and equipment, net	4	551 184	690 545
Sum varige driftsmidler		**551 184**	**690 545**
Finansielle anleggsmidler			
Investering i datterselskap	5	31 445 357	31 445 357
Sum finansielle anleggsmidler		**31 445 357**	**31 445 357**
Sum anleggsmidler		**35 247 944**	**34 885 125**
Omløpsmidler			
Varer			
Sum varer		**329 897**	
Fordringer			
Accounts receivables		4 719 281	3 336 086
Other short-term receivables		847 965	4 475 184
Konsernfordringer	9	138 089 790	131 526 271
Sum fordringer		**143 657 037**	**139 337 540**
Bankinnskudd, kontanter og lignende			
Cash and bank deposits	10	5 281 106	4 051 291
Sum bankinnskudd, kontanter og lignende		**5 281 106**	**4 051 291**
Sum omløpsmidler		**149 268 039**	**143 388 832**
SUM EIENDELER		**184 515 983**	**178 273 957**

BALANSE - EGENKAPITAL OG GJELD

Balanse

Beløp i: NOK	Note	2020	2019
Egenkapital			
Innskutt egenkapital			
Share capital	6, 7	5 067 090	5 067 090
Overkurs	7	7 716 546	7 716 546
Sum innskutt egenkapital		**12 783 636**	**12 783 636**
Opptjent egenkapital			
Other equity	7	24 203 942	14 769 236
Sum opptjent egenkapital		**24 203 942**	**14 769 236**
Sum egenkapital		**36 987 578**	**27 552 872**
Sum langsiktig gjeld		**0**	**0**
Kortsiktig gjeld			
Konvertible lån	9	136 902 184	140 949 525
Leverandørgjeld		307 117	102 402
Liabilities to public autorities		3 342 273	3 553 429
Other current debt		6 976 832	6 115 729
Sum kortsiktig gjeld		**147 528 405**	**150 721 085**
Sum gjeld		**147 528 405**	**150 721 085**
SUM EGENKAPITAL OG GJELD		**184 515 983**	**178 273 957**

CXLOYALTY GROUP HOLDINGS, INC.

Financial Report

For the annual period ended December 31, 2020

This Report is confidential and you may not reproduce or distribute this Report, in whole or in part, and you may not disclose any of the contents of this Report.

We have provided the information contained in this Report. Neither the delivery of nor access to this Report implies that any information set forth in this Report is correct as of any date after the date of this Report.

Date of this Report: March 3, 2021

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PART I

CXLOYALTY GROUP HOLDINGS, INC.
CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2020 AND 2019
AND FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018
(Unless otherwise noted, all dollar amounts are in millions, except per share amounts)

GRANT THORNTON LLP
757 Third Avenue
9TH Floor
New York, New York 10017

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
cxLoyalty Group Holdings, Inc.

We have audited the accompanying consolidated financial statements of cxLoyalty Group Holdings, Inc. (a Delaware corporation) and subsidiaries, which comprise the consolidated balance sheet as of December 31, 2020, and the related consolidated statements of comprehensive loss, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

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

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

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

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Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of cxLoyalty Group Holdings, Inc. and subsidiaries as of December 31, 2020, 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.

Other matter
The consolidated financial statements of cxLoyalty Group Holdings, Inc. and subsidiaries as of and for the years ended December 31, 2019 and 2018, before the effects of the adjustments to retrospectively apply discontinued operations accounting described in Note 4, were audited by other auditors. Those auditors' report dated March 2, 2020, on those 2019 and 2018 consolidated financial statements (not presented herein) included an emphasis of matter related to the change in the Company's manner of accounting for leases.

As part of our audit of the 2020 consolidated financial statements, we also audited the aforementioned adjustments to the 2019 and 2018 consolidated financial statements to retrospectively apply discontinued operations accounting described in Note 4 to the 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 2019 and 2018 consolidated financial statements of the Company other than with respect to such adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2019 and 2018 consolidated financial statements taken as a whole.

Grant Thornton LLP

New York, New York
March 3, 2021

CXLOYALTY GROUP HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2020 AND 2019
(In millions, except share and per share amounts)

	December 31, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 68.9	$ 55.2
Restricted cash	13.6	6.0
Receivables (net of allowances for doubtful accounts of $3.7 and $4.0, respectively)	28.6	36.0
Prepaid commissions	47.5	45.8
Other current assets	25.3	24.9
Current assets held for sale	—	125.3
Total current assets	183.9	293.2
Property and equipment, net	47.9	48.8
Operating lease right-of-use assets	25.6	23.7
Goodwill	59.7	57.0
Other intangibles, net	0.7	2.8
Other non-current assets	26.2	17.5
Non-current assets held for sale	—	198.5
Total assets	$ 344.0	$ 641.5
Liabilities and Stockholders' equity (deficit)		
Current liabilities:		
Current portion of long-term debt	$ 0.8	$ 0.7
Accounts payable and accrued expenses	141.7	129.5
Deferred revenue	23.6	25.2
Income taxes payable	2.4	1.3
Current liabilities held for sale	—	110.8
Total current liabilities	168.5	267.5
Long-term debt	1.8	13.3
Deferred income taxes	0.5	0.4
Deferred revenue	2.1	2.3
Long-term operating lease liabilities	25.2	27.7
Other long-term liabilities	11.0	15.9
Non-current liabilities held for sale	—	1,485.8
Total liabilities	209.1	1,812.9
Commitments and contingencies		
Stockholders' equity (deficit):		
Common Stock, $0.000001 par value, 540,000,000 shares authorized, 11,354,039 and 11,248,608 shares issued and outstanding as of December 31, 2020 and 2019, respectively	—	—
Additional paid-in capital	2,118.1	663.6
Warrants	7.8	7.8
Accumulated deficit	(1,983.7)	(1,831.7)
Accumulated other comprehensive loss	(8.2)	(12.1)
Total cxLoyalty Group Holdings, Inc. stockholders' equity (deficit)	134.0	(1,172.4)
Non-controlling interest in subsidiary	0.9	1.0
Total stockholders' equity (deficit)	134.9	(1,171.4)
Total liabilities and stockholders' equity (deficit)	$ 344.0	$ 641.5

See accompanying notes to the consolidated financial statements.

CXLOYALTY GROUP HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018
(In millions)

	For the Year Ended December 31,		
	2020	2019	2018
Net revenues	$ 398.8	$ 416.8	$ 462.5
Expenses:			
Cost of revenues, exclusive of depreciation and amortization shown separately below:			
Marketing and commissions	141.8	132.3	131.7
Operating costs	152.6	186.1	205.3
General and administrative	74.1	62.7	86.8
Facility exit costs	0.3	—	3.5
Depreciation and amortization	17.2	28.3	26.9
Total expenses	386.0	409.4	454.2
Income from continuing operations	12.8	7.4	8.3
Interest income	0.1	0.2	0.2
Interest expense	(1.7)	(2.3)	(3.7)
Loss on extinguishment of debt	(1.2)	(0.1)	(32.0)
Other expense, net	(1.8)	(28.5)	(1.8)
Income (loss) from continuing operations before income taxes	8.2	(23.3)	(29.0)
Income tax (provision) benefit	(4.6)	1.0	27.1
Income (loss) from continuing operations, net of tax	3.6	(22.3)	(1.9)
(Loss) income from discontinued operations, net of tax	(155.0)	(121.0)	305.2
Net (loss) income	(151.4)	(143.3)	303.3
Less: net income attributable to non-controlling interest	(0.6)	(0.4)	(1.2)
Net (loss) income attributable to cxLoyalty Group Holdings, Inc.	$ (152.0)	$ (143.7)	$ 302.1
Net (loss) income	$ (151.4)	$ (143.3)	$ 303.3
Currency translation adjustment	3.6	(2.9)	(5.5)
Comprehensive (loss) income	(147.8)	(146.2)	297.8
Less: comprehensive income attributable to non-controlling interest	(0.5)	(0.5)	(1.1)
Comprehensive (loss) income attributable to cxLoyalty Group Holdings, Inc.	$ (148.3)	$ (146.7)	$ 296.7

See accompanying notes to the consolidated financial statements.

CXLOYALTY GROUP HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT) FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018
(In millions, except share amounts)

	cxLoyalty Group Holdings, Inc. Stockholders' Equity (Deficit)							
	Common Shares	Common Stock and Additional Paid-in Capital	Warrants	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock	Non-Controlling Interest	Total Equity (Deficit)
Balance, January 1, 2018	9,157,071	412.6	31.1	(1,991.7)	(9.5)	(1.1)	1.0	(1,557.6)
Impact of change in accounting policy		—	—	1.6	—	—	—	1.6
Adjusted balance, January 1, 2018		412.6	31.1	(1,990.1)	(9.5)	(1.1)	1.0	(1,556.0)
Net income		—	—	302.1	—	—	1.2	303.3
Currency translation adjustment		—	—	—	(5.4)	—	(0.1)	(5.5)
Dividend to non-controlling interest		—	—	—	—	—	(0.9)	(0.9)
Cancellation of common shares	(66,667)	—	—	—	—	—	—	—
Share-based compensation		1.7	—	—	—	—	—	1.7
Balance, December 31, 2018	9,090,404	414.3	31.1	(1,688.0)	(14.9)	(1.1)	1.2	(1,257.4)
Net (loss) income		—	—	(143.7)	—	—	0.4	(143.3)
Currency translation adjustment		—	—	—	2.8	—	0.1	2.9
Exercise of warrants	4,855,202	31.1	(31.1)	—	—	—	—	—
Exchange of common shares for warrants in 2019 Recapitalization	(13,945,606)	(7.8)	7.8	—	—	—	—	—
Cancellation of Class C and Class D shares held in treasury		(1.1)	—	—	—	1.1	—	—
Issuance of warrants in 2019 Recapitalization		—	211.9	—	—	—	—	211.9
Issuance of new common shares in 2019 Recapitalization	725,678	14.6	—	—	—	—	—	14.6
Exercise of warrants	10,522,930	211.9	(211.9)	—	—	—	—	—
Dividend to non-controlling interest		—	—	—	—	—	(0.7)	(0.7)
Share-based compensation		0.6	—	—	—	—	—	0.6
Balance, December 31, 2019	11,248,608	663.6	7.8	(1,831.7)	(12.1)	—	1.0	(1,171.4)
Net (loss) income		—	—	(152.0)	—	—	0.6	(151.4)
Currency translation adjustment		—	—	—	3.7	—	(0.1)	3.6
Capital contribution from stockholders		49.4	—	—	—	—	—	49.4
Loyalty Spin-Off		1,422.5	—	—	0.2	—	—	1,422.7
Dividend to non-controlling interest		—	—	—	—	—	(0.6)	(0.6)
Share-based compensation	105,431	(17.4)	—	—	—	—	—	(17.4)
Balance, December 31, 2020	11,354,039	$ 2,118.1	$ 7.8	$ (1,983.7)	$ (8.2)	$ —	$ 0.9	$ 134.9

See accompanying notes to the consolidated financial statements.

CXLOYALTY GROUP HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018
(In millions)

	For the Year Ended December 31,		
	2020	2019	2018
Operating Activities			
Net (loss) income	$ (151.4)	$ (143.3)	$ 303.3
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:			
Depreciation and amortization	33.3	48.9	48.9
Payment-in-kind interest	85.6	85.8	88.7
Amortization of debt discount, financing costs and carrying value adjustment, net	(44.4)	(21.9)	16.0
Provision for accounts receivable loss, net of recoveries	1.9	1.1	0.9
Loss on extinguishment of debt	1.2	0.1	32.0
Gain on sale of business	—	(3.7)	(473.1)
Facility exit costs	—	—	4.3
Loyalty Spin-Off costs incurred but not paid	16.7	—	—
Share-based compensation	14.2	0.6	1.7
Deferred income taxes	(0.1)	(0.1)	(3.0)
Net change in assets and liabilities:			
Receivables	46.2	8.4	29.6
Prepaid commissions	0.9	(6.9)	(5.6)
Other current assets	22.9	16.7	(15.4)
Other non-current assets	(9.4)	5.6	(23.2)
Accounts payable and accrued expenses	(31.2)	(53.6)	12.3
Deferred revenue	(2.7)	(1.9)	2.8
Income taxes receivable and payable	1.9	(0.9)	(1.1)
Other long-term liabilities	(2.1)	(12.6)	(1.0)
Other, net	(1.2)	1.7	2.9
Net cash (used in) provided by operating activities	(17.7)	(76.0)	21.0
Investing Activities			
Capital expenditures	(26.3)	(29.9)	(32.1)
Acquisition-related payments, net of cash acquired	—	(1.9)	(5.7)
(Payments) proceeds from sale of business, net of cash transferred	—	(3.0)	517.3
Net cash (used in) provided by investing activities	(26.3)	(34.8)	479.5
Financing Activities			
Proceeds from issuance of debt	—	300.0	—
Borrowings (repayments) under revolving credit facility, net	79.6	(100.0)	45.0
Principal payments on borrowings	(15.8)	(122.4)	(507.1)
Principal payments on finance leases	(1.1)	(1.0)	—
Cash and restricted cash of subsidiaries deconsolidated as a result of the Loyalty Spin-Off	(1.7)	—	—
Capital contribution from stockholders	32.7	—	—
Cash paid to settle share-based compensation	(24.8)	—	—
Financing costs	—	—	(0.3)
Payments to settle contingent consideration liabilities	(5.0)	(3.0)	—
Dividend paid to non-controlling interest	(0.6)	(0.7)	(0.9)
Net cash provided by (used in) financing activities	63.3	72.9	(463.3)
Effect of changes in exchange rates on cash, cash equivalents and restricted cash	1.8	0.2	(2.7)
Net increase (decrease) in cash, cash equivalents and restricted cash	21.1	(37.7)	34.5
Cash, cash equivalents and restricted cash, beginning of period	61.4	99.1	64.6
Cash, cash equivalents and restricted cash, end of period	82.5	61.4	99.1
Less: cash, cash equivalents and restricted cash of discontinued operations, end of period	—	(0.2)	(0.2)
Cash, cash equivalents and restricted cash of continuing operations, end of period	$ 82.5	$ 61.2	$ 98.9

See accompanying notes to the consolidated financial statements.

CXLOYALTY GROUP HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unless otherwise noted, all dollar amounts are in millions, except per share amounts)

1. BASIS OF PRESENTATION AND BUSINESS DESCRIPTION

Basis of Presentation — The audited consolidated financial statements include the accounts and transactions of cxLoyalty Group Holdings, Inc. (the "Company," "cxLoyalty Holdings" or "us"). cxLoyalty Holdings was formerly known as Affinion Group Holdings, Inc. cxLoyalty Holdings is a holding company, with no direct operations and no significant assets other than the ownership of 100% of the equity interests of cxLoyalty Group, New LLC ("cxLoyalty"). cxLoyalty was formerly known as cxLoyalty Group, Inc., and prior to that, Affinion Group, Inc.

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

On December 30, 2020, the Company completed a distribution (the "Distribution") of the equity interests of cxLoyalty Group, LLC, a Delaware limited liability company and indirect wholly-owned subsidiary of the Company ("cxLoyalty Group, LLC"), to a newly formed holding company owned by the stockholders of the Company (the "Stockholders") that then assumed (the "Assumption") the Company's obligations under cxLoyalty's revolving credit facility and term loans under the Amended Credit Agreement (as defined below) and the New Notes (as defined below). Pursuant to a Transaction Agreement dated as of December 28, 2020 among the Company and other parties thereto (the "Transaction Agreement"), cxLoyalty Group, LLC merged with an unrelated third party and ceased to be owned by the Stockholders (such transaction, together with the Distribution and Assumption, the "Loyalty Spin-Off"). At the time of the Loyalty Spin-Off, cxLoyalty Group, LLC comprised substantially all of the assets and liabilities and operations of the Company's Global Loyalty segment. The Loyalty Spin-Off represented a strategic shift that had a major effect on the Company's operations and financial results, and accordingly, the assets, liabilities and results of operations are classified as discontinued operations for all periods presented.

On April 10, 2019, we consummated the 2019 Recapitalization, as defined and described below in Note 10—Long-Term Debt and Note 11—Stockholders' Equity (Deficit).

On July 3, 2018, the Company, cxLoyalty Group, LLC, and Affinion Benefits Group, LLC, a Delaware limited liability company and wholly-owned subsidiary of cxLoyalty Group, LLC ("ABG"), entered into a Membership Interest Purchase Agreement (the "Purchase Agreement") with AIS Holdco, LLC (the "Purchaser"), an entity controlled by investment funds managed by affiliates of Mill Point Capital Partners, L.P., pursuant to which the Purchaser would acquire the insurance division of the Company by acquiring the outstanding membership interests of ABG as set forth in the Purchase Agreement (the "ABG Sale"). The ABG Sale represented a strategic shift that had a major effect on the Company's operations and financial results, and therefore, is presented as discontinued operations.

Subsequent events have been evaluated through March 3, 2021, the date these audited consolidated financial statements were available to be issued.

Business Description — The Company develops programs and solutions that motivate and inspire loyalty. Through our proprietary technology platforms and end-to-end customer service capabilities, we design, administer and fulfill loyalty and customer engagement programs and solutions that strengthen and expand the value of relationships for many of the world's largest and most respected companies.

Our programs and solutions include customer engagement programs and solutions that address key consumer needs such as greater peace of mind and meaningful savings for everyday purchases. We provide these solutions to leading companies in the financial institution, telecommunications, e-commerce, retail and travel sectors globally. These differentiated programs help our clients enrich their offerings to drive deeper connections with their customers, and to encourage their customers to engage more, stay loyal and generate more revenue for our clients. For example, we develop and manage programs such as identity theft protection, credit monitoring, savings on everyday purchases, concierge services, discount travel services and roadside assistance.

We have the following two operating segments:

- *Global Customer Engagement.* This segment consists of our customer engagement business, in which we are a leading global solutions provider that delivers a flexible mix of benefits and services for our clients that meet customers' needs, including products that are designed to help consumers save money and gain peace of mind.
- *Legacy Membership and Package.* This segment consists of certain global membership and package programs that are no longer being actively marketed but continue to be serviced. This segment also includes the domestic Package business, which consists of membership programs that were marketed with many of the Company's large domestic financial institution partners. Although the Company will continue to service these members, it expects that cash flows and revenues will continue to decrease over time due to the attrition of the member base in this operating segment.

CXLOYALTY GROUP HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
(Unless otherwise noted, all dollar amounts are in millions, except per share amounts)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation — The consolidated financial statements include the accounts of the Company and its wholly-owned and majority-owned subsidiaries. Investments in entities over which the Company has the ability to exercise significant influence but does not have a controlling interest are accounted for under the equity method of accounting. The Company considers several factors in determining whether it has the ability to exercise significant influence with respect to investments, including, but not limited to, direct and indirect ownership level in the voting securities, active participation on the board of directors, approval of operating and budgeting decisions and other participatory and protective rights and commercial business relationships. Under the equity method, the Company's proportionate share of the net income or loss of such investee is reflected in the Company's consolidated results of operations. All intercompany balances and transactions have been eliminated.

Revenue Recognition — The Company generates revenues through our Global Customer Engagement segment in two ways: (1) revenue enhancement, which is a traditional subscription-based model, and (2) engagement solutions, which is a fee-for-service or transactional based model. In the revenue enhancement model, we provide incremental services for our clients to monetize their customer base. We also partner with clients to customize benefits that resonate with their brand and their customers' needs. In the engagement solutions model, we help clients differentiate their products and build strong customer relations. We also bundle appropriate rewards and benefits along the lifecycle of clients' customers to create intimate, reciprocal connections that drive purchase decisions, interaction and participation over time.

The Company generates revenues through our Legacy Membership and Package segment for desired customer engagement programs and solutions typically through a licensing and/or per user fee. In other arrangements, we generate revenues through the sale of our value-added subscription-based programs and solutions to the customers of our clients whom we bill on a monthly, quarterly or annual basis.

Performance Obligations — Our Global Customer Engagement segment and our Legacy Membership and Package segment are each categorized in two ways: (1) revenue enhancement, which is a traditional subscription-based model and (2) engagement solutions, which is primarily a fee-for-service based model. For revenue enhancement, we typically require payment of a subscription fee at the beginning of the term, recognizing revenue ratably over time as we provide leisure and protection services to our members. For engagement solutions, we work with our clients to develop leisure and protection programs that will resonate with their customers. For these arrangements, we typically recognize revenue at a point in time that a transaction occurs or on a per-member basis. As part of their benefit package, certain members may receive a cash back benefit to reward them for using our services. We consider this cash back benefit a form of consideration payable to the customer and, as such, account for that payment as a reduction of the transaction price and, therefore, revenue. Within engagement solutions, we also provide administrative support services to certain clients for a fixed fee and recognize this revenue over time, as these services are rendered consistently throughout the performance period. In addition, in some cases, we charge implementation fees to our clients for establishing new programs. We amortize these fees over time, based on the non-cancellable portion of the contract using a systematic basis consistent with the pattern of the transfer of the service. However, if cancellation of a contract is deemed to be cost prohibitive to the client, we may extend amortization into the cancellable period of the contract. For engagement solutions revenue, each contract is evaluated to determine whether we act as principal or agent. In cases where we control the good or service before it is provided to the customer or are the primary party responsible for fulfilling the contract and maintain a degree of inventory risk and pricing discretion, we record revenue on a gross basis.

Transaction Price Allocated to Remaining Performance Obligations — Within our Global Customer Engagement and Legacy Membership and Package segments, we have contracts with different maturity dates for which we receive variable consideration based on volumes that we transact related to the services we render. These services include travel, gift card and benefit fulfillment and contact center servicing which typically result in revenue recognition upon occurrence of the transaction. Where future variable consideration results from a wholly unsatisfied service that forms part of a single performance obligation, we have elected, as a practical expedient, to not disclose the value of the remaining performance obligations associated with these contracts, as they have a duration of one year or less.

Costs to Obtain and Fulfill a Contract — Within our Global Customer Engagement and Legacy Membership and Package segments, we may incur costs in obtaining a contract, which typically consist of sales commissions. To the extent these costs are deemed material and meet the criteria for capitalization, we capitalize them. We occasionally pay advance commissions to our partners, with the advance commission earned down by the partner based on the initial and renewal membership revenue realized by the Company and the commission rate specified in the marketing arrangement, with the partner having the ability to continue to earn commissions in excess of the advance if sufficient revenue is realized by the Company. These commission costs are capitalized as prepaid commissions and recognized as expense as earned down by the partner. These assets are continually monitored for impairment.

CXLOYALTY GROUP HOLDINGS, INC.
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Within the Global Customer Engagement and Legacy Membership and Package segments, we do not incur costs to fulfill contracts.

Marketing Expense — *Global Customer Engagement* — Marketing expense to acquire new members is recognized when incurred, which is generally prior to both the commencement of the trial period and recognition of revenue for membership programs.

Commissions Expense — Membership commissions represent payments to partners, which are generally based on a percentage of revenue from the marketing of programs to such partners' customers. Commissions are generally paid for each initial and renewal membership following the collection of membership fees from the customer. These commission costs are deferred on the accompanying consolidated balance sheets as prepaid commissions and are recognized as expense over the applicable membership period in the same manner as the related retail membership revenue is recognized. In certain marketing arrangements, the Company pays an advance commission to the partner, with the advance commission earned down by the partner based on the initial and renewal membership revenue realized by the Company and the commission rate specified in the marketing arrangement, with the partner having the ability to continue to earn commissions in excess of the advance if sufficient revenue is realized by the Company. These commission costs are deferred on the accompanying consolidated balance sheets as prepaid commissions and recognized as expense as earned down by the partner. In other arrangements, the Company pays an upfront payment, called a bounty, to the partner and the partner is not entitled to any additional compensation based on initial and renewal membership. Bounties are recognized as expense when incurred.

Operating Costs — Operating costs represent the costs associated with servicing our members and end-customers. These costs include product fulfillment costs, communication costs with members and end-customers and information technology, payroll, telecommunications and facility costs attributable to operations responsible for servicing our members and end-customers.

Share-Based Compensation — For all share-based awards issued by cxLoyalty Holdings to directors and employees of the Company and consultants to the Company that are accounted for as equity awards, the Company measures compensation cost based on estimated fair value on the grant date and recognizes compensation expense ratably over the requisite service period. For all share-based awards issued by cxLoyalty Holdings to directors and employees of the Company and consultants to the Company that are accounted for as liability awards, the Company remeasures compensation cost based on estimated fair value at each reporting date and recognizes compensation expense ratably over the remaining requisite service period. Generally, the requisite service period is the period during which the employee is required to provide services in exchange for the award and is also the vesting period. The Company recognizes compensation cost for awards that only contain service conditions and that have a graded vesting schedule on a straight-line basis over the requisite service period for the entire award. Share-based compensation expense is included in general and administrative expense on the accompanying consolidated statements of comprehensive income (loss).

Income Taxes — Income taxes are presented on the consolidated financial statements using the asset and liability approach. Deferred tax assets and liabilities are calculated based upon the temporary differences between the financial statements and income tax bases of assets and liabilities using currently enacted tax rates. Deferred tax assets are recorded net of a valuation allowance when, based on the weight of available evidence, it is more likely than not that some portion or all of the recorded deferred tax assets will not be realized in future periods. Decreases to the valuation allowance are recorded as reductions to the income tax provision, while increases to the valuation allowance result in additional income tax provision. The realization of deferred tax assets is primarily dependent on estimated future taxable income. As of December 31, 2020 and 2019, the Company has recorded a full valuation allowance for its U.S. federal net deferred tax assets. As of December 31, 2020 and 2019, the Company has also recorded valuation allowances against the deferred tax assets of certain state and foreign tax jurisdictions.

The tax effects of an uncertain tax position ("UTP") taken or expected to be taken in income tax returns are recognized only if it is "more likely-than-not" to be sustained on examination by the taxing authorities, based on its technical merits as of the reporting date. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. The Company recognizes estimated accrued interest and penalties related to UTPs in income tax expense.

The Company recognizes the benefit of a UTP in the period when it is effectively settled. Previously recognized tax positions are derecognized in the first period in which it is no longer more likely than not that the tax position would be sustained upon examination.

Cash and Cash Equivalents — The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

CXLOYALTY GROUP HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
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Restricted Cash — Restricted cash amounts relate primarily to collateral on certain bonds and letters of credit issued on the Company's behalf and amounts held in escrow.

Property and Equipment — Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets. Amortization of leasehold improvements and computer equipment acquired under finance leases is determined using the straight-line method over the shorter of the estimated useful lives of the related assets or the lease term. Useful lives range from 5 to 15 years for leasehold improvements, from 3 to 5 years for capitalized software, from 3 to 5 years for computer equipment and from 5 to 7 years for furniture, fixtures and equipment.

Internally-Developed Software — The Company capitalizes the costs of acquiring, developing and testing software to meet the Company's internal needs. Capitalization of costs associated with software obtained or developed for internal use commences when both the preliminary project stage is completed and management has authorized further funding for the project, based on a determination that it is probable that the project will be completed and used to perform its intended function. Capitalized costs include (1) external direct cost of materials and services consumed in developing or obtaining internal-use software, and (2) payroll and payroll-related costs for employees who are directly associated with the development of internal-use software. Capitalization of such costs ceases no later than the point at which the project is substantially complete and ready for its intended use.

Goodwill and Identifiable Intangible Assets — Goodwill represents the excess of the cost of an acquired entity over the fair value of assets acquired and liabilities assumed. Goodwill has been assigned to the Company's reporting units and is tested for impairment at least annually. The Company evaluates the recoverability of the carrying value of each reporting unit's goodwill as of December 1 of each year, or whenever events or circumstances indicate that an impairment may have occurred. Management first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. If, after assessing the totality of relevant events or circumstances, management determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, management then performs a quantitative goodwill impairment test by comparing the carrying value of a reporting unit to its fair value. The Company determines the fair value of its reporting units utilizing an income approach and incorporates assumptions that it believes marketplace participants would utilize. If the carrying amount of the reporting unit is greater than its fair value, the reporting unit's implied fair value of goodwill is compared to the carrying amount of that goodwill to determine the amount of the impairment, if any. Any impairment is recognized in earnings in the period in which the impairment is determined.

During the fourth quarter of 2020, the Company performed its annual goodwill impairment test for its Global Customer Engagement and historical Global Loyalty reporting units. The Company performed a qualitative assessment to determine whether it was more likely than not that the fair value of each of the Company's reporting units was less than its respective carrying amount. After assessing the totality of events and circumstances relevant to its qualitative assessment, management determined that it is not more likely than not that the fair value of each of the Company's reporting units was less than its respective carrying amount. No impairment was recognized for the year ended December 31, 2020.

During the first quarter of 2020, the World Health Organization declared the outbreak of the novel coronavirus known as COVID-19 a global pandemic (the "COVID-19 pandemic"), and management identified the COVID-19 pandemic, and the effect of policies and social distancing guidelines put into place as indicators that an impairment may have been incurred in one or more of the Company's reporting units. Management updated its forecasts and assumptions, taking into account our estimate of the duration and severity of the reduction in demand for travel stemming from the COVID-19 pandemic on forecasted net revenues, expenses and cash flows and applied an income-based impairment test to the carrying value of goodwill in the Company's Global Customer Engagement and historical Global Loyalty reporting units as of March 31, 2020.

Based on the interim impairment assessment as of March 31, 2020, we determined that our goodwill was not impaired and the fair value of each of the reporting units continued to exceed its respective carrying amount by more than 25% of the carrying amount. However, the duration and severity of the COVID-19 pandemic and its related effects on our businesses is inherently uncertain. As we obtain greater clarity about the duration and severity of reduced travel sales volumes in our businesses, we will continue to evaluate goodwill for potential impairment.

During the fourth quarter of 2019, the Company performed its annual goodwill impairment test for its Global Customer Engagement and historical Global Loyalty reporting units. Key assumptions used in the goodwill impairment test were a long-term growth rate of 1.5% growth and discount rates ranging from 9.5% to 11.0%. In 2019, the fair value of each of the reporting units that had goodwill exceeded its respective carrying amount by more than 25% of the carrying amount.

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The Company's intangible assets as of December 31, 2020 and 2019 consist of assets with finite useful lives initially recorded at their respective fair values. Finite-lived intangible assets are amortized as follows:

Intangible Asset	Amortization Method	Estimated Useful Lives
Member relationships	Declining balance	5 – 8 years
Affinity relationships	Declining balance, straight line	1 – 14 years
Proprietary databases and systems	Straight line	3 – 10 years
Trademarks and tradenames	Straight line	5 – 15 years
Patents and technology	Declining balance, straight line	2 – 12 years
Covenants not-to-compete	Straight line	Contract life

Impairment of Long-Lived Assets — The Company evaluates the recoverability of the carrying amount of its long-lived assets when events and circumstances indicate that the carrying value of an asset may not be recoverable. For long-lived assets held and used by the Company, an impairment loss is recognized only if the carrying amount of the long-lived asset is not recoverable and exceeds its fair value. The carrying amount is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If an asset is determined to be impaired, the loss is measured based on the difference between the fair value of the long-lived asset and its carrying amount.

Management identified the COVID-19 pandemic, and the effect of public policies and social distancing guidelines put into place as indicators that an impairment of certain long-lived assets in our Global Customer Engagement and our historical Global Loyalty reporting units may have been incurred. Based on our interim impairment assessment as of March 31, 2020, we determined that no impairment of long-lived assets had been incurred. However, the duration and severity of the COVID-19 pandemic and its related effects on our businesses is inherently uncertain. As we obtain greater clarity about the duration and severity of reduced travel sales volumes in our businesses, we will continue to evaluate long-lived assets for potential impairment.

Foreign Currency Translation — Assets and liabilities of foreign operations whose functional currency is the local currency are translated at exchange rates as of the balance sheet dates. Revenues and expenses of such local functional currency foreign operations are translated at average exchange rates during the periods presented. Translation adjustments resulting from the process of translating the functional currency foreign operation financial statements into U.S. dollars are included on accumulated other comprehensive income (loss). Gains or losses resulting from foreign currency transactions are included in the accompanying consolidated statements of comprehensive income (loss). Foreign local currency gains and losses relating to non-operational transactions are included in other expense. Net foreign currency gains and losses relating to operations are included in general and administrative expense on the accompanying consolidated statements of comprehensive income (loss).

Contingencies — Contingencies by their nature relate to uncertainties that require management to exercise judgment both in assessing the likelihood that a liability has been incurred as well as in estimating the amount of potential loss, if any. The Company accrues for costs relating to litigation, claims and other contingent matters when such liabilities become probable and reasonably estimable. Such estimates may be based on advice from third parties or on management's judgment, as appropriate. Actual amounts paid may differ from amounts estimated, and such differences will be charged to operations in the period in which the final determination of the liability is made.

Estimates — The preparation of financial statements in conformity with U.S. GAAP requires the use of estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include accounting for accruals and income tax valuation allowances, litigation accruals, the estimated fair value of share-based compensation, estimated fair values of assets and liabilities acquired in business combinations and estimated fair values of financial instruments.

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Credit Risk and Exposure — Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of receivables and prepaid commissions. The Company manages such risk by evaluating the financial position and creditworthiness of such counterparties. Receivables are due from various marketing and business partners and the Company maintains an allowance for losses, based upon expected collectability.

Allowance for Doubtful Accounts — A summary of activity in the allowance for doubtful accounts for the years ended December 31, 2020, 2019 and 2018 is as follows:

	For the Year Ended December 31,		
	2020	2019 (in millions)	2018
Balance, beginning of period	$ 4.0	$ 6.0	$ 5.5
Provision, net of recoveries	—	0.1	1.1
Write-offs	(0.4)	(2.2)	(0.5)
Currency translation	0.1	0.1	(0.1)
Balance, end of period	$ 3.7	$ 4.0	$ 6.0

Supplemental Disclosure of Cash Flow Information and Noncash Investing and Financing Activities — A summary of supplemental cash flow information and noncash investing and financing activities for the years ended December 31, 2020, 2019 and 2018 is as follows:

	For the Year Ended December 31,		
	2020	2019	2018
Supplemental Disclosure of Cash Flow Information:		(in millions)	
Interest payments	$ 37.0	$ 72.9	$ 128.8
Income tax payments, net of refunds	$ 3.8	$ 4.5	$ 5.2
Supplemental Disclosure of Noncash Investing and Financing Activities:			
Net liabilities, excluding cash and cash equivalents and restricted cash, deconsolidated as a result of the Loyalty Spin-Off	$ 1,424.4	$ —	$ —
Payment of in-kind interest	$ 85.6	$ 42.8	$ 86.2
Noncash capital contribution from stockholders	$ 16.7	$ —	$ —
Right-of-use asset obtained in exchange for finance lease obligation	$ 1.3	$ 2.5	$ —
Accrued capital expenditures	$ 0.4	$ 2.3	$ 0.7
Exchange of notes and accrued interest for common stock and warrants	$ —	$ 695.7	$ —
Issuance of common stock and warrants for notes and accrued interest	$ —	$ 226.5	$ —
Payment of debt discount	$ —	$ 57.0	$ —

Recently Adopted Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued new accounting guidance related to leases. The new standard, ASC Topic 842, Leases ("ASC 842") requires lessees to recognize right-of-use assets and lease liabilities for operating leases on the balance sheet and disclose key information about leasing arrangements. The Company adopted ASC 842 on January 1, 2019 and elected to apply each of the practical expedients described in ASC 842-10-65-1(f) that allow the Company, among other things, to not reassess lease classification conclusions or initial direct cost accounting as of December 31, 2018. The comparative information for the year ended December 31, 2018 has not been restated and continues to be reported under the accounting standards in effect for that period. See Note 8—Leases for additional information relating to the adoption of ASC 842 and its impact on the Company.

In August 2018, the FASB issued Accounting Standards Update ("ASU") No. 2018-15, to help entities evaluate the accounting for costs of implementation activities incurred in a cloud computing arrangement that is a service contract. This update aligns the requirements for deferring implementation costs incurred in a cloud computing arrangement that is a service contract with those incurred to develop or obtain internal-use software. The Company adopted this update on a prospective basis as of January 1, 2019. The adoption of the new guidance did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

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Recently Issued Accounting Pronouncements Not Yet Effective

In June 2016, the FASB issued ASU No. 2016-13, which together with subsequent updates, introduced an expected credit loss model for the impairment of financial assets measured at amortized cost. The new guidance is effective for annual and interim periods within fiscal years beginning after December 15, 2022. The Company is in the process of evaluating the impact of this new guidance on its consolidated financial position, results of operations or cash flows.

In January 2017, the FASB issued ASU No. 2017-04 to simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Under the new guidance, an impairment charge, if triggered, is calculated as the difference between a reporting unit's carrying value and fair value, but is limited to the carrying value of the goodwill. Current guidance, however, requires an impairment charge to be calculated as the excess of the carrying value of goodwill over its implied fair value. The new guidance is effective for annual and interim goodwill impairment tests in fiscal years beginning after December 15, 2022. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. Once adopted, the new guidance is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In December 2019, the FASB issued ASU No. 2019-12, which enhances and simplifies various aspects of accounting for income taxes, including the effect of ownership changes in investments, the effect of changes in tax law to calculating income taxes in an interim period and accounting for franchise taxes that are partially based on income. This update is effective for fiscal years beginning after December 15, 2021 and interim periods within fiscal years beginning after December 15, 2022, although early adoption is permitted. Once adopted, this update is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

3. REVENUES

Disaggregated Revenues

The following table represents a disaggregation of revenue from contracts with customers for the years ended December 31, 2020, 2019 and 2018, along with the reportable segment for each category:

	For the Year Ended December 31,		
	2020	2019	2018
		(in millions)	
Global Customer Engagement:			
Revenue Enhancement	$ 266.5	$ 254.7	$ 261.5
Engagement Solutions	63.5	85.0	99.6
Subtotal	330.0	339.7	361.1
Legacy Membership and Package	68.8	77.1	101.4
	$ 398.8	$ 416.8	$ 462.5

Transaction Price Allocated to Remaining Performance Obligations

As of December 31, 2020, the Company has remaining performance obligations under fixed consideration arrangements of $0.1 million, which are to be satisfied in 2021, in its Global Customer Engagement segment.

Costs to Obtain and Fulfill a Contract

Within the Global Customer Engagement and Legacy Membership and Package segments, we occasionally pay advance commissions to our partners, with the advance commission earned down by the partner based on the initial and renewal membership revenue realized by the Company and the commission rate specified in the marketing arrangement, with the partner having the ability to continue to earn commissions in excess of the advance if sufficient revenue is realized by the Company. We had a balance of $69.2 million and $57.4 million in prepaid commissions as of December 31, 2020 and 2019, respectively, and recognized $82.9 million, $69.0 million and $56.8 million of amortization for the years ended December 31, 2020, 2019 and 2018, respectively.

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Contract Liabilities

The following table reflects the balances of our contract liabilities, which we classify as deferred revenue, as of December 31, 2020 and 2019:

	December 31,			
	2020		2019	
	(in millions)			
Deferred revenue - current	$	23.6	$	25.2
Deferred revenue - non-current		2.1		2.3
Total	$	25.7	$	27.5

The change in the total contract liabilities balances from December 31, 2019 to December 31, 2020 of $(1.8) million, or (6.5)%, is primarily due to the recognition of revenue arising from the satisfaction of performance obligations, partially offset by additional contract liabilities related to performance obligations that arose during the reporting period.

Discontinued Operations – Global Loyalty Business

Within the global loyalty business conducted by our historical Global Loyalty reportable segment and prior to the Loyalty Spin-Off, we generated revenues from our clients by designing (management, analytics and customer experience) and administering points-based loyalty programs on a platform licensing, fee-for-service basis. The Company typically charged a per-subscriber and/or a per-activity administrative fee to clients for our services. In addition, commissions were earned from our suppliers and/or a transaction fee was earned from our clients based on volume for enabling or executing transactions such as fees generated from loyalty points-related purchases and redemptions. In most circumstances, revenue was recognized net of the cost of fulfillment.

Performance Obligations — Within the global loyalty business, we provided end-to-end loyalty solutions that helped our clients reward, enrich, motivate and retain customers, including program design, points management and administration, and broad-based fulfillment and redemption across multiple channels. For our fulfillment and redemption services, our clients typically paid us on a cost-per-transaction basis for which we recognized revenue at a point in time that a transaction occurred. For our administrative services, our clients typically paid a fixed fee for which we recognized revenue over time as the services rendered were consistent throughout the performance period. The different services we provided were a single performance obligation covering a series of distinct goods or services that were substantially the same and that had the same pattern of transfer to the customer. Hence, we determined that the nature of our promise was to provide one overall end-to-end loyalty service and, as such, each day of service was substantially the same. Accordingly, revenue was recognized ratably over time.

For our travel and gift card fulfillment services we typically acted as an agent, as our performance obligation was to ensure the transfer of goods or services on behalf of our clients. Under these arrangements, we earned revenue in the form of commissions. We were required to estimate variable consideration for any contracts with our clients that had revenue-sharing or tiered pricing components related to transaction volumes. In deriving our estimates, we considered client-specific historical trends, the economic environment, industry trends and other objective evidence to support our conclusions. As a significant change in one or more of these estimates could have affected the amount of revenue recognized in a given period, we reviewed and updated our contract-related estimates each reporting period and recognized any adjustments in estimated profit on contracts utilizing the cumulative catch-up method. Under this method, the impact of the adjustment on profit recorded to date on a contract was recognized in the period the adjustment was identified.

In addition, certain clients may have received credits, which were also accounted for as variable consideration and as a reduction in the transaction price. We estimated these credit amounts as of each reporting date based on the expected amount to be provided to these clients and the revenue recognized over the subscription period was appropriately constrained to reflect the expectation that the client would utilize the credit.

Transaction Price Allocated to Remaining Performance Obligations — Within the global loyalty business, we had contracts with different maturity dates for which we received variable consideration based on volumes that we transacted related to the services we rendered. These services included travel, gift card and benefit fulfillment and contact center servicing which typically resulted in revenue recognition upon occurrence of the transaction. Where future variable consideration results from a wholly unsatisfied service that forms part of a single performance obligation, we have elected, as a practical expedient, to not disclose the value of the remaining performance obligations associated with these contracts, as they had a duration of one year or less.

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Costs to Obtain and Fulfill a Contract — Within the global loyalty business, we incurred costs in obtaining a contract, which typically consisted of sales commissions. To the extent these costs were deemed material and met the criteria for capitalization, we capitalized them. Within the global loyalty business, we paid commissions to internal salespeople which we generally expensed as incurred because these expenses did not have a material impact on our consolidated financial statements. These assets were continually monitored for impairment.

We also incurred costs to fulfill a contract. Such costs were typically incurred during the implementation phase of a new contract with a client. To the extent these costs were deemed material and met the criteria for capitalization, we capitalized and amortized the costs over the term of the contract on a systematic basis consistent with the pattern of the transfer of goods or services to the customer. These assets were continually monitored for impairment.

Discontinued Operations – Insurance Solutions Business

Within the insurance solutions business and prior to the ABG Sale (as defined below), we acted as a third-party agent, administrator and marketer of certain accident and life insurance solutions. We earned revenue ratably over time in the form of commissions from insurance carriers based on premiums collected. We believe that our clients simultaneously received and consumed the benefits of our service as it occurred and that a time-based input measure of progress was appropriate because we expected, on the basis of our relevant history with similar contracts, to expend efforts on a generally even basis throughout the contract term. We also acted as an agent in arrangements where our performance obligation ensured the transfer of goods or services on behalf of our clients and where we had no pricing discretion.

4. DISCONTINUED OPERATIONS

Loyalty Spin-Off

On December 30, 2020, the Company completed the Loyalty Spin-Off. At the time of the Loyalty Spin-Off, cxLoyalty Group, LLC comprised substantially all of the assets and liabilities and operations of the Company's Global Loyalty segment. The Loyalty Spin-Off represented a strategic shift that had a major effect on the Company's operations and financial results, and accordingly, the assets, liabilities and results of operations are classified as discontinued operations for all periods presented.

In connection with the Loyalty Spin-Off, the Company and another party to the Transaction Agreement entered into a Transition Services Agreement dated as of December 31, 2020 (the "Transition Services Agreement") pursuant to which the Company will provide, or will cause its subsidiaries to provide, certain transitional services and pursuant to which the Company will receive from the counterparty certain transitional services. The services to be provided under the Transition Services Agreement include, but are not limited to, human resources, information protection, IT infrastructure, project management and corporate real estate. The services to be received under the Transition Services Agreement include, but are not limited to, information protection, IT infrastructure and corporate real estate. The periods during which individual services are to be provided and received vary and range from two months up to two years.

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The following table includes the major financial statement line items that comprise loss from discontinued operations, net of tax for the years ended December 31, 2020, 2019 and 2018.

	For the Year Ended December 31,		
	2020	2019	2018
		(in millions)	
Net revenues	$ 76.3	$ 139.9	$ 237.3
Expenses:			
Cost of revenues, exclusive of depreciation and amortization shown separately below:			
Marketing and commissions	9.1	9.9	11.1
Operating costs	83.4	91.8	126.0
General and administrative	16.4	15.9	26.9
Facility exit costs	—	—	0.8
Depreciation and amortization	16.1	20.6	21.3
Total expenses	125.0	138.2	186.1
(Loss) income from operations	(48.7)	1.7	51.2
Interest expense	(88.4)	(125.7)	(193.7)
Other expense, net	(16.8)	—	—
Loss from discontinued operations before income taxes	(153.9)	(124.0)	(142.5)
Income tax (provision) benefit	(1.1)	0.1	(0.1)
Loss from discontinued operations, net of tax	$ (155.0)	$ (123.9)	$ (142.6)

The operating results reflected above do not fully represent the disposal group's historical operating results, as the results reported within discontinued operations only include expenses that are directly attributable to the disposal group. The allocation of interest to the discontinued operations is based on (1) the specific debt instruments that were assumed in the Loyalty Spin-Off as well as (2) an allocation of interest expense not directly attributable to other operations of the Company and is calculated based on the ratio of net assets disposed of to the sum of total consolidated net assets of the Company plus consolidated debt.

Other expense, net for the year ended December 31, 2020 includes $16.8 million of transaction costs associated with the Loyalty Spin-Off.

The following table provides additional detail related to the net cash used in operating and investing activities of the discontinued operations for the years ended December 31, 2020, 2019 and 2018:

	For the Year Ended December 31,		
	2020	2019	2018
		(in millions)	
Net cash used in operating activities	$ (77.1)	$ (64.6)	$ (25.8)
Cash used in investing activities:			
Capital expenditures	$ (10.5)	$ (10.0)	$ (12.7)

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The following table includes the carrying amounts of assets and liabilities that have been reclassified from their historical presentation to current and non-current assets and liabilities held for sale as of December 31, 2019.

	December 31, 2019 (in millions)
Cash and cash equivalents	$ 0.2
Receivables, net	75.2
Other current assets	49.9
Current assets held for sale	$ 125.3
Property and equipment, net	$ 36.1
Operating lease right-of-use asset	12.6
Goodwill	116.6
Other intangibles, net	17.2
Other non-current assets	16.0
Non-current assets held for sale	$ 198.5
Current portion of long-term debt	$ 1.1
Accounts payable and accrued expenses	107.0
Deferred revenue	2.7
Current liabilities held for sale	$ 110.8
Long-term debt	$ 1,472.7
Deferred income taxes	1.4
Deferred revenue	0.6
Long-term operating lease liabilities	10.7
Other long-term liabilities	0.4
Non-current liabilities held for sale	$ 1,485.8

The following table includes the principal amounts and carrying amounts of long-term debt held for sale as of December 31, 2019.

	December 31, 2019	
	Principal Amount	Carrying Value
	(in millions)	
Term loan due 2022, with a carrying value net of unamortized discount of $0.3 million	$ 21.1	$ 20.8
Term loan due 2024, with a carrying value net of unamortized discount of $9.1 million	702.9	693.8
Revolving credit facility expiring in 2023, with a carrying value net of unamortized discount of $1.4 million	—	(1.4)
18% Senior PIK Notes due 2024, with an unamortized carrying value adjustment of $383.1 million	389.1	772.2
Finance lease obligations	0.4	0.4
Total debt	1,113.5	1,485.8
Less: current portion of long-term debt	(1.1)	(1.1)
Less: unamortized deferred financing costs	—	(12.0)
Long-term debt	$ 1,112.4	$ 1,472.7

Revolving Credit Facility

As of December 31, 2019, there were no borrowings outstanding under the Amended Credit Agreement. During the year ended December 31, 2020 and prior to the Loyalty Spin-Off, the Company had borrowings of $79.6 million and no repayments under the Amended Credit Agreement. During the period from January 1, 2019 through April 9, 2019, the Company had borrowings and repayments of $5.0 million and $105.0 million, respectively, under the 2017 Credit Agreement (as defined below). During the period from April 10, 2019 through December 31, 2019, the Company had no borrowings or repayments under the Amended Credit Agreement.

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2019 Recapitalization

On March 4, 2019, noteholders of cxLoyalty's outstanding 2017 Notes (as defined below), which collectively held, as of such date, approximately $647 million (95%) aggregate principal amount of the outstanding 2017 Notes ("Consenting Noteholders"), and the lenders holding approximately $904 million (96%) aggregate principal amount of the outstanding term loans and revolving loans under the 2017 Credit Agreement (the "Consenting Lenders") entered into an amended and restated support agreement (the "Support Agreement") with cxLoyalty Holdings, cxLoyalty and certain other subsidiaries of the Company. Among other things, the Support Agreement contemplated (i) a private offer to exchange (the "2019 Exchange Offer") outstanding 2017 Notes for shares of cxLoyalty Holdings' Class M common stock, par value $0.01 per share ("Class M Common Stock"), which shares of Class M Common Stock were converted immediately following the consummation of the 2019 Exchange Offer as a result of the Merger (as described below) into shares of common stock ("Common Stock"), par value $0.000001 per share, of cxLoyalty Holdings as the surviving entity, (ii) entry into the Amended Credit Agreement, (iii) a rights offering (the "2019 Rights Offering") giving tendering holders of the 2017 Notes and certain holders of common stock, par value $0.01 per share, of cxLoyalty Holdings ("Old Common Stock") the right to purchase an aggregate principal amount of $300.0 million of cxLoyalty's new 18% Senior PIK Notes due 2024 (the "New Notes") for an aggregate cash purchase price of $300.0 million and (iv) Metro SPV, affiliates of Elliott, affiliates of Empyrean and Jefferies, LLC (collectively, the "Second Lien Commitment Parties" and together with the Consenting Noteholders and the Consenting Lenders, the "Consenting Stakeholders") agreed to waive certain conditions and requirements under the Second Lien Commitment Letter and agreed to amend terms relating to the repayment of amounts outstanding under the Second Lien Facility (as defined below) and related fees, if funded, as set forth in the Support Agreement (collectively, the "2019 Recapitalization"). Pursuant to the Support Agreement, each of the Consenting Noteholders agreed to tender its 2017 Notes in the 2019 Exchange Offer in exchange for the Class M Common Stock, New Penny Warrants (as defined and described below), as applicable, and the right to participate in its pro rata share of the 2019 Rights Offering.

In connection with the consummation of the 2019 Recapitalization, on March 20, 2019, cxLoyalty entered into the Supplemental Indenture between cxLoyalty and Wilmington Trust, National Association, as trustee, to the 2017 Notes Indenture. The Supplemental Indenture, which became operative on April 10, 2019, amended the 2017 Notes Indenture by (a) eliminating substantially all of the restrictive covenants, (b) making amendments to certain existing terms and (c) eliminating certain events of default and related provisions contained in the 2017 Notes Indenture.

On April 10, 2019 (the "Closing Date"), cxLoyalty Holdings completed the 2019 Recapitalization. Pursuant to the 2019 Exchange Offer, $670.8 million of the 2017 Notes were exchanged for 725,678 shares of Common Stock and 10,522,940 New Penny Warrants. Upon closing of the 2019 Exchange Offer, there remained outstanding $10.7 million aggregate principal amount of the 2017 Notes. During the year ended December 31, 2019, and subsequent to the completion of the 2019 Recapitalization, Elliott (as defined below) received all regulatory approvals of, and submitted all required notices to, each governmental entity whose consent from, or notice to, was required for Elliott's exercise of its New Penny Warrants and accordingly, New Penny Warrants to purchase 10,522,940 shares of Common Stock were cashlessly exercised. As of December 31, 2020 and 2019, no New Penny Warrants were outstanding.

As part of the 2019 Recapitalization, cxLoyalty Holdings and cxLoyalty jointly conducted the 2019 Rights Offering. The 2019 Rights Offering was for an aggregate principal amount of $300.0 million of New Notes. In connection with the 2019 Rights Offering, affiliates of Elliott Management Corporation ("Elliott"), Metro SPV LLC, an affiliate of ICG Strategic Equity Advisors LLC ("Metro SPV"), Mudrick Capital Management, LP ("Mudrick"), affiliates of Empyrean Capital Partners, LP ("Empyrean") and Corbin Capital Partners, L.P. (collectively, in such capacity, the "Financing Parties") entered into the amended and restated investor purchase agreement (the "Investor Purchase Agreement") with cxLoyalty Holdings and cxLoyalty, whereby the Financing Parties (or affiliates of the Financing Parties) agreed to purchase from cxLoyalty an aggregate principal amount of New Notes that were unpurchased in the 2019 Rights Offering. On the closing of the 2019 Exchange Offer, cxLoyalty and cxLoyalty Holdings paid the Financing Parties, in accordance with the terms of the Investor Purchase Agreement, a financing premium of (i) $57.0 million in aggregate principal amount of New Notes and (ii) 16,169 shares of Common Stock and 1,389,908 New Penny Warrants, equal to 12.5% of the outstanding Common Stock, after giving effect to the 2019 Exchange Offer, the Merger, the 2019 Pre-Emptive Rights Offer and the payment of such financing premium (but before giving effect to any dilution from a new management incentive plan (the "New MIP") and the New Investor Warrants (as defined below)). Pursuant to the 2019 Rights Offering and the Investor Purchase Agreement, cxLoyalty received gross cash proceeds of $300.0 million in exchange for $300.0 million aggregate principal amount of New Notes, of which, together with $5.0 million previously held in escrow from the net proceeds of the ABG Sale, $153.0 million was used to pay accrued interest on our Term Loans (as defined within the 2017 Credit Agreement) and to repay a portion of our Term Loans, $108.4 million was used to repay amounts outstanding under our Revolving Facility Loans (as defined within the 2017 Credit Agreement) under the 2017 Credit Agreement, including accrued interest, and $16.3 million was used to pay costs associated with the 2019 Recapitalization.

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The 2019 Recapitalization was accounted for as a troubled debt restructuring. As the undiscounted cash flows of the New Notes and the 2019 Term Loans exceeded the carrying values of the Term Loans (as defined in the 2017 Credit Agreement) existing immediately prior to the consummation of the 2019 Recapitalization and the 2017 Notes, adjusted for the fair value of Common Stock and New Penny Warrants issued as part of the 2019 Recapitalization held by participating lenders and noteholders, no gain was recorded on the accompanying consolidated statement of comprehensive income (loss) for the year ended December 31, 2019. Transaction costs of $27.0 million related to the 2019 Recapitalization are included in other expense, net on the accompanying consolidated statement of comprehensive income (loss) for the year ended December 31, 2019. Cash payments for transaction costs of $26.7 million related to the 2019 Recapitalization are included in net cash (used in) provided by operating activities on the accompanying consolidated statement of cash flows for the year ended December 31, 2019.

The adjustment recorded to the carrying value of the New Notes as a result of the 2019 Recapitalization on the Closing Date is as follows:

	(in millions)	
Carrying value of 2017 Notes, net of discount exchanged in 2019 Exchange Offer	$	654.2
Accrued interest on 2017 Notes exchanged in 2019 Exchange Offer		41.5
Principal amount of New Notes issued in 2019 Rights Offering		(357.0)
Cash received in 2019 Rights Offering		300.0
Fair value of Common Stock and New Penny Warrants issued in connection with the 2019 Recapitalization		(226.5)
Carrying value adjustment on New Notes	$	412.2

No adjustment was recorded to the carrying value of the 2019 Term Loans as a result of the 2019 Recapitalization.

The Amended Credit Agreement

In connection with the consummation of the 2019 Recapitalization on the Closing Date, cxLoyalty entered into certain amendments to the 2017 Credit Agreement (so amended, the "Amended Credit Agreement") to (i) obtain an extension of the maturity of the Revolving Facility Commitments (as defined in the 2017 Credit Agreement) and Term Loans (as defined in the 2017 Credit Agreement) existing immediately prior to the consummation of the 2019 Recapitalization and (ii) modify certain other provisions in the 2017 Credit Agreement. The Revolving Facility Lenders (as defined in the 2017 Credit Agreement) and the Consenting Lenders agreed to extend the maturity of all Revolving Facility Loans (as defined in the 2017 Credit Agreement) and such Consenting Lender's outstanding Term Loans (so extended, the "2019 Term Loans"), as applicable, and consent to the proposed modifications with respect thereto in accordance with the terms and subject to the conditions set forth in the Fifth Amendment to the 2017 Credit Agreement (the "Fifth Amendment"); upon the consummation of the 2019 Recapitalization, Term Loans held by Term Lenders (as defined in the 2017 Credit Agreement) that did not agree to extend their Term Loans into 2019 Term Loans were deemed a separate tranche from the 2019 Term Loans (such Term Loans to be referred to as the "Non-Extended Term Loans"), and the Revolving Facility Commitments were reduced to $85.0 million.

The material terms of the Amended Credit Agreement were the following:

The Amended Credit Agreement provided for quarterly amortization payments of the 2019 Term Loans totaling (i) for the first three years following April 10, 2019 (the "Fifth Amendment Effective Date"), 0% per annum, (ii) for the fourth year following the Fifth Amendment Effective Date, 1.0% per annum and (iii) for each year thereafter 2.5% per annum, in each case, payable quarterly, with the balance payable upon the final maturity date. The 2019 Term Loans were to mature on April 10, 2024. The Revolving Facility Commitments under the Amended Credit Agreement were to mature on April 10, 2023. The Non-Extended Term Loans continued to be subject to an amortization schedule consistent with that set forth in the 2017 Credit Agreement.

In addition, the Amended Credit Agreement required cxLoyalty to prepay outstanding term loans with:

- 100% of the net cash proceeds of asset sales and dispositions in excess of an amount per transaction and in the aggregate per fiscal year, subject to the ability to reinvest a portion of such net cash proceeds;
- 100% of the net cash proceeds from any insurance or condemnation event, subject to the ability to reinvest a portion of such net cash proceeds;
- 100% of the net cash proceeds from extraordinary and non-recurring cash receipts in excess of an amount per receipt;
- 50% of cxLoyalty's excess cash flow beginning with the fiscal year ending December 31, 2019; and
- 100% of the net cash proceeds received from issuances of debt, subject to certain exclusions including certain debt permitted to be incurred under the Amended Credit Agreement.

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The terms of the Amended Credit Agreement allowed cxLoyalty to permanently reduce the revolving loan commitments at any time without premium or penalty, subject to the payment of customary LIBOR breakage costs, if any, and provided that the commitments could not be reduced below the aggregate outstanding amount of revolving loans and letters of credit. In addition, cxLoyalty was able to terminate the Amended Credit Agreement upon prior written notice, and, in some cases, was able to revoke such notice. Upon termination, cxLoyalty would have been required to repay all obligations outstanding under the Amended Credit Agreement and to satisfy all outstanding letter of credit obligations. Voluntary prepayments of 2019 Term Loans were subject to (i) a make-whole premium for prepayments on or prior to the second anniversary of the Closing Date, and (ii) a prepayment premium of 103% of the principal amount prepaid after the second anniversary but on or prior to the third anniversary of the Closing Date. Voluntary prepayments of the Non-Extended Term Loans continued to be subject to the premiums set forth in the 2017 Credit Agreement.

The interest rates were based on, at cxLoyalty's option, with respect to (A) 2019 Term Loans, (x) the higher of (i) adjusted LIBOR and (ii) 1.00%, in each case plus 5.75% (of which, from the Closing Date through the third anniversary thereof, 1.75% may be paid in kind, thereafter through the fourth anniversary thereof, 1.25% may be paid in kind, and thereafter, 0.75% may be paid in kind), or (y) the highest of (i) the prime rate, (ii) the Federal Funds Effective Rate plus 0.5% and (iii) 2.00% ("ABR"), in each case plus 4.75% (of which, from the Closing Date through the third anniversary thereof, 1.75% may be paid in kind, thereafter through the fourth anniversary thereof, 1.25% may be paid in kind, and thereafter, 0.75% may be paid in kind), and (B) revolving loans under the Amended Credit Agreement (x) the higher of (i) adjusted LIBOR and (ii) 1.00%, in each case plus 4.00%, or (y) the highest of (i) the prime rate, (ii) the Federal Funds Effective Rate plus 0.5% and (iii) 2.00%, in each case plus 3.00%. The interest rates for the Non-Extended Term Loans continued to be the same as those set forth in the 2017 Credit Agreement.

Additionally, if any amount payable under the Amended Credit Agreement was not paid when due, (i) all overdue amounts owed under the Amended Credit Agreement would have borne interest at a rate per annum equal to the rate otherwise applicable thereto plus an additional 2.0% or at the ABR plus the applicable margin plus an additional 2.0% if no rate was otherwise applicable thereto and (ii) all other principal amounts outstanding under the Amended Credit Agreement would have borne interest at a rate per annum equal to the rate otherwise applicable thereto plus an additional 2.0%.

cxLoyalty had the option of requesting that loans be made as LIBOR loans, converting any part of outstanding ABR loans (other than swingline loans) to LIBOR loans and converting any outstanding LIBOR loan to an ABR loan, subject to the payment of LIBOR breakage costs. With respect to LIBOR loans, interest was payable in arrears at the end of each applicable interest period, but in any event at least every three months. With respect to ABR loans, interest was payable on the last business day of each fiscal quarter. In each case, calculations of interest were based on a 360-day year (or 365 or 366 days, as the case may be, in the case of loans based on the administrative agent's prime ABR rate, and loans in any jurisdiction where the relevant interbank market practice was to use a 365 or 366 day year) and actual days elapsed.

cxLoyalty's obligations under the Amended Credit Agreement continued to be guaranteed by cxLoyalty Holdings and by each of cxLoyalty's existing and subsequently acquired or organized domestic subsidiaries, subject to certain exceptions, and certain existing and subsequently acquired foreign subsidiaries, subject to certain exceptions.

The Amended Credit Agreement continued to be secured to the extent legally permissible by substantially all the assets of (i) cxLoyalty Holdings, which continued to consist of a perfected first-priority pledge of all cxLoyalty's capital stock and (ii) cxLoyalty and the subsidiary guarantors, including but not limited to: (a) a first-priority pledge of substantially all capital stock held by cxLoyalty or any subsidiary guarantor (which pledge, with respect to stock of certain foreign subsidiaries, may be limited to 100% of the non-voting stock (if any) of such foreign subsidiaries and 65% of the voting stock of such foreign subsidiaries) and (b) perfected first-priority security interests in substantially all tangible and intangible assets of cxLoyalty and each subsidiary guarantor, subject to certain exceptions.

The Amended Credit Agreement contained financial, affirmative and negative covenants that we believe were usual and customary for a senior secured credit agreement. The negative covenants in the Amended Credit Agreement included, among other things, limitations (all of which were subject to certain exceptions) on cxLoyalty's and its restricted subsidiaries' (and in certain cases, cxLoyalty Holdings') ability to:

- declare dividends and make other distributions;
- redeem or repurchase cxLoyalty's or such restricted subsidiary's capital stock;
- prepay, redeem or repurchase certain of cxLoyalty's or such restricted subsidiary's junior indebtedness;
- make loans or investments (including acquisitions);
- incur additional indebtedness;

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- grant liens;
- enter into sale-leaseback transactions;
- modify the terms of subordinated debt (and certain senior unsecured debt);
- enter into agreements that would restrict the ability of cxLoyalty's subsidiaries to pay dividends;
- change cxLoyalty's or such restricted subsidiary's business or the business of its subsidiaries;
- merge or enter into acquisitions;
- sell cxLoyalty's or such restricted subsidiary's assets; and
- enter into transactions with cxLoyalty's affiliates.

In addition, the Amended Credit Agreement required cxLoyalty to comply with a maximum Senior Secured Leverage Ratio (as defined in the Amended Credit Agreement) beginning with the fiscal quarter ended September 30, 2020.

The events of default under the Amended Credit Agreement included, among others, nonpayment, material misrepresentations, breach of covenants, insolvency, bankruptcy, certain judgments, change of control (as defined in the Amended Credit Agreement) and cross-events of defaults and acceleration on material indebtedness. Upon the occurrence of an event of default and the acceleration of the outstanding term loans under the Amended Credit Agreement (including, without limitation, by way of automatic acceleration), the applicable prepayment premium that would have been due if the term loans were optionally prepaid at such time should also have become due and payable.

The New Notes

On April 10, 2019, cxLoyalty issued $357.0 million aggregate principal amount of New Notes under a new indenture (the "New Notes Indenture") by and among cxLoyalty, the guarantors party thereto and GLAS Trust Company LLC, as trustee.

The New Notes were unsecured senior obligations of cxLoyalty, as issuer, and each of cxLoyalty Holdings' and cxLoyalty's restricted subsidiaries that guaranteed the Amended Credit Agreement (collectively, the "Guarantors"), as guarantors; provided that the obligations of any Guarantor that was organized in any jurisdiction other than the United States or the United Kingdom with respect to its guarantee was subordinated in right of payment to the prior payment in full in cash of all obligations under the Amended Credit Agreement (as amended, restated, amended and restated, supplemented, refinanced, replaced or otherwise modified). The New Notes were to mature on October 10, 2024, at their principal amount, plus accrued and unpaid interest to, but not including, the maturity date.

Interest on the New Notes accrued at a rate per annum of 18.00%. Interest on the New Notes was payable semi-annually in arrears on April 10 and October 10, commencing on October 10, 2019. The Company was to make each interest payment to the holders of record of the New Notes on the March 26 or September 25 record date immediately preceding the related interest payment date. The New Notes accrued interest from the most recent date to which interest was paid or, if no interest had been paid, from and including October 10, 2024, and was computed on the basis of a 360-day year comprised of twelve 30-day months. Interest was payable on the New Notes by increasing the principal amount of each holder's New Notes in the register by an amount equal to the amount of interest for the applicable interest period (rounded up to the nearest whole dollar) for such holder's New Notes (the "PIK Payment"). Following an increase in the principal amount of New Notes as a result of a PIK Payment, such New Notes bore interest on such increased principal amount from and after the interest payment date in respect of which such PIK Payment was made.

cxLoyalty might have redeemed the New Notes, at its option, in whole at any time or in part from time to time, upon not less than 10 nor more than 60 days' prior notice sent electronically or mailed by first-class mail to each holder's registered address, at a redemption price equal to 100% of the principal amount of the New Notes, plus accrued and unpaid interest, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

Subject to the terms of the Amended Credit Agreement, at any time, upon a Change of Control (as defined in the New Indenture), holders had the right to require cxLoyalty to make an offer to purchase the holders' New Notes, in each case at a purchase price equal to 100% of the principal amount of the New Notes, plus accrued and unpaid interest, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

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The New Indenture contained certain covenants that limited cxLoyalty's ability and the ability of its restricted subsidiaries to, among other things, (i) incur or guarantee additional indebtedness, or issue disqualified stock or preferred stock; (ii) pay dividends or make distributions; (iii) repurchase or redeem capital stock of cxLoyalty or any parent of cxLoyalty or subordinated indebtedness of cxLoyalty or any restricted subsidiary of cxLoyalty; (iv) make investments or acquisitions; (v) incur restrictions on the ability of certain of cxLoyalty's subsidiaries to pay dividends or to make other payments to cxLoyalty; (vi) enter into transactions with affiliates; (vii) create liens; (viii) merge or consolidate with other companies or transfer all or substantially all of cxLoyalty's assets; and (ix) prepay, redeem or repurchase debt that is junior in right of payment to the New Notes. In addition, the covenants restricted cxLoyalty Holdings' ability to engage in certain businesses or business activities. cxLoyalty was also required to deliver financial statements of cxLoyalty and its restricted subsidiaries. As of December 31, 2019, cxLoyalty was in compliance with all applicable covenants in the New Indenture.

The New Indenture also provided that if the Consolidated Net Leverage Ratio of cxLoyalty on the maturity date of the New Notes was greater than or equal to 8.50 to 1.00, then, in lieu of cxLoyalty making any required principal payment on the New Notes on such maturity date, the holders of a majority in aggregate principal amount of the New Notes outstanding might have, with the consent of the Company elected to convert the then outstanding principal amount of the New Notes into Common Stock, equal to a percentage of the fully diluted equity of the Company (calculated prior to dilution from the issuance of any Common Stock, or securities convertible into Common Stock, in each case issued under the New MIP), calculated by multiplying (A) 99.9999 by (B) (1) the aggregate outstanding principal amount of New Notes and any additional New Notes issued under the indenture (calculated after giving effect to any PIK Payments) as of such date divided by (2) the aggregate principal amount of New Notes and any additional New Notes issued under the indenture (including 18% PIK interest paid semi-annually on such New Notes and additional New Notes from the date of issuance thereof to the maturity date).

2018 Financing Transactions

On November 14, 2018, the Second Lien Commitment Parties delivered a commitment letter (the "Second Lien Commitment Letter") to cxLoyalty and cxLoyalty Holdings. Pursuant to the Second Lien Commitment Letter, the Second Lien Commitment Parties had committed to provide revolving loans to cxLoyalty under a revolving credit facility (the "Second Lien Facility") in the original principal amount of $20.5 million (the "Commitment Financing"), which amount could have been increased, on or before June 30, 2019 at the option of cxLoyalty and subject to the consent of the Second Lien Commitment Parties, by an amount of up to $17.0 million (the "Incremental Financing" and, together with the Commitment Financing, the "Second Lien Facility Financing"), subject to the terms and conditions set forth in the Second Lien Commitment Letter.

The Company had the right, but not the obligation, to enter into the Second Lien Facility prior to the closing of the 2019 Recapitalization; however, the Company did not exercise such right and accordingly did not enter into the Second Lien Facility.

On November 14, 2018, cxLoyalty, as borrower, entered into the Fourth Amendment to the 2017 Credit Agreement (the "Fourth Amendment"). The Fourth Amendment was entered into among cxLoyalty, HPS Investment Partners, LLC, as administrative agent, the Required Lenders (as defined in the 2017 Credit Agreement), and for purposes of certain provisions contained therein, and each other Loan Party party thereto, including cxLoyalty Holdings, as guarantor.

Pursuant to the Fourth Amendment, the parties amended the 2017 Credit Agreement to, among other things, (x) permit the immediate release of $45.0 million of the $50.0 million of the proceeds from the ABG Sale, (i) $32.0 million of which was able to be used by cxLoyalty for working capital needs and/or to make an investment in one or more businesses, or capital expenditures or assets and (ii) $13.0 million of which was to be used to immediately prepay outstanding term loans under the 2017 Credit Agreement, together with the required premium in an amount equal to 3.00% of the aggregate principal amount being so prepaid (the "Fourth Amendment Prepayment") and (y) modify certain provisions in the 2017 Credit Agreement in order to permit the Second Lien Facility Financing, which was to be secured on a second lien basis on the same collateral that secures the 2017 Credit Agreement. In addition, the Fourth Amendment (i) authorized the administrative agent under the 2017 Credit Agreement to enter into an intercreditor agreement with respect to the Second Lien Facility Financing, (ii) provided that the prepayment or repayment of the next $31.0 million in principal amount of term loans, other than regularly scheduled amortization payments, was to be accompanied by a prepayment premium equal to the greater of 3% and the prepayment premium that would otherwise have been payable in connection with such prepayment or repayment, and (iii) made modifications to certain of the restrictive covenants contained in the 2017 Credit Agreement.

The Fourth Amendment was conditioned upon, among other things, receipt of the Commitment Letter. We refer to the entry into the Fourth Amendment, the receipt of the Commitment Letter and the transactions contemplated thereby as the "2018 Financing Transactions."

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2017 Credit Agreement Refinancing

On May 10, 2017, cxLoyalty entered into the 2017 Credit Agreement having a five year maturity with a lender, pursuant to which the lender provided term loans in an aggregate principal amount equal to $1.3 billion and committed to provide revolving loans in an aggregate principal amount at any one time outstanding not to exceed $110.0 million, decreasing to $80.0 million on May 10, 2018. As a result of the Second Amendment to the 2017 Credit Agreement entered into on May 4, 2018, the date of such reduction was not to occur until August 10, 2018. The proceeds of the term loans under the 2017 Credit Agreement were used by cxLoyalty to refinance its prior credit facility (the "2017 Credit Agreement Refinancing"), to redeem all of its outstanding $118.5 million in aggregate principal amount of 7.5% Cash/Pay-in-Kind ("PIK") Senior Notes due 2018 (the "International Notes Redemption"), to pay transaction fees and expenses and for general corporate purposes.

The term loans provided for quarterly amortization payments totaling (i) for the first two years after May 10, 2017, 1% per annum, (ii) for the third year after May 10, 2017, 2.5% per annum, and (iii) for each year thereafter, 5% per annum, in each case, payable quarterly, with the balance due upon the final maturity date, subject in each case, to reduction of such amortization payments for certain prepayments. The 2017 Credit Agreement also required mandatory prepayments of the outstanding term loans based on excess cash flow (as defined in the 2017 Credit Agreement), if any, and the proceeds from certain specified transactions.

The interest rates with respect to the term loans and revolving loans under the 2017 Credit Agreement were based on, at cxLoyalty's option, (x) the higher of (i) adjusted LIBOR and (ii) 1.00%, in each case, plus 7.75%, or (y) the highest of (i) the prime rate, (ii) the Federal Funds Effective Rate plus 0.5%, and (iii) 2.00% ("ABR") in each case plus 6.75%.

cxLoyalty's obligations under the 2017 Credit Agreement were, and cxLoyalty's obligations under any interest rate protection or other hedging arrangements entered into with a lender or any of its affiliates were, guaranteed by cxLoyalty Holdings and by each of cxLoyalty's existing and subsequently acquired or organized domestic subsidiaries, subject to certain exceptions. The 2017 Credit Agreement was secured on a first-priority basis to the extent legally permissible by substantially all of the assets of (i) cxLoyalty Holdings, which consisted of a pledge of all the Company's capital stock and (ii) cxLoyalty and the subsidiary guarantors, including but not limited to: (a) a pledge of substantially all capital stock held by cxLoyalty or any subsidiary guarantor and (b) security interests in substantially all tangible and intangible assets of cxLoyalty and each subsidiary guarantor, subject to certain exceptions. The 2017 Credit Agreement also contained financial, affirmative and negative covenants. The negative covenants in the 2017 Credit Agreement included, among other things, limitations (all of which are subject to certain exceptions) on cxLoyalty's (and in certain cases, cxLoyalty Holdings') ability to: declare dividends and make other distributions, redeem or repurchase cxLoyalty's capital stock; prepay, redeem or repurchase certain of cxLoyalty's subordinated indebtedness; make loans or investments (including acquisitions); incur additional indebtedness (subject to certain exceptions); enter into agreements that would restrict the ability of cxLoyalty's subsidiaries to pay dividends; merge or enter into acquisitions; sell assets; and enter into transactions with affiliates. The 2017 Credit Agreement required cxLoyalty to comply with (a) a maximum ratio of senior secured debt to EBITDA (as defined in the 2017 Credit Agreement) and (y) a minimum ratio of EBITDA to consolidated fixed charges.

On November 30, 2017 cxLoyalty, as borrower, entered into the First Amendment to the 2017 Credit Agreement, pursuant to which the parties (i) revised the terms of the 2017 Credit Agreement in order for certain of the lenders under the revolving facility established thereunder to act as issuing banks in respect of letters of credit and as swingline lenders, (ii) modified certain provisions relating to the mechanics surrounding letters of credit and swingline loans, and (iii) set aggregate sub-limits for both letter of credit commitments and swingline commitments at $20.0 million.

On May 4, 2018, cxLoyalty, as borrower, entered into the Second Amendment to the 2017 Credit Agreement (the "Second Amendment"), pursuant to which cxLoyalty amended the 2017 Credit Agreement. The Second Amendment was entered into among cxLoyalty, HPS Investment Partners, LLC, as administrative agent, the Revolving Facility Lenders (as defined therein), and for purposes of certain provisions contained therein, each other Loan Party party thereto, including the Company, as guarantor.

Pursuant to the Second Amendment, the parties revised the 2017 Credit Agreement in order to modify the date upon which the aggregate Revolving Facility Commitment (as defined in the 2017 Credit Agreement) was reduced from $110.0 million to $80.0 million. As a result of the Second Amendment, the date of such reduction was not to occur until August 10, 2018.

On July 16, 2018, cxLoyalty, as borrower, entered into the Third Amendment to the 2017 Credit Agreement (the "Third Amendment"), pursuant to which cxLoyalty amended the 2017 Credit Agreement. The Third Amendment was entered into among cxLoyalty, HPS Investment Partners, LLC, as administrative agent, the Revolving Facility Lenders, and for purposes of certain provisions contained therein, each other Loan Party party thereto, including the Company, as guarantor.

CXLOYALTY GROUP HOLDINGS, INC.
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Pursuant to the Third Amendment, the parties revised the 2017 Credit Agreement in order to (i) allow the Total Secured Leverage Ratio (as defined in the 2017 Credit Agreement), for the purposes of the requirement of a 5.275x Total Secured Leverage Ratio for the ABG Sale, to be calculated net of cash received by cxLoyalty from the ABG Sale, (ii) modify certain provisions relating to mandatory prepayments in order to allow for the application of the proceeds from the ABG Sale towards existing amortization payments such that amortization equals 0.25% per quarter through March 31, 2020, then increases to 0.625% per quarter through March 31, 2021 and finally increases to 1.25% per quarter thereafter, with remainder of the proceeds being applied to the bullet payment at maturity, (iii) modify the provision which contemplates an automatic reduction in the available revolving credit amount from $110.0 million to $80.0 million to delay such automatic reduction until May 10, 2021, (iv) create a permitted reinvestments basket which would allow for up to $50.0 million of the proceeds from the ABG Sale to be retained, subject to certain restrictions, including the requirement that such proceeds be held in a segregated account subject to the sole control of administrative agent, which shall only be released to cxLoyalty (A) with the agent's consent or (B) if used to prepay Term Loans (as defined in the 2017 Credit Agreement) at 103% (with any such proceeds remaining after nine months to be used to prepay Term Loans at 103%), (v) increase general call protection (for prepayments/acceleration not related to a change of control) to 2% upon the fourth anniversary of the closing of the 2017 Credit Agreement, (vi) revise certain addbacks and Pro Forma Basis (as defined in the 2017 Credit Agreement) adjustments to reflect the projected change in EBITDA following the ABG Sale, (vii) reduce and/or delete certain negative covenant baskets and (viii) reduce certain material indebtedness and cross-default thresholds.

In connection with the 2017 Credit Agreement Refinancing and International Notes Redemption, transaction fees and expenses of $17.1 million and $3.4 million related to the term loans and revolving facility, respectively, under the 2017 Credit Agreement were capitalized and amortized over the term of the term loans and revolving facility, respectively. The Company also incurred lender transaction fees of $36.3 million, which were accounted for as a debt discount and were amortized over the term of the term loans and revolving financing facility. In connection with the 2019 Recapitalization, the amortization periods for a portion of unamortized transaction fees and expenses and debt discount were adjusted to the terms of the 2019 Term Loans and New Notes, as appropriate.

ABG Sale

On August 15, 2018, cxLoyalty Group, LLC completed the ABG Sale pursuant to the Purchase Agreement. The consideration paid by the Purchaser, subject to a working capital adjustment as set forth in the Purchase Agreement, and the net gain recognized in connection with the ABG Sale for the years ended December 31, 2019 and 2018 was as follows:

	For the Year Ended December 31,	
	2019	2018
	(in millions)	
Cash received	$ 0.5	$ 542.5
Net assets sold	—	(58.9)
Direct costs to sell	3.2	(10.5)
Gain on sale of business before income taxes	$ 3.7	$ 473.1

Immediately following the closing of the ABG Sale, the Company repaid $466.7 million principal amount of long-term debt plus an associated repayment premium of $14.0 million under the 2017 Credit Facility. Repayment premiums paid are included in principal payments on borrowings on the accompanying consolidated statement of cash flows for the year ended December 31, 2018. See Note 10—Long-Term Debt for more information on the 2017 Credit Facility and amendments thereto.

During the year ended December 31, 2019, cxLoyalty Group, LLC and the Company finalized the working capital adjustment and the Company resolved certain outstanding liabilities related to direct costs to sell, which resulted in the recognition of an additional $3.7 million of net gain before income taxes in connection with the ABG Sale. The net proceeds were used to repay a portion of outstanding term loans under the Amended Credit Agreement.

The Purchase Agreement contained customary representations, warranties and covenants, including a covenant that cxLoyalty will not compete with the business of ABG for a period of five years. The Purchaser also agreed not to compete with certain businesses of cxLoyalty and cxLoyalty Group, LLC for five years. The Purchase Agreement also contained mutual indemnification for breaches of representations and warranties and failure to perform covenants or obligations contained in the Purchase Agreement, subject to certain limitations, as well as indemnities related to taxes. As contemplated by the Purchase Agreement, the Company, cxLoyalty Group, LLC and certain of cxLoyalty Group, LLC's affiliates entered into related transition services agreements, whereby the Company will provide various services to the Purchaser, including but not limited to, certain general and administrative activities and the Purchaser or ABG will provide various services to the Company and its affiliates, including, but not limited to, certain data support and insurance services. The transition services agreements are not expected to have a material effect on the Company's consolidated statement of comprehensive income (loss).

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The parties to the Purchase Agreement also executed certain separate and distinct long-term arrangements related to information technology support, call center operations and packaging services to be provided for five years. The effect of providing the services under the long-term arrangements for the years ended December 31, 2020 and 2019 totaled $1.4 million and $1.3 million of net expenses, respectively, and the effect from August 15, 2018 through December 31, 2018 totaled $0.8 million of net expenses. These amounts are recorded in other expense, net on the accompanying consolidated statements of comprehensive income (loss) for the years ended December 31, 2020, 2019 and 2018.

The following table includes the major financial statement line items that comprise income from discontinued operations, net of tax for the years ended December 31, 2019 and 2018.

	For the Year Ended December 31,	
	2019	2018 (a)
Operations	(in millions)	
Net revenues	$ —	$ 127.3
Expenses:		
Cost of revenues, exclusive of depreciation and amortization shown separately below:		
Marketing and commissions	—	78.8
Operating costs	—	6.3
General and administrative	—	5.5
Depreciation and amortization	—	0.7
Total expenses	—	91.3
Income from operations	—	36.0
Interest expense	—	(31.2)
Income from discontinued operations before income taxes	—	4.8
Income tax provision	—	—
Income from discontinued operations, net of tax	—	4.8
Disposal		
Gain on sale of business before income taxes	3.7	473.1
Income tax provision	(0.8)	(30.1)
Gain on sale of business, net of tax	2.9	443.0
Income from discontinued operations, net of tax	$ 2.9	$ 447.8

(a) Includes operating results through August 15, 2018, the date the Company completed the ABG Sale.

The operating results reflected above do not fully represent the disposal group's historical operating results, as the results reported within income (loss) from discontinued operations only include expenses that are directly attributable to the disposal group. The allocation of interest to the discontinued operations is based on the specific debt instrument that is required to be repaid as a result of the disposal transaction and is calculated based on the $466.7 million of debt repaid immediately following the closing of the ABG Sale.

The following table provides additional detail related to the net cash provided by (used in) operating and investing activities of the discontinued operations for the years ended December 31, 2019 and 2018:

	For the Year Ended December 31,	
	2019	2018 (a)
	(in millions)	
Net cash provided by operating activities	$ —	$ 11.7
Cash used in investing activities:		
Capital expenditures	$ —	$ (1.7)

(a) Includes cash flows through August 15, 2018, the date the Company completed the ABG Sale.

CXLOYALTY GROUP HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
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5. INTANGIBLE ASSETS AND GOODWILL

Intangible assets consisted of:

	December 31, 2020			December 31, 2019		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(in millions)					
Amortizable intangible assets:						
Member relationships	$ 587.3	$ (586.9)	$ 0.4	$ 585.8	$ (585.0)	$ 0.8
Affinity relationships	502.4	(502.3)	0.1	495.4	(495.3)	0.1
Proprietary databases and systems	45.8	(45.8)	—	45.6	(45.3)	0.3
Trademarks and tradenames	25.2	(25.0)	0.2	25.3	(24.0)	1.3
Patents and technology	22.2	(22.2)	—	22.3	(22.0)	0.3
Covenants not to compete	0.3	(0.3)	—	0.3	(0.3)	—
	$ 1,183.2	$ (1,182.5)	$ 0.7	$ 1,174.7	$ (1,171.9)	$ 2.8

During 2020, foreign currency translation resulted in increases in the gross carrying amount and accumulated amortization of intangible assets of $8.5 million and $8.6 million, respectively. During 2019, foreign currency translation resulted in decreases in the gross carrying amount and accumulated amortization of intangible assets of $0.6 million and $0.5 million, respectively.

Amortization expense relating to intangible assets was as follows:

	For the Year Ended December 31,		
	2020	2019	2018
	(in millions)		
Amortizable intangible assets:			
Member relationships	$ 0.2	$ 0.4	$ 0.4
Affinity relationships	0.1	—	0.6
Proprietary databases and systems	0.4	0.4	0.4
Trademarks and tradenames	1.1	1.4	1.4
	$ 1.8	$ 2.2	$ 2.8

Amortization expense relating to intangible assets for each of the five years following December 31, 2020 is estimated to be $0.2 million in 2021, $0.2 million in 2022 and $0.1 million in each of 2023, 2024 and 2025.

At December 31, 2020 and 2019, and January 1, 2019, the Company had gross goodwill of $473.2 million, $470.5 million and $470.1 million, respectively, and accumulated impairment losses of $413.5 million at each date. The accumulated impairment losses represent the $31.5 million impairment loss recognized in 2012 impairing all of the goodwill assigned in connection with the acquisition of Prospectiv Direct, Inc. included in the Legacy Membership and Package segment and the $292.4 million and the $89.6 million impairment losses recognized in 2014 and 2015, respectively, impairing all of the goodwill included in the Legacy Membership and Package segment.

The changes in the Company's carrying amount of goodwill for the years ended December 31, 2020 and 2019 are as follows:

	Global Customer Engagement	Legacy Membership and Package	Total
Balance at January 1, 2019	$ 56.6	$ —	$ 56.6
Currency translation	0.4	—	0.4
Balance at December 31, 2019	$ 57.0	$ —	$ 57.0
Currency translation	2.7	—	2.7
Balance at December 31, 2020	$ 59.7	$ —	$ 59.7

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6. OTHER CURRENT ASSETS

Other current assets consisted of:

	December 31, 2020	December 31, 2019
	(in millions)	
Income and other taxes receivable	$ 10.2	$ 6.8
Other prepaid expenses	5.0	7.0
Accrued revenues	3.1	4.4
Prepaid information technology costs	2.0	2.2
Profit-sharing receivables from insurance carriers	2.0	1.6
Other	3.0	2.9
	$ 25.3	$ 24.9

7. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of:

	December 31, 2020	December 31, 2019
	(in millions)	
Leasehold improvements	$ 12.8	$ 15.9
Capitalized software	174.3	263.1
Computer equipment	32.8	48.4
Furniture, fixtures and equipment	15.3	15.8
Projects in progress	7.0	14.2
Finance lease right-of-use assets	6.4	4.9
	248.6	362.3
Less: Accumulated depreciation	(200.7)	(313.5)
Total	$ 47.9	$ 48.8

Depreciation expense on property and equipment, including assets acquired under finance leases, totaled $15.4 million, $26.1 million and $24.1 million for the years ended December 31, 2020, 2019 and 2018, respectively.

See Note 8—Leases for more information on the Company's finance leases in effect as of and during the years ended December 31, 2020 and 2019.

8. LEASES

The Company has operating and finance leases for corporate office space and certain equipment. As of December 31, 2020 and 2019, our leases, certain of which include options to extend, and certain of which include options to terminate, have remaining lease terms of less than one year through 9.4 years and of less than one year through 10.0 years, respectively. In determining the lease term on right-of-use assets and lease liabilities, we do not expect to exercise extension options on corporate offices and equipment, and therefore do not include the extension periods in the corresponding lease term. Substantially all of our leases have fixed payment structures.

The Company subleases certain corporate office space to a third party. As of December 31, 2020 and 2019, our sublease has a remaining lease term of 3.1 years and 4.1 years, respectively. In determining the lease term on right-of-use assets and lease liabilities, we do not expect our sub-lessee to exercise an extension option and therefore do not include any extension period in the corresponding lease term. Our sublease has a fixed payment structure.

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Total Lease Cost

The components of total lease cost for the years ended December 31, 2020 and 2019 were as follows:

	For the Year Ended December 31,	
	2020	2019
	(in millions)	
Finance lease cost		
Amortization of right-of-use assets	$ 1.1	$ 1.2
Interest on lease liabilities	0.2	0.2
Total	1.3	1.4
Operating lease cost	9.7	8.9
Variable lease cost	—	—
Operating lease sublease income	(0.1)	(0.1)
Total lease cost	$ 10.9	$ 10.2

Operating lease cost, variable lease cost and operating lease sublease income are presented in the following line items on the accompanying consolidated statement of comprehensive income (loss) for the years ended December 31, 2020 and 2019:

	For the Year Ended December 31,	
	2020	2019
	(in millions)	
Marketing and commissions	$ 0.9	$ 1.1
Operating costs	4.4	3.1
General and administrative	4.3	4.6
Total	$ 9.6	$ 8.8

Amortization of finance lease right-of-use assets and interest on finance lease liabilities are presented in depreciation and amortization and interest expense, respectively, on the accompanying consolidated statement of comprehensive income (loss) for the years ended December 31, 2020 and 2019.

The weighted-average remaining lease term for operating leases as of December 31, 2020 and 2019 was 4.1 years and 4.3 years, respectively. The weighted-average remaining lease term for finance leases as of December 31, 2020 and 2019 was 3.3 years and 3.4 years, respectively.

The weighted-average discount rate applied to operating lease right-of-use assets as of December 31, 2020 and 2019 was 12.0% and 12.6%, respectively, and was based on the lessee's incremental borrowing rate. The weighted-average discount rate applied to finance lease right-of-use assets as of December 31, 2020 and 2019 was 8.0% and 7.8%, respectively, and was based on the rate implicit in the lease.

Supplemental cash flow information related to leases for the years ended December 31, 2020 and 2019 is as follows:

	For the Year Ended December 31,	
	2020	2019
	(in millions)	
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from finance leases	$ 0.2	$ 0.2
Operating cash flows from operating leases	12.3	16.2
Financing cash flows from finance leases	1.1	1.0
Right-of-use assets obtained in exchange for lease obligations, net		
Operating leases	6.4	6.6
Finance leases	1.3	2.5

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The following table presents undiscounted cash flows for each of the next five years and all years thereafter for the operating and finance leases in effect as of December 31, 2020, as well as a reconciliation to amounts recorded on the accompanying consolidated balance sheet as of December 31, 2020:

	2021	2022	2023	2024	2025	2026 and Thereafter	Total
				(in millions)			
Operating lease payments	$ 12.5	$ 11.6	$ 10.1	$ 3.6	$ 1.5	$ 3.3	$ 42.6
Less: imputed interest							(8.4)
Operating lease liabilities							34.2
Finance lease payments	0.9	0.8	0.7	0.4	—	—	2.8
Less: imputed interest							(0.2)
Finance lease liabilities							2.6

9. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of:

	December 31, 2020	December 31, 2019
	(in millions)	
Accounts payable	$ 27.9	$ 29.2
Accrued payroll and related costs	26.8	22.1
Accrued marketing and commissions	23.9	11.2
Accrued legal and professional fees and loss contingency accruals	16.4	18.4
Current operating lease liabilities	9.0	7.3
Accrued product costs	7.8	13.4
Other	29.9	27.9
Total	$ 141.7	$ 129.5

10. LONG-TERM DEBT

Long-term debt consisted of:

	December 31, 2020		December 31, 2019	
	Principal Amount	Carrying Value	Principal Amount	Carrying Value
		(in millions)		
Senior cash 12.5%/ PIK step-up to 15.5% notes due 2022, with a carrying value net of unamortized discount of $0.2 million as of December 31, 2019	$ —	$ —	$ 12.4	$ 12.2
Finance lease obligations	2.6	2.6	1.9	1.9
Total debt	2.6	2.6	14.3	14.1
Less: current portion of long-term debt	(0.8)	(0.8)	(0.7)	(0.7)
Less: unamortized deferred financing costs	—	—	—	(0.1)
Long-term debt	$ 1.8	$ 1.8	$ 13.6	$ 13.3

During the year ended December 31, 2020, cxLoyalty repaid $14.4 million aggregate principal amount of 2017 Notes as well as $1.2 million of accrued interest and early termination penalties. As of December 31, 2020, no 2017 Notes remained outstanding.

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The aggregate maturities of debt, including finance leases, for each of the five years that follow December 31, 2020 are as follows:

		(in millions)
2021	$	0.8
2022		0.7
2023		0.7
2024		0.4
2025		—

2019 Recapitalization

On March 4, 2019, noteholders of cxLoyalty's outstanding 2017 Notes, which collectively held, as of such date, approximately $647 million (95%) aggregate principal amount of the outstanding 2017 Notes, and the lenders holding approximately $904 million (96%) aggregate principal amount of the outstanding term loans and revolving loans under the 2017 Credit Agreement entered into the Support Agreement with cxLoyalty Holdings, cxLoyalty and certain other subsidiaries of the Company. Among other things, the Support Agreement contemplated (i) a private offer to exchange outstanding 2017 Notes for shares of cxLoyalty Holdings' Class M Common Stock, which shares of Class M Common Stock were converted immediately following the consummation of the 2019 Exchange Offer as a result of the Merger (as defined below) into shares of Common Stock, par value $0.000001 per share, of cxLoyalty Holdings as the surviving entity, (ii) entry into the Amended Credit Agreement, (iii) the 2019 Rights Offering giving tendering holders of the 2017 Notes and certain holders of Old Common Stock the right to purchase an aggregate principal amount of $300.0 million of the New Notes for an aggregate cash purchase price of $300.0 million and (iv) the Second Lien Commitment Parties agreed to waive certain conditions and requirements under the Second Lien Commitment Letter and agreed to amend terms relating to the repayment of amounts outstanding under the Second Lien Facility and related fees, if funded, as set forth in the Support Agreement. Pursuant to the Support Agreement, each of the Consenting Noteholders agreed to tender its 2017 Notes in the 2019 Exchange Offer in exchange for the Class M Common Stock, New Penny Warrants (as defined below), as applicable, and the right to participate in its pro rata share of the 2019 Rights Offering. Upon closing of the 2019 Exchange Offer, there remained outstanding $10.7 million aggregate principal amount of the 2017 Notes.

In connection with the consummation of the 2019 Recapitalization, on March 20, 2019, cxLoyalty entered into the Supplemental Indenture between cxLoyalty and Wilmington Trust, National Association, as trustee, to the 2017 Notes Indenture. The Supplemental Indenture, which became operative on April 10, 2019, amended the 2017 Notes Indenture by (a) eliminating substantially all of the restrictive covenants, (b) making amendments to certain existing terms and (c) eliminating certain events of default and related provisions contained in the 2017 Notes Indenture.

2017 Exchange Offers, Issuance of 2017 Notes and 2017 Warrants and Redemptions of Other Existing Notes

On May 10, 2017, (a) cxLoyalty completed a private offer to exchange or repurchase at the holder's election (collectively, the "AGI Exchange Offer") cxLoyalty's 7.875% senior notes due 2018 (the "2010 senior notes") for (i) new Senior Cash 12.5%/ PIK Step-Up to 15.5% Notes due 2022 of cxLoyalty (the "2017 Notes") and new warrants (the "2017 Warrants") to acquire Old Common Stock, issued pursuant to that certain Warrant Agreement, dated as of May 10, 2017, by and between cxLoyalty Holdings and American Stock Transfer & Trust Company, LLC, as transfer agent (the "2017 Warrant Agreement") or (ii) cash; (b) cxLoyalty Holdings completed a private offer to exchange or repurchase at the holder's election (collectively, the "Holdings Exchange Offer") cxLoyalty Holdings' 13.75%/14.50% senior secured PIK/toggle notes due 2018 (the "2013 senior notes") for (i) 2017 Notes and 2017 Warrants or (ii) cash; and (c) cxLoyalty Investments, LLC ("cxLoyalty Investments") completed a private offer to exchange or repurchase at the holder's election (collectively, the "Investments Exchange Offer" and, together with the AGI Exchange Offer and the Holdings Exchange Offer, the "2017 Exchange Offers") cxLoyalty Investments' 13.50% senior subordinated notes due 2018 (the "Investments senior subordinated notes") for (i) 2017 Notes and 2017 Warrants or (ii) cash.

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Previously, in connection with the 2017 Exchange Offers, on March 31, 2017, Elliott, Franklin Mutual Quest Fund, an affiliate of Franklin Mutual Advisers, LLC ("Franklin"), Empyrean and Metro SPV (collectively, in such capacity, the "Investors"), all of whom were, at the time of the closing, or became, as a result of the 2017 Exchange Offers, Issuance of the 2017 Notes and 2017 Warrants and redemption of cxLoyalty's 2010 senior notes, related parties, entered into an investor purchase agreement (the "2017 Investor Purchase Agreement") with cxLoyalty Holdings, cxLoyalty and cxLoyalty Investments, in which they agreed to purchase 2017 Notes and 2017 Warrants in an aggregate principal amount sufficient to pay all holders that participate in the 2017 Exchange Offers and elect to receive cash. Further, pursuant to the 2017 Investor Purchase Agreement, if cxLoyalty Holdings, cxLoyalty or cxLoyalty Investments exercised its option to redeem any of cxLoyalty's 2010 senior notes, cxLoyalty Holdings' 2013 senior notes and/or the Investments senior subordinated notes not tendered in the 2017 Exchange Offers, the Company could obligate the Investors to purchase an aggregate principal amount of the 2017 Notes and 2017 Warrants that would yield sufficient cash proceeds to fund any such redemptions. In addition, pursuant to the terms of the 2017 Investor Purchase Agreement, cxLoyalty was required to pay to the Investors upon the closing of the 2017 Exchange Offers a commitment premium of $17.5 million and a funding premium of $7.4 million in aggregate principal amount of the 2017 Notes and the same number of 2017 Warrants that such principal amount of the 2017 Notes would have been issued as part of the 2017 Exchange Offers.

Also, on May 10, 2017, cxLoyalty exercised its option to redeem cxLoyalty's 2010 senior notes that were not tendered in the AGI Exchange Offer and to fund such redemption with proceeds from the Investors pursuant to the terms of the 2017 Investor Purchase Agreement.

On May 10, 2017, cxLoyalty issued $532.6 million aggregate principal amount of the 2017 Notes and cxLoyalty Holdings issued 2017 Warrants to purchase 3,974,581 shares of Old Common Stock.

On June 13, 2017, (i) cxLoyalty Holdings exercised its option to redeem the $11.5 million in aggregate principal amount of cxLoyalty Holdings' 2013 senior notes that were not tendered in the Holdings Exchange Offer and to fund such redemption with proceeds from the Investors pursuant to the terms of the 2017 Investor Purchase Agreement and (ii) cxLoyalty Investments exercised its option to redeem the $10.2 million in aggregate principal amount of the Investments senior subordinated notes that were not tendered in the Investments Exchange Offer and to fund such redemption with proceeds from the Investors pursuant to the terms of the 2017 Investor Purchase Agreement.

On July 17, 2017, pursuant to the 2017 Investor Purchase Agreement, cxLoyalty issued $23.7 million aggregate principal amount of the 2017 Notes to the Investors and cxLoyalty Holdings issued 2017 Warrants to the Investors. Pursuant to the 2017 Investor Purchase Agreement, the Investors paid a purchase price of $23.5 million to cxLoyalty, which amount includes the payment of pre-issuance accrued interest of $0.6 million from May 10, 2017. The 2017 Notes and 2017 Warrants issued by cxLoyalty and cxLoyalty Holdings, respectively, to the Investors include the funding premium payable under the 2017 Investor Purchase Agreement. The 2017 Notes constitute a further issuance of, and form a single series with, the $532.6 million in aggregate principal amount of the 2017 Notes that cxLoyalty issued on May 10, 2017.

Transaction fees and expenses of $8.4 million related to the issuance of the 2017 Notes were capitalized and were amortized over the term of the 2017 Notes using the effective interest method. In connection with the 2019 Recapitalization, a portion of unamortized transaction fees and expenses were amortized over the term of the New Notes using the effective interest method.

The 2017 Notes bore interest at the rate per annum as follows:

For any interest payment period ending on or prior to the date that is the 18 month anniversary of the settlement date of the 2017 Exchange Offers (the "Settlement Date"), cxLoyalty might have, at its option, elected to pay interest on the 2017 Notes (1) entirely in cash ("Cash Interest") at a rate per annum of 12.5% or (2) entirely by increasing the principal amount of the outstanding 2017 Notes or by issuing PIK notes ("PIK Interest") at a rate per annum of 14.0%, provided that interest for the first interest period commencing on the Settlement Date was payable entirely in PIK Interest. The interest for the first interest period was paid in PIK Interest on November 10, 2017.

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For any interest payment period ending after the date that is the 18 month anniversary of the Settlement Date, (i) if immediately after giving effect to such interest payment, on a pro forma basis, cxLoyalty's Senior Secured Leverage Ratio (as defined in the indenture governing the 2017 Notes (the "2017 Notes Indenture")) was less than or equal to 4.375 to 1.000, cxLoyalty's Consolidated Fixed Charge Coverage Ratio (as defined in the 2017 Notes Indenture) was greater than or equal to 1.375 to 1.000, in each case, as of the last day of the most recently completed fiscal quarter of cxLoyalty immediately preceding the scheduled interest payment date for which internal financial statements are available, and cxLoyalty's Average Liquidity (as defined in the 2017 Notes Indenture) less the amount of the anticipated cash interest payment was equal to or greater than $80.0 million as of the record date for such interest payment, then cxLoyalty was required to pay interest on the 2017 Notes for such interest period entirely in Cash Interest at a rate per annum of 12.5%, (ii) if immediately after giving effect to such interest payment, on a pro forma basis, cxLoyalty's Senior Secured Leverage Ratio was less than or equal to 4.375 to 1.000, cxLoyalty's Consolidated Fixed Charge Coverage Ratio was greater than or equal to 1.250 to 1.000 but less than 1.375 to 1.000, in each case, as of the last day of the most recently completed fiscal quarter of cxLoyalty immediately preceding the scheduled interest payment date for which internal financial statements are available, and cxLoyalty's Average Liquidity less the amount of the anticipated cash interest payment was equal to or greater than $80.0 million as of the record date for such interest payment, then cxLoyalty was required to pay interest on the 2017 Notes for such interest period as a combination ("Combined Interest") of Cash Interest at a rate per annum of 6.5% and PIK Interest at a rate per annum of 7.5% and (iii) if immediately after giving effect to such interest payment, on a pro forma basis, cxLoyalty's Senior Secured Leverage Ratio was greater than 4.375 to 1.000, cxLoyalty's Consolidated Fixed Charge Coverage Ratio was less than 1.250 to 1.000, in each case, as of the last day of the most recently completed fiscal quarter of cxLoyalty immediately preceding the scheduled interest payment date for which internal financial statements are available, or cxLoyalty's Average Liquidity less the amount of the anticipated cash interest payment was less than $80.0 million as of the record date for such interest payment, then cxLoyalty might have elected to pay interest on the 2017 Notes for such interest period as PIK Interest at a rate per annum of: (x) 14.75% for any interest payment period ending on or prior to the date that was the 30 month anniversary of the Settlement Date and (y) 15.5% for any interest payment period ending after the date that was the 30 month anniversary of the Settlement Date; provided that, for the avoidance of doubt, if the aforementioned ratios were satisfied and required cxLoyalty to either pay Cash Interest or Combined Interest for any interest period, as applicable, any restriction in the 2017 Credit Agreement on the payment of such interest shall not have relieved cxLoyalty of such obligation to pay Cash Interest or Combined Interest, as applicable, for such interest period and cxLoyalty shall have taken all such actions as may have been required in order to permit such payment of Cash Interest or Combined Interest, as applicable, for such interest period under the 2017 Credit Agreement (including, without limitation, any required repayment of outstanding borrowings under the revolving facility under the 2017 Credit Agreement).

Interest on the 2017 Notes was payable semi-annually on May 10 and November 10 of each year, commencing on November 10, 2017. The 2017 Notes were to mature on November 10, 2022. Under certain circumstances, the 2017 Notes were redeemable at cxLoyalty's option prior to maturity. If the 2017 Notes were not so redeemed by cxLoyalty, under certain circumstances, cxLoyalty might have been required to make an offer to purchase 2017 Notes.

cxLoyalty's obligations under the 2017 Notes were jointly and severally and fully and unconditionally guaranteed on an unsecured senior basis by the same entities that guaranteed the 2017 Credit Agreement. The 2017 Notes and guarantees thereof were unsecured senior obligations of cxLoyalty and each of the guarantors. Prior to the closing of the 2019 Exchange Offer, the 2017 Notes Indenture contained negative covenants that restricted the ability of cxLoyalty and its restricted subsidiaries from engaging in certain transactions and also contained customary events of default. In addition, the covenants restricted cxLoyalty Holdings' ability to engage in certain businesses or business activities. On March 20, 2019, cxLoyalty entered into Supplemental Indenture No. 1 (the "Supplemental Indenture") between cxLoyalty and Wilmington Trust, National Association, as trustee, to the 2017 Notes Indenture. The Supplemental Indenture, which became operative on April 10, 2019, amended the 2017 Notes Indenture by (a) eliminating substantially all of the restrictive covenants, (b) making amendments to certain existing terms and (c) eliminating certain events of default and related provisions contained in the 2017 Notes Indenture.

11. STOCKHOLDERS' EQUITY (DEFICIT)

As of December 31, 2020 and 2019, the Company's capital stock consisted of a total of 550,000,000 authorized shares, of which 540,000,000 shares, $0.000001 par value per share, are designated as "Common Stock," and 10,000,000 shares, $0.01 par value per share, are designated as "preferred stock." As of December 31, 2020 and 2019, the Company had outstanding 11,354,039 and 11,248,608 shares of Common Stock, respectively. As of December 31, 2020 and 2019, the Company had outstanding Investor Purchase Warrants (as described further below) to purchase 1,249,808 shares of Common Stock. As of December 31, 2020 and 2019, there were no shares of preferred stock outstanding.

During the year ended December 31, 2020, 105,431 shares of Common Stock were issued to settle, on a net basis, share-based compensation awards granted to certain employees of the Company.

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During the year ended December 31, 2019, and in connection with the 2019 Recapitalization, 2017 Warrants to purchase 3,409,050 shares of Old Common Stock were exercised for cash and 2017 Warrants to purchase 983,886 shares of Old Common Stock and the nonparticipating penny warrant of Metro SPV (the "Limited Warrant") to purchase 462,266 shares of Old Common Stock were cashlessly exercised.

During the year ended December 31, 2019, and subsequent to the completion of the 2019 Recapitalization, Elliott received all regulatory approvals of, and submitted all required notices to, each governmental entity whose consent from, or notice to, was required for Elliott's exercise of its New Penny Warrants and accordingly, New Penny Warrants to purchase 10,522,940 shares of Common Stock were cashlessly exercised. As of December 31, 2020 and 2019, no New Penny Warrants were outstanding.

In connection with the 2019 Exchange Offer, on February 28, 2019, the holders of 66-2/3% of the issued and outstanding 2017 Warrants consented to an amendment to the 2017 Warrant Agreement as a result of which the 2017 Warrants, if unexercised, were mandatorily cashlessly exercised immediately following the consummation of the 2019 Exchange Offer but immediately prior to the consummation of the Merger. Certain Consenting Stakeholders exercised their warrants using full physical settlement effective immediately following the consummation of the 2019 Exchange Offer but immediately prior to the consummation of the Merger. In addition, Metro SPV exercised for cash its Limited Warrant effective immediately following the consummation of the 2019 Exchange Offer but immediately prior to the consummation of the Merger.

On April 10, 2019, cxLoyalty Holdings completed the 2019 Recapitalization. To the extent that the issuance of Common Stock to any investor or group of investors (whether as a result of participation in the 2019 Exchange Offer, the 2019 Pre-Emptive Rights Offer or pursuant to the Investor Purchase Agreement) required the consent of, or notice to, any governmental authority (including the U.K. Financial Conduct Authority), and such consent or notice had not been obtained or delivered prior to the settlement of the 2019 Exchange Offer, new penny warrants ("New Penny Warrants") were issued in lieu of shares of Common Stock. Pursuant to the 2019 Exchange Offer, $670.8 million of the 2017 Notes were exchanged for 725,678 shares of Common Stock and 10,522,940 New Penny Warrants.

In connection with the 2019 Rights Offering, the Financing Parties entered into the Investor Purchase Agreement with cxLoyalty Holdings and cxLoyalty, whereby the Financing Parties (or affiliates of the Financing Parties) agreed to purchase from cxLoyalty an aggregate principal amount of New Notes that were unpurchased in the 2019 Rights Offering. On the closing of the 2019 Exchange Offer, cxLoyalty and cxLoyalty Holdings paid the Financing Parties, in accordance with the terms of the Investor Purchase Agreement, a financing premium of (i) $57.0 million in aggregate principal amount of New Notes and (ii) 16,169 shares of Common Stock and 1,389,908 New Penny Warrants, equal to 12.5% of the outstanding Common Stock, after giving effect to the 2019 Exchange Offer, the Merger, the 2019 Pre-Emptive Rights Offer and the payment of such financing premium (but before giving effect to any dilution from the New MIP and the New Investor Warrants).

Immediately following the consummation of the 2019 Exchange Offer and the exercises of the 2017 Warrants and the Limited Warrant, AGHI Merger Sub, Inc., a Delaware corporation and direct wholly-owned subsidiary of cxLoyalty Holdings ("Merger Sub"), merged with and into cxLoyalty Holdings with cxLoyalty Holdings as the surviving entity (the "Merger"). The Merger was approved by the board of directors and stockholders of each of cxLoyalty Holdings and Merger Sub. As a result of the Merger, (i) each holder of Class C/D Common Stock received for each share of Class C/D Common Stock cash equal to $0.01 per share of Class C/D Common Stock held thereby, (ii) each holder of Old Common Stock, including as a result of the exercise of 2017 Warrants and the Limited Warrant as described above, received for each share of Old Common Stock 0.089809 New Investor Warrants to be issued by cxLoyalty Holdings (the "New Investor Warrants") and (iii) each holder of Class M Common Stock received for each share of Class M Common Stock one share of Common Stock of the surviving entity. In connection with the issuance of the Class M Common Stock, the Company and its stockholders approved an amendment to cxLoyalty Holdings' Fourth Amended and Restated Certificate of Incorporation to create a new class of common stock, designated as "Class M Common Stock," having par value $0.01 per share (the "Charter Amendment") and Fourth Amended and Restated By-laws to make them consistent with the Charter Amendment.

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Pursuant to the New Investor Warrant Agreement, dated as of April 10, 2019, by and between cxLoyalty Holdings and American Stock Transfer & Trust Company, LLC, as warrant agent, each New Investor Warrant is exercisable for one share of Common Stock at any time, subject to required regulatory approval and filings. In order to exercise its New Investor Warrant, a holder of New Investor Warrants will need to submit an exercise notice to cxLoyalty Holdings, together with payment of the exercise price equal to $67.12 per share. As a result of the Loyalty Spin-Off, the exercise price of the New Investor Warrants was adjusted to $36.422 per share. The New Investor Warrants will be immediately exercisable upon issuance at the option of the holders thereof, and will be mandatorily redeemable by cxLoyalty Holdings on the fifth year anniversary of the initial issuance thereof, for $0.01 per share. New Investor Warrants will not be exercisable if the recipient of the Common Stock to be issued upon exercise has failed to obtain any required consents or waivers from, or failed to file any required notices with, any applicable governmental agency, including the U.K. Financial Conduct Authority. The New Investor Warrants will not be entitled to participate in dividends on Common Stock but instead will benefit from customary anti-dilution protections that result in an adjustment of the conversion price when and if dividends, distributions or stock buy-backs are effected. In addition to the anti-dilution adjustments to exercise price in the event of dividends and distributions declared and paid on Common Stock, the New Investor Warrant has limited and customary anti-dilution adjustments for stock dividends, splits, reverse splits, reclassifications, reorganizations and similar transformative transactions that alter, amend or modify the Common Stock.

The consummation of the 2019 Recapitalization resulted in an "ownership change" for the Company pursuant to Section 382 of the Internal Revenue Code. This substantially limits our ability to use our pre-change net operating loss carryforwards (including those attributable to the 2005 acquisition (the "2005 Acquisition") of the Cendant Marketing Services Division by the Company and an affiliate of Apollo Global Management, Inc.) and certain other pre-change tax attributes.

New Warrant Agreement; New Penny Warrants

In connection with the 2019 Exchange Offer and the Investor Purchase Agreement, on April 10, 2019, cxLoyalty Holdings entered into a Warrant Agreement with American Stock Transfer & Trust Company, LLC, as warrant agent (the "New Warrant Agreement"), setting forth the terms of the New Penny Warrants to purchase shares of Common Stock. Pursuant to the terms of the Warrant Agreement, the New Penny Warrants were immediately exercisable upon issuance and had no stated expiration date. Each New Penny Warrant was exercisable for one share of Common Stock at a price equal to $0.000001.

The New Penny Warrants contained customary provisions for the adjustment of the number of shares of Common Stock issuable upon exercise in the event of the occurrence of any organic dilutive (or anti-dilutive) events, including, but not limited to, splits, combinations, stock dividends and similar transactions, as well as in the event of dividends or distributions in respect of Common Stock to the extent that holders of New Penny Warrants are not permitted to participate on an as-exercised basis.

The New Penny Warrants were immediately exercisable upon issuance and had no stated expiration date. All of the New Penny Warrants were mandatorily exercised no later than two business days after Elliott received all regulatory approvals of, and submitted all required notices to, each governmental entity whose consent from, or notice to, was required for Elliott's exercise of its New Penny Warrants. New Penny Warrants would not have been exercisable if the recipient of the Common Stock to be issued upon exercise had failed to obtain any required consents or waivers from, or had failed to file any required notices with, any applicable governmental agency, including the U.K. Financial Conduct Authority.

Holders of exercisable New Penny Warrants were entitled to participate in dividends on an as-exercised basis. Holders of New Penny Warrants were not entitled to any other rights of holders of Common Stock until, and to the extent, they had validly exercised their New Penny Warrants. Upon exercise, such holders were required to execute signature pages to the Stockholders Agreement (to the extent not already a party thereto).

Neither the New Penny Warrants nor the Common Stock issuable upon the exercise thereof were registered under the Securities Act or any state or foreign securities laws, but were instead issued in reliance upon exemptions from the registration requirements of the Securities Act. As a result, neither the New Penny Warrants nor the shares of Common Stock issuable upon the exercise thereof may be offered or sold within the United States, or to, or for the account or benefit of, any United States person absent registration under, or an applicable exemption from, the registration requirements of the Securities Act and applicable state securities laws.

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12. INCOME TAXES

The income tax (provision) benefit consisted of the following:

	For the Year Ended December 31,		
	2020	2019	2018
		(in millions)	
Current:			
Federal	$ —	$ —	$ —
State	—	0.3	(0.4)
Foreign	(4.0)	0.6	(5.5)
	(4.0)	0.9	(5.9)
Deferred:			
Federal	(0.5)	(0.2)	33.2
State	0.1	0.1	(0.5)
Foreign	(0.2)	0.2	0.3
	(0.6)	0.1	33.0
Income tax (provision) benefit	$ (4.6)	$ 1.0	$ 27.1

As of December 31, 2020 and 2019, the Company's deferred tax assets were primarily the result of U.S. federal, state and foreign net operating loss carryovers, and timing differences related to depreciation and amortization, certain accruals and deferred revenue. The Company's deferred tax liabilities consisted mainly of goodwill. The carrying value of cxLoyalty Holdings' valuation allowance against its deferred tax assets and liabilities at December 31, 2020 and 2019 totaled $160.4 million and $179.3 million, respectively. The $18.9 million decrease is attributable to a decrease in the book to tax temporary differences that require a valuation allowance, partially offset by an increase in the valuation allowance attributable to tax attributes (i.e., net operating losses).

As of December 31, 2020, cxLoyalty Holdings and its subsidiaries had federal net operating loss carryforwards available to offset future taxable income of $176.0 million which will expire in 2033 through 2037, or may be carried forward indefinitely.

As of December 31, 2020, cxLoyalty Holdings and its subsidiaries had net operating loss carryforwards of $365.7 million in foreign jurisdictions which expire, depending on the jurisdiction, between 2021 and 2028, or may be carried forward indefinitely.

The primary differences between the U.S. federal statutory rate and the Company's effective tax rate are due to the change in the valuation allowance, state and local taxes, foreign taxes and other permanent differences.

With the exception of the Company's South African and Turkish subsidiaries, foreign taxable income is recognized currently for U.S. federal and state income tax purposes because such entities are wholly owned by U.S. members and have elected to be disregarded for U.S. federal and state income tax purposes. The Company does not provide for U.S. deferred taxes for basis differences between its financial reporting and tax bases in its South African and Turkish subsidiaries because accumulated earnings, if any, would be considered by management to be permanently reinvested.

As of December 31, 2020 and 2019, the Company's unrecognized tax benefits, including accrued interest and penalties, was $3.6 million and $3.9 million, respectively. The Company recognized interest of $0.2 million, less than $0.1 million and a reduction in interest of $0.2 million for the years ended December 31, 2020, 2019 and 2018, respectively.

The Company's income tax returns are periodically examined by various tax authorities. In connection with these and future examinations, certain tax authorities, including the Internal Revenue Service, may raise issues and impose additional assessments. The Company regularly evaluates the likelihood of additional assessments resulting from these examinations and establishes liabilities, through the provision for income taxes, for potential amounts that may result therefrom. The recognition of uncertain tax benefits are not expected to have a material impact on the Company's effective tax rate or results of operations. Federal, state and local jurisdictions are subject to examination by the taxing authorities for all open years as prescribed by applicable statute. For significant foreign jurisdictions, tax years in Germany, France, Turkey, Switzerland and the United Kingdom remain open as prescribed by applicable statute. During 2019, income tax audits were commenced in Germany and Switzerland, which prevented the closure of the 2013 tax year in Germany and the 2014 tax year in Switzerland. During 2018, income tax waivers were executed in certain states that extend the period subject to examination beyond the period prescribed by statute and no significant changes are anticipated in accordance with the extension of the income tax statutes in these jurisdictions. The Company does not believe that it is reasonably possible that the total amount of unrecognized tax benefits will change significantly within the next twelve months.

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13. COMMITMENTS AND CONTINGENCIES

Litigation

In the ordinary course of business, the Company is involved in claims, governmental inquiries and legal proceedings related to employment matters, contract disputes, business practices, trademark and copyright infringement claims and other commercial matters.

On August 27, 2010, a former member of Webloyalty Holding Inc.'s ("Webloyalty") membership programs filed a putative class action lawsuit against Webloyalty (a wholly-owned subsidiary of cxLoyalty), one of its former clients, and one of the credit card associations in the United States District Court for the District of Connecticut (the "Connecticut District Court"). The plaintiff alleged that Webloyalty's enrollment of the plaintiff using debit card information obtained from a third party via data pass, and not directly from the plaintiff, was deceptive. The plaintiff seeks to represent a nationwide class of consumers whose credit or debit card data was transferred to Webloyalty via data pass on or after October 1, 2008. The complaint, which was amended several times, asserted, among others, claims for violations of the Electronic Funds Transfer Act (the "EFT"), the Electronic Communications Privacy Act (the "ECPA"), and the Connecticut Unfair Trade Practices Act (the "CUTPA") as well as other common law claims. On October 15, 2015, the Connecticut District Court entered judgment dismissing all claims with prejudice. The plaintiff appealed that judgment to the United States Court of Appeals for the Second Circuit (the "Second Circuit"). On December 20, 2016, the Second Circuit affirmed the Connecticut District Court's dismissal in part, but reversed and remanded the dismissal of claims against Webloyalty and its former client under CUTPA and the EFT. The defendants answered the remaining counts of the complaint and denied any liability. The defendants also filed a motion for judgment on the pleadings on the plaintiff's CUTPA claim, and for summary judgment on his EFT claim. On October 26, 2018, the Connecticut District Court entered summary judgment for defendants on the EFT claim, declined to exercise supplemental jurisdiction over the CUTPA claim, and dismissed the CUTPA claim without prejudice. The Connecticut District Court also directed the clerk to close the file. On December 6, 2018, the plaintiff noticed an appeal to the Second Circuit. On March 20, 2020, the Second Circuit affirmed dismissal of the EFT claim and remanded the CUTPA claim to the Connecticut District Court. On June 3, 2020, the parties reached a voluntary settlement of $0.2 million which was paid by the Company.

On November 30, 2015, PNC Bank, N.A. ("PNC") filed a pleading called a Praecipe for Writ of Summons (the "Writ") in the Court of Common Pleas of Allegheny County, Pennsylvania, naming as defendants Trilegiant, ABG, cxLoyalty and/or cxLoyalty Holdings. The parties participated in a non-binding mediation on September 13, 2016. The parties were unable to resolve their dispute in the mediation. On November 18, 2016, PNC filed a complaint in the Pennsylvania Court of Common Pleas against Trilegiant for indemnification, breach of contract, unjust enrichment and breach of implied covenant of good faith and fair dealing. The complaint also alleges negligence and intentional misconduct by other cxLoyalty entities. These claims arise out of consent orders that PNC entered into with the Office of the Comptroller of the Currency (the "OCC") to settle the OCC's Section 5 claim against it. According to PNC, the damages it incurred pursuant to those consent orders were the result of Trilegiant's failure to properly service PNC's customers. Trilegiant's preliminary objections to PNC's complaint were filed on January 12, 2017. On January 30, 2017, the case was transferred from the Court of Common Pleas to the Commerce Court and Complex Litigation Center (the "Commerce Court"). Oral argument on Trilegiant's preliminary objections was held on May 9, 2017. On May 25, 2017, the Commerce Court issued its opinion, dismissing some claims, but keeping the indemnification and unjust enrichment claims. On June 19, 2017, the defendants filed their answer. Fact discovery and expert discovery are now complete. Trilegiant's motion for summary judgment was denied by the Commerce Court on September 9, 2019. The parties agreed to pursue mediation prior to setting a date for trial and a mediation conference was held on October 23, 2019 but did not result in a settlement. A trial is scheduled for the second calendar quarter of 2021.

On November 19, 2018, Hartford Life and Accident Insurance Company ("Hartford") served Franklin Madison Group, formerly ABG, with a complaint in Superior Court for the Judicial District of Hartford, Connecticut. The complaint alleges breach of contract arising out of a May 24, 2004 Administrative Services Agreement and Contingent Commission Agreement (the "Hartford Matter"). Pursuant to the Purchase Agreement in connection with the sale of ABG, the Company agreed to assume the defense and indemnify the Purchaser for the Hartford Matter. The case has been moved to the complex litigation docket and an answer was filed on February 1, 2019. On February 8, plaintiffs filed a motion for pre-judgement remedy to secure $5.5 million. Our motion in opposition was due and filed on April 15, 2019. Our response to Plaintiff's discovery objections was filed on April 29, 2019. A hearing on discovery was held on May 11, 2019. Our motion to compel discovery of claims files was granted on October 9, 2019 and discovery has resumed. On December 31, 2020, we submitted an amended answer asserting counterclaims against Hartford. A trial is scheduled for the second calendar quarter of 2022.

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On May 5, 2020, a loyalty program customer of Capital One, N.A. ("Capital One") filed a putative class action lawsuit against Capital One in the U.S. District Court for the District of New Jersey. The plaintiff alleges violations of the New Jersey Consumer Fraud Act, unjust enrichment, conversion, fraudulent misrepresentation and breach of contract arising from the failure to refund the plaintiff (who has since been refunded) for airline flights that were subsequently canceled due to the COVID-19 pandemic. Pursuant to the 2017 Master Services Agreement between cxLoyalty, Inc. (at the time, a wholly-owned subsidiary of the Company) and Capital One, cxLoyalty, Inc. agreed to assume the defense and indemnify Capital One in connection with the lawsuit. We engaged counsel and filed a motion to dismiss on July 27, 2020. As a result of the Loyalty Spin-Off, cxLoyalty, Inc. is no longer a subsidiary of the Company, and therefore, the risk of loss to the Company associated with this matter was disposed of as of December 30, 2020.

Other Contingencies

From time to time, the Company receives inquiries from federal and state agencies, which may include the Federal Trade Commission, the Federal Communications Commission, the Consumer Financial Protection Bureau, state attorneys general and other state regulatory agencies, including state insurance regulators. The Company responds to these matters and requests for documents, some of which may lead to further investigations and proceedings. Additionally, certain of our clients have become, and others may become, involved in legal proceedings or governmental inquiries relating to our programs and solutions or marketing practices. As a result, we may be subject to claims under our marketing agreements, and as of December 31, 2020 we have accrued $5.3 million for certain asserted claims, including claims for which no litigation has commenced.

From time to time, our international operations also receive inquiries from consumer protection, insurance or data protection agencies. The Company responds to these matters and requests for documents, some of which may lead to further investigations and proceedings.

The Company believes that the amount accrued for the above litigation and contingencies matters is adequate, and the reasonably possible loss beyond the amounts accrued will not have a material effect on its consolidated financial statements, taken as a whole, based on information currently available. However, litigation is inherently unpredictable and, although the Company believes that accruals are adequate and it intends to vigorously defend itself against such matters, unfavorable resolution could occur, which could have a material effect on the Company's consolidated financial statements, taken as a whole.

Other Commitments

In the ordinary course of business, the Company enters into purchase agreements for marketing and membership program support services. In addition, the Company has certain fixed obligations under the Transition Services Agreement. The commitments covered by these agreements as of December 31, 2020 totaled $18.0 million for 2021, $9.5 million for 2022 and $0.1 million for 2023.

Surety Bonds and Letters of Credit

In the ordinary course of business, the Company is required to provide surety bonds to various state authorities in order to operate its membership, insurance and travel agency programs. As of December 31, 2020, the Company provided guarantees for surety bonds totaling $6.7 million and issued letters of credit totaling $6.0 million.

14. SHARE-BASED COMPENSATION

On November 29, 2019, the Company's Board of Directors (the "Board" or "Board of Directors") adopted the Management Incentive Program (the "MIP"), which authorized the Board to grant restricted stock units ("RSUs") and phantom awards to non-employee members of the Board and employees of the Company. Under the MIP, the Board is authorized to deliver to employees of the Company a number of RSUs equal to an aggregate of five percent (5%) of the number of shares of Common Stock outstanding, on a fully diluted basis taking into account such RSUs (but, for the avoidance of doubt, excluding all Investor Purchase Warrants) (the "Employee Share Reserve") and to non-employee directors of the Company a number of RSUs equal to an aggregate of one percent (1%) of the number of shares of Common Stock outstanding, on a fully diluted basis taking into account such RSUs (but, for the avoidance of doubt, excluding all Investor Purchase Warrants) (the "Director Share Reserve"). Phantom awards granted to employees of the Company entitle the holder to a percentage of the Employee Phantom Award Pool (as defined in the MIP), whose value is equal to five percent (5%) of the amount of payments received by holders of the New Notes in excess of $300.0 million. Phantom awards granted to non-employee members of the Board entitle the holder to a percentage of the Director Phantom Award Pool (as defined in the MIP), whose value is equal to one percent (1%) of the amount of payments received by holders of the New Notes in excess of $300.0 million.

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Restricted Stock Units

During the year ended December 31, 2020, 520,548 RSUs were granted to employees of the Company under the MIP. Nine percent (9%) of the RSUs vested immediately, with the remaining RSUs vesting in five substantially equal tranches on each of the five anniversaries of October 10, 2019. As a result of the Loyalty Spin-Off, all outstanding unvested RSUs became fully vested as of December 31, 2020. In addition, as of December 31, 2020, all outstanding vested RSUs held by employees of the Company, with an estimated aggregate intrinsic value of $30.1 million, were settled for a combination of 105,431 shares of Common Stock and $24.8 million. The cash settlement of these RSUs was accounted for as a reduction to Additional paid-in-capital on the Consolidated statement of changes in stockholders' equity (deficit) for the year ended December 31, 2020.

During the year ended December 31, 2020, 57,974 RSUs, with an estimated aggregate intrinsic value of $1.5 million as of December 31, 2020, were granted to a former employee of the Company. The RSUs vested immediately upon grant.

During the year ended December 31, 2019, 119,664 RSUs were granted to non-employee members of the Board of Directors under the MIP. Nine percent (9%) of the RSUs vested immediately, with the remaining RSUs vesting in five substantially equal tranches on each of the five anniversaries of October 10, 2019. As a result of the Loyalty Spin-Off, all outstanding unvested RSUs became fully vested as of December 31, 2020.

A summary of RSU activity under the MIP for the year ended December 31, 2019 is presented below (number of RSUs in thousands):

	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value
Outstanding restricted unvested awards at January 1, 2019	—	
Granted	120	$ 20.14
Vested	(11)	20.14
Outstanding restricted unvested awards at December 31, 2019	109	
Granted	579	20.79
Vested	(688)	20.69
Outstanding restricted unvested awards at December 31, 2020	—	

Based on the estimated fair values of RSUs granted, share-based compensation expense for each of the years ended December 31, 2020 and 2019 totaled $14.2 million (of which $2.4 million is included in Income from discontinued operations, net of tax on the consolidated statement of comprehensive income (loss)) and $0.3 million, respectively. There was no share-based compensation expense related to RSUs recognized for the year ended December 31, 2018. As of December 31, 2020, there was no unrecognized compensation cost related to outstanding RSU awards.

Phantom Awards

During the year ended December 31, 2020, eighty seven percent (87%) of the Employee Phantom Award Pool was granted to employees of the Company. As a result of the Loyalty Spin-Off, the Employee Phantom Award Pool had a value of $9.1 million and $7.8 million was paid to settle all outstanding phantom awards granted to employees. As of December 31, 2020, no employee phantom awards are outstanding.

During the year ended December 31, 2019, one hundred percent (100%) of the Director Phantom Award Pool was granted to non-employee members of the Board of Directors. As a result of the Loyalty Spin-Off, the Director Phantom Award Pool had a value of $1.8 million which is due and payable to the non-employee members of the Board of Directors. As of December 31, 2020, there was no unrecognized compensation cost related to outstanding phantom awards.

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Stock Options

On November 9, 2015, the Board of Directors adopted the 2015 Equity Incentive Plan (the "2015 Plan"), which authorized the Human Resources Committee (formerly the Compensation Committee) to grant stock options and other equity-based awards. Based on the estimated fair values of options granted under the 2015 Plan, no share-based compensation expense was recorded for the year ended December 31, 2020 and share-based compensation expense totaled $0.3 million and $1.7 million for the years ended December 31, 2019 and 2018, respectively, of which $0.1 million and $0.3 million is presented in Income from discontinued operations, net of tax on the consolidated statements of comprehensive income (loss) for the years ended December 31, 2019 and 2018, respectively. In connection with and just prior to the 2019 Recapitalization, all outstanding options under the 2015 Plan were cancelled for no consideration.

15. EMPLOYEE BENEFIT PLANS

The Company sponsors a domestic defined contribution savings plan that provides certain eligible employees an opportunity to accumulate funds for retirement. Under the domestic 401(k) defined contribution plan, from January 1, 2020 through May 15, 2020, the Company matched the contributions of participating employees based on 100% of the first 4% of the participating employee's contributions up to 4% of the participating employee's salary. From May 16, 2020 through December 31, 2020, the Company did not make any matching contributions under the domestic 401(k) defined contribution plan. The Company also sponsors certain other international defined contribution retirement plans that are customary in each local country. Under these local country defined contribution plans, the Company contributes between 6% and 10% of each participating employee's salary or as otherwise provided by the plan. The Company recorded aggregate defined contribution plan expense of $2.8 million, $4.1 million and $4.3 million for the years ended December 31, 2020, 2019 and 2018, respectively.

The Company sponsors certain international defined benefit retirement plans that are customary in each local country, including a multi-employer plan in one country. Under these local country defined benefit pension plans, benefits are based on a percentage of an employee's final average salary or as otherwise described by the plan. These plans are not material, individually or in the aggregate, to the consolidated financial statements.

16. RELATED PARTY TRANSACTIONS

Post-Closing Relationships with Cendant

On October 17, 2005, Cendant Corporation ("Cendant") completed the sale of the Cendant Marketing Services Division to the Company and an affiliate of Apollo, pursuant to a purchase agreement dated July 26, 2005 for approximately $1.8 billion (the "Apollo Transactions").

All references to Cendant refer to Cendant Corporation, which changed its name to Avis Budget Group, Inc. in August 2006, and its consolidated subsidiaries, specifically in the context of its business and operations prior to, and in connection with, the Company's separation from Cendant. In connection with the Apollo Transactions, Cendant has agreed to indemnify the Company, cxLoyalty and the Company's affiliates (collectively the "indemnified parties") for breaches of representations, warranties and covenants made by Cendant, as well as for other specified matters, certain of which are described below. cxLoyalty and the Company have agreed to indemnify Cendant for breaches of representations, warranties and covenants made in the purchase agreement, as well as for certain other specified matters. Generally, all parties' indemnification obligations with respect to breaches of representations and warranties (except with respect to the matters described below) (i) are subject to a $0.1 million occurrence threshold, (ii) are not effective until the aggregate amount of losses suffered by the indemnified party exceeds $15.0 million (and then only for the amount of losses exceeding $15.0 million), and (iii) are limited to $275.1 million of recovery. Generally, subject to certain exceptions of greater duration, the parties' indemnification obligations with respect to representations and warranties survived until April 15, 2007 with indemnification obligations related to covenants surviving until the applicable covenant has been fully performed.

In connection with the purchase agreement, Cendant agreed to specific indemnification obligations with respect to the matters described below.

Excluded Litigation. Cendant has agreed to fully indemnify the indemnified parties with respect to any pending or future litigation, arbitration, or other proceeding relating to accounting irregularities in the former CUC International, Inc. announced on April 15, 1998.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
(Unless otherwise noted, all dollar amounts are in millions, except per share amounts)

Certain Litigation and Compliance with Law Matters. Cendant has agreed to indemnify the indemnified parties up to specified amounts for: (a) breaches of its representations and warranties with respect to legal proceedings that (1) occur after the date of the purchase agreement, (2) relate to facts and circumstances related to the business of cxLoyalty or cxLoyalty International Holdings Limited, and (3) constitute a breach or violation of its compliance with law representations and warranties and (b) breaches of its representations and warranties with respect to compliance with laws to the extent related to the business of cxLoyalty or cxLoyalty International Holdings Limited.

Cendant, cxLoyalty and the Company have agreed that losses up to $15.0 million will be borne solely by the Company and losses in excess of $15.0 million will be shared by the parties in accordance with agreed upon allocations. The Company has the right at all times to control litigation related to shared losses and Cendant has consultation rights with respect to such litigation.

Prior to 2009, Cendant (i) distributed the equity interests it previously held in its hospitality services business ("Wyndham") and its real estate services business ("Realogy") to Cendant stockholders and (ii) sold its travel services business, Travelport, to a third party. Cendant continues as a re-named publicly traded company which owns the vehicle rental business ("Avis Budget," together with Wyndham and Realogy, the "Cendant Entities"). Subject to certain exceptions, Wyndham and Realogy have agreed to share Cendant's contingent and other liabilities (including its indemnity obligations to the Company described above and other liabilities to the Company in connection with the Apollo Transactions) in specified percentages. If any Cendant Entity defaults in its payment, when due, of any such liabilities, the remaining Cendant Entities are required to pay an equal portion of the amounts in default.

New Registration Rights Agreement

In connection with the 2019 Recapitalization, on April 10, 2019, the Company and certain investors holding at least 7% of the Common Stock on a fully diluted basis, including the Consenting Stakeholders, entered into a Registration Rights Agreement (the "New Registration Rights Agreement"), pursuant to which cxLoyalty Holdings has granted the holders the right, under certain circumstances and subject to certain restrictions, to require cxLoyalty Holdings to register under the Securities Act the shares of Common Stock that are held or acquired by them, replacing the A&R Registration Rights Agreement that was terminated in connection with the Merger (the "Old Registration Rights Agreement"). The New Registration Rights Agreement is substantively similar to the Old Registration Rights Agreement, except that there shall be no registration rights prior to an IPO (as defined in the New Registration Rights Agreement).

17. FAIR VALUE MEASUREMENTS

The Company estimates the fair value of financial instruments as follows:

Cash and Cash Equivalents, Restricted Cash, Receivables, and Accounts Payable—Carrying amounts approximate fair value at December 31, 2020 and 2019 due to the short-term maturities of these assets and liabilities.

Contingent Consideration—The Company's estimated fair value of its contingent consideration liabilities at December 31, 2020 and 2019, which are included in Accounts payable and accrued expenses and Other long-term liabilities on the accompanying consolidated balance sheets, is measured on a recurring basis and is based on significant inputs not observable in the market (Level 3). The estimated fair value of the liabilities is based on a discounted cash flow model and the significant unobservable inputs used consist of discount rates. The estimated fair value of contingent consideration liabilities was $5.0 million and $9.2 million as of December 31, 2020 and 2019, respectively.

Long-Term Debt—The Company's estimated fair value of its long-term debt at December 31, 2020 and 2019 is based upon available information for debt having similar terms and risks and estimates prepared by the Company after consideration of the creditworthiness of the counterparties. The estimated fair value of long-term debt is based on a discounted cash flow model and Level 2 inputs. The estimated fair value of long-term debt was $2.6 million and $10.3 million as of December 31, 2020 and 2019, respectively.

CXLOYALTY GROUP HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
(Unless otherwise noted, all dollar amounts are in millions, except per share amounts)

18. SEGMENT INFORMATION

Management evaluates the operating results of each of its reportable segments based upon several factors, of which the primary factors are net revenues and "Segment EBITDA," which the Company defines as income from continuing operations before depreciation and amortization. The presentation of Segment EBITDA may not be comparable to similarly titled measures used by other companies.

The Segment EBITDA of the Company's two reportable segments does not include general corporate expenses. General corporate expenses include costs and expenses that are of a general corporate nature or managed on a corporate basis. Corporate costs include certain departmental service costs such as human resources, legal, corporate finance and accounting functions and unallocated portions of information technology costs, in addition to expenses previously recorded in corporate such as professional fees related to debt financing activities and share-based compensation costs. General corporate expenses have been excluded from the presentation of the Segment EBITDA for the Company's two reportable segments because they are not reported to the chief operating decision maker for purposes of allocating resources among operating segments or assessing operating segment performance. The accounting policies of the reportable segments are the same as those described in Note 2—Summary of Significant Accounting Policies.

The Loyalty Spin-Off, which was completed on December 30, 2020, comprised substantially all of the Company's Global Loyalty operating segment. Therefore, the Global Loyalty operating segment is no longer considered a reportable segment and the operating results of the Global Loyalty operating segment are not presented below. See Note 4—Discontinued Operations for more information on the Loyalty Spin-Off.

The ABG Sale, which was completed on August 15, 2018, comprised substantially all of the Company's Insurance Solutions operating segment. Therefore, the Insurance Solutions operating segment is no longer considered a reportable segment and the operating results of the Insurance Solutions operating segment are not presented below. See Note 4—Discontinued Operations for more information on the ABG Sale.

Net Revenues

	For the Year Ended December 31,		
	2020	2019	2018
		(in millions)	
Global Customer Engagement:			
Revenue Enhancement	$ 266.5	$ 254.7	$ 261.5
Engagement Solutions	63.5	85.0	99.6
Subtotal	330.0	339.7	361.1
Legacy Membership and Package	68.8	77.1	101.4
	$ 398.8	$ 416.8	$ 462.5

Inter-segment net revenues were not significant to the net revenues of any one segment.

Segment EBITDA

	For the Year Ended December 31,		
	2020	2019	2018
		(in millions)	
Global Customer Engagement	$ 68.0	$ 60.6	$ 63.7
Legacy Membership and Package	27.0	22.7	37.3
Corporate	(65.0)	(47.6)	(65.8)
	$ 30.0	$ 35.7	$ 35.2

Provided below is a reconciliation of Segment EBITDA to income from continuing operations.

	For the Year Ended December 31,		
	2020	2019	2018
		(in millions)	
Segment EBITDA	$ 30.0	$ 35.7	$ 35.2
Depreciation and amortization	(17.2)	(28.3)	(26.9)
Income from continuing operations	$ 12.8	$ 7.4	$ 8.3

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
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Depreciation and Amortization

	For the Year Ended December 31, 2020	2019	2018
		(in millions)	
Global Customer Engagement	$ 14.6	$ 26.5	$ 23.6
Legacy Membership and Package	1.3	0.9	1.5
Corporate	1.3	0.9	1.8
	$ 17.2	$ 28.3	$ 26.9

Segment Assets

	December 31, 2020	2019
	(in millions)	
Global Customer Engagement	$ 273.6	$ 255.7
Legacy Membership and Package	12.0	13.8
Corporate	58.4	48.2
Subtotal	344.0	317.7
Assets Held for Sale	—	323.8
	$ 344.0	$ 641.5

Capital Expenditures

	For the Year Ended December 31, 2020	2019	2018
		(in millions)	
Global Customer Engagement	$ 15.5	$ 13.7	$ 15.4
Legacy Membership and Package	—	—	—
Corporate	0.3	6.2	2.3
Subtotal	15.8	19.9	17.7
Discontinued Operations	10.5	10.0	14.4
	$ 26.3	$ 29.9	$ 32.1

Net Revenues

	For the Year Ended December 31, 2020	2019	2018
		(in millions)	
U.S.	$ 130.3	$ 154.7	$ 184.9
U.K.	124.4	113.1	115.6
France	66.0	60.8	55.9
Other	78.1	88.2	106.1
	$ 398.8	$ 416.8	$ 462.5

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
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Total Assets

	December 31,	
	2020	2019
	(in millions)	
U.S.	$ 112.3	$ 419.6
U.K.	104.0	102.5
France	37.7	29.5
Other	90.0	89.9
	$ 344.0	$ 641.5

CXLOYALTY GROUP HOLDINGS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Unless otherwise noted, all dollar amounts are in millions, except per share amounts)

PART II

Management's Discussion and Analysis of Financial Condition and Results of Operations

Unless otherwise indicated or the context otherwise requires, all references to "cxLoyalty Holdings," the "Company," "we," "our" and "us" refer to cxLoyalty Group Holdings, Inc. and its subsidiaries on a consolidated basis; and all references to "cxLoyalty" refer to cxLoyalty Group, New LLC, which was formerly known as cxLoyalty Group, Inc., our wholly-owned subsidiary.

This annual report for the fiscal year ended December 31, 2020 (this "Report") is prepared by cxLoyalty Holdings. The following discussion and analysis of our results of operations and financial condition should be read in conjunction with our audited consolidated financial statements as of December 31, 2020 and 2019, and for the years ended December 31, 2020, 2019 and 2018 and related notes thereto included elsewhere herein.

Disclosure Regarding Forward-Looking Statements

This Report contains "forward-looking statements" that involve risks and uncertainties. Forward-looking statements include statements concerning our plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs and other information that is not historical information and, in particular, appear under headings "Management's Discussion and Analysis of Financial Condition and Results of Operations," included herein. When used in this Report, the words "estimates," "expects," "anticipates," "forecasts," "plans," "intends," "believes," "seeks," "may," "will," "should," and variations of these words or similar expressions (or the negative versions of any such words) are intended to identify forward-looking statements. All forward-looking statements, including without limitation, management's examination of historical operating trends, are based on our current expectations and various assumptions. Our expectations, beliefs and projections are expressed in good faith, and we believe there is a reasonable basis for them. However, management's expectations, beliefs and projections may not result or be achieved.

Examples of forward-looking statements include:

- business strategy;
- financial strategy;
- projections of revenue, earnings, balance sheet, capital structure and other financial items;
- statements of our plans and objectives;
- statements of expected future economic performance; and
- assumptions underlying statements regarding us or our business.

There are a number of risks and uncertainties that could cause our actual results to differ materially from the results referred to in the forward-looking statements contained in this Report. These risks, uncertainties and other important factors include, among others:

- general economic and business conditions and international and geopolitical events (including the economic impact of the COVID-19 pandemic);
- the effects of a decline in travel due to political instability, adverse economic conditions or otherwise;
- the duration and severity of the decline in travel due to travel restrictions and social distancing measures and policies implemented throughout the world in response to the COVID-19 pandemic;
- termination or expiration of one or more agreements with our clients, particularly our largest clients, or reduction of the marketing of our services by one or more of our clients;
- changes in, or the failure or inability to comply with, laws and governmental regulations, including changes in global distribution service rules and privacy laws and regulations;
- the outcome of numerous legal and regulatory actions;
- dependence on third-party vendors to supply certain products or services that we market;
- ability to execute our business strategy, development plans or cost savings plans;
- changes in accounting principles and/or business practices;

CXLOYALTY GROUP HOLDINGS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS—CONTINUED
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- availability, terms, and deployment of capital; and
- failure to protect private data, which would cause us to expend capital and resources to protect against future security breaches.

There may be other factors that may cause our actual results to differ materially from the results referred to in the forward-looking statements. All forward-looking statements attributable to us or persons acting on our behalf apply only as of the date of this Report and are expressly qualified in their entirety by the cautionary statements included in this Report. We undertake no obligation to publicly update or revise any forward-looking statement whether as a result of new information, future events or otherwise, except as required by law.

Introduction

Management's discussion and analysis of results of operations and financial condition ("MD&A") is provided as a supplement to and should be read in conjunction with our audited consolidated financial statements and the related notes thereto included elsewhere herein to help provide an understanding of our financial condition, changes in financial condition and results of our operations. The MD&A is organized as follows:

- *Overview*. This section provides a general description of our business and operating segments, as well as recent developments that we believe are important in understanding our results of operations and financial condition and in anticipating future trends.
- *Results of operations*. This section provides an analysis of our results of operations for the years ended December 31, 2020 to 2019 and December 31, 2019 to 2018. This analysis is presented on both a consolidated basis and on an operating segment basis.
- *Financial condition, liquidity and capital resources*. This section provides an analysis of our cash flows for the years ended December 31, 2020, 2019 and 2018, and our financial condition as of December 31, 2020, as well as a discussion of our liquidity and capital resources as of December 31, 2020.
- *Critical accounting policies*. This section discusses certain significant accounting policies considered to be important to our financial condition and results of operations and which require significant judgment and estimates on the part of management in their application. In addition, all of our significant accounting policies, including our critical accounting policies, are summarized in Note 2—Summary of Significant Accounting Policies in the audited consolidated financial statements included elsewhere herein.

Overview

Description of Business

The Company develops programs and solutions that motivate and inspire loyalty. Through our proprietary technology platforms and end-to-end customer service capabilities, we design, administer and fulfill loyalty and customer engagement programs and solutions that strengthen and expand the value of customer relationships for many of the world's largest and most respected companies. Our programs and solutions include customer engagement programs and solutions that address key consumer needs such as greater peace of mind and meaningful savings for everyday purchases. We provide these solutions to leading companies in the financial institution, telecommunications, e-commerce, retail and travel sectors globally. These differentiated programs help our clients enrich their offerings to drive deeper connections with their customers, and to encourage their customers to engage more, stay loyal and generate more revenue for our clients. For example, we develop and manage programs such as identity theft protection, credit monitoring, savings on everyday purchases, concierge services, discount travel services and roadside assistance.

Prior to the Loyalty Spin-Off (as defined below), the Company had a loyalty solutions business that created and managed any and all aspects of our clients' points-based loyalty programs, including design, platform, analytics, points management and fulfillment and offered relevant, best-in-class rewards (such as travel, gift cards and merchandise) to consumers enabling clients to motivate, retain and thank their best customers. As discussed further in Note 4—Discontinued Operations in the audited consolidated financial statements included elsewhere herein, on December 30, 2020, we completed the spin-off of the loyalty solutions business, which comprised substantially all of our Global Loyalty operating segment.

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In connection with the Loyalty Spin-Off, the Company and another party to the Transaction Agreement (as defined below) entered into a Transition Services Agreement dated as of December 31, 2020 (the "Transition Services Agreement") pursuant to which the Company will provide, or will cause its subsidiaries to provide, certain transitional services and pursuant to which the Company will receive from the counterparty certain transitional services. The services to be provided under the Transition Services Agreement include, but are not limited to, human resources, information protection, IT infrastructure, project management and corporate real estate. The services to be received under the Transition Services Agreement include, but are not limited to, information protection, IT infrastructure and corporate real estate. The periods during which individual services are to be provided and received vary and range from two months up to two years.

Prior to the ABG Sale (as defined below), the Company had a domestic insurance business that served as a leading third-party agent, administrator and marketer of certain accident and life insurance solutions. As discussed further in Note 4—Discontinued Operations in the audited consolidated financial statements included elsewhere herein, we completed the sale of the domestic insurance business, which comprised substantially all of our Insurance Solutions operating segment, on August 15, 2018.

Our financial business model is characterized by substantial recurring revenues. We generate revenue primarily in three ways:

- Fee for service: we generate revenues for desired customer engagement programs and solutions, typically through a licensing and/or per user fee.
- Commission or transaction fee: we earn a commission from our suppliers and/or our clients based on volume for enabling or executing transactions (e.g., travel fulfillment).
- Subscription: we generate revenues through the sale of our value-added subscription-based programs and solutions to the customers of our clients whom we bill on a monthly, quarterly or annual basis.

We have the following two operating segments:

- *Global Customer Engagement.* This segment consists of our customer engagement business, in which we are a leading global solutions provider that delivers a flexible mix of benefits and services for our clients that meet customers' needs, including products that are designed to help consumers save money and gain peace of mind.

  Through our global customer engagement operations, we create and manage innovative programs and solutions that address key consumer needs such as greater peace-of-mind and meaningful savings. We provide our solutions to leading companies in the financial institution, telecommunications, e-commerce, retail and travel sectors globally.

  Our customer engagement solutions may be categorized in two ways: (1) revenue enhancement, which is a traditional subscription-based model and (2) engagement solutions, which is a fee-for-service or transactional based model.

  In the revenue enhancement model, we provide incremental services for our clients to monetize their customer base. We also partner with clients to customize benefits that resonate with their brand and their customers' needs.

  In the engagement solutions model, we help clients differentiate their products and build strong customer relations. We also bundle appropriate rewards and benefits along the lifecycle of clients' customers to create intimate, reciprocal connections that drive purchase decisions, interaction and participation over time.

- *Legacy Membership and Package.* This segment consists of certain global membership and package programs that are no longer being actively marketed but continue to be serviced. Although the Company will continue to service these members, it expects that cash flows and revenues will continue to decrease over time due to the attrition of the member base in this operating segment.

Factors Affecting Results of Operations and Financial Condition

Competitive Environment

We are a leading customer engagement solutions company with value-added programs and services with a network of approximately 2,500 clients as of December 31, 2020, approximately 24.3 million subscribers and end-customers enrolled in our customer engagement programs worldwide as of December 31, 2020. Our leadership position in our industry is due to our nearly 40-year track record and our core strengths in the areas of multi-channels marketing, data analytics, customer service and operations. We also believe our portfolio of programs and benefits is the broadest in the industry. At December 31, 2020, we offered 13 core products and services with over 209 unique benefits and supported approximately 3,850 versions of products and services representing different combinations of pricing, benefit configurations and branding.

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Our competitors include any company seeking direct and regular access to large groups of customers through any direct marketing channel. Our products and services compete with those marketed by financial institutions and other third parties who have marketing relationships with our competition, including large, fully integrated companies that have financial, marketing and product development resources that are greater than ours. We face competition in all areas of our business, including price, product offerings and product performance. As a whole, the direct marketing services industry is extremely fragmented. Most companies in the direct marketing services industry are relatively small and provide a limited array of products and services. In general, competition for the consumer's attention is intense, with a wide variety of players competing in different segments of the direct marketing industry. More specifically, competition within our business lines comes from companies that vary significantly in size, scope and primary core competencies.

Financial Industry Trends

Historically, financial institutions have represented a significant majority of our marketing partner base. Consumer banking is a highly regulated industry, with various federal, state and international authorities governing various aspects of the marketing and servicing of the products we offer through our financial institution partners.

For instance, the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") mandates the most wide-ranging overhaul of financial industry regulation in decades. Dodd-Frank created the Consumer Financial Protection Bureau (the "CFPB") which became operational on July 21, 2011, and has been given authority to regulate all consumer financial products sold by banks and non-bank companies. These regulations have imposed additional reporting, supervisory, and regulatory requirements on our financial institution clients which have adversely affected our business, financial condition and results of operations. In addition, even an inadvertent failure of our financial institution clients to comply with these laws and regulations, as well as rapidly evolving social expectations of corporate fairness, could adversely affect our business or our reputation going forward. Some of our clients have become involved in governmental inquiries that include our products or marketing practices. As a result, certain financial institution clients have, and others could, delay or cease marketing with us, terminate their agreements with us, require us to cease providing services to subscribers, or require changes to our programs or solutions to subscribers that could also have a material adverse effect on our business.

In certain circumstances, our financial institution clients have sought to source and market their own in-house programs and solutions, most notably programs and solutions that are analogous to our credit card registration, credit monitoring and identity-theft resolution programs and solutions. As we have sought to maintain our market share in these areas and to continue these programs and solutions with our clients, in some circumstances, we have shifted from a retail arrangement to a fee for service arrangement which results in lower net revenue, but unlike our retail arrangement, has no related commission expense, thereby preserving our ability to earn a suitable rate of return on the campaign.

Regulatory Environment

We are subject to federal and state regulation as well as regulation by foreign authorities in other jurisdictions. Certain laws and regulations that govern our operations include: federal, state and foreign marketing and consumer protection laws and regulations; federal, state and foreign privacy and data protection laws and regulations; federal, state and foreign insurance and insurance mediation laws and regulations; and federal, state and foreign travel laws and regulations. Federal regulations are primarily enforced by the Federal Trade Commission, the Federal Communications Commission and the CFPB. State regulations are primarily enforced by individual state attorneys general and insurance departments. Foreign regulations are enforced by a number of regulatory bodies in the relevant jurisdictions.

These regulations primarily impact the means we use to market our programs, which can reduce the acceptance rates of our solicitation efforts, impact our ability to obtain information from our members and end-customers and impact the benefits we provide and how we service our customers. In addition, new and contemplated regulations enacted by, or client settlement agreements or consent orders with, the CFPB could impose additional reporting, supervisory and regulatory requirements on, as well as result in inquiries of, us and our clients that could delay or terminate marketing campaigns with certain clients, impact the programs and solutions we provide to customers, and adversely affect our business, financial condition and results of operations.

We incur significant costs to ensure compliance with these regulations; however, we are party to lawsuits, including class action lawsuits, and regulatory investigations involving our business practices which also increase our costs of doing business. See Note 13—Commitments and Contingencies in the audited consolidated financial statements included elsewhere herein for additional information.

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Seasonality

Historically, seasonality has not had a significant impact on our business (other than the portion of our business disposed of in connection with the Loyalty Spin-Off). Our revenues are more affected by the timing of marketing programs that can change from year to year depending on the opportunities available and pursued.

Company History

We have over 40 years of operational history. We started offering membership products in 1973, and in 1985 began marketing insurance and package enhancement products. In 1988, we entered the loyalty solutions business and in the early 1990s, we started offering certain of our program offerings internationally.

On July 3, 2018, cxLoyalty, cxLoyalty Group, LLC, a Delaware limited liability company ("cxLoyalty Group, LLC") and indirect wholly-owned subsidiary of cxLoyalty, and Affinion Benefits Group, LLC, a Delaware limited liability company and wholly-owned subsidiary of cxLoyalty Group, LLC ("ABG"), entered into a Membership Interest Purchase Agreement (the "Purchase Agreement") with AIS Holdco, LLC (the "Purchaser"), an entity controlled by investment funds managed by affiliates of Mill Point Capital Partners, L.P., pursuant to which the Purchaser would acquire the insurance division of the Company by acquiring the outstanding membership interests of ABG as set forth in the Purchase Agreement (the "ABG Sale"). On August 15, 2018, cxLoyalty Group, LLC completed the ABG Sale pursuant to the Purchase Agreement.

On April 10, 2019, we consummated the 2019 Recapitalization, as defined and described below under "—2019 Recapitalization" and in Note 10—Long-Term Debt and Note 11—Stockholders' Equity (Deficit) in the audited consolidated financial statements included elsewhere herein.

On December 30, 2020, the Company completed a distribution (the "Distribution") of the equity interests of cxLoyalty Group, LLC, a Delaware limited liability company and indirect wholly-owned subsidiary of the Company ("cxLoyalty Group, LLC"), to a newly formed holding company owned by the stockholders of the Company (the "Stockholders") that then assumed (the "Assumption") the Company's obligations under cxLoyalty's revolving credit facility and term loans under the Amended Credit Agreement (as defined below) and the New Notes (as defined below). Pursuant to a Transaction Agreement dated as of December 28, 2020 among the Company and other parties thereto (the "Transaction Agreement"), cxLoyalty Group, LLC merged with an unrelated third party and ceased to be owned by the Stockholders (such transaction, together with the Distribution and Assumption, the "Loyalty Spin-Off").

2019 Recapitalization

On March 4, 2019, noteholders of cxLoyalty's outstanding 2017 Notes (as defined below), which collectively held, as of such date, approximately $647 million (95%) aggregate principal amount of the outstanding 2017 Notes ("Consenting Noteholders"), and the lenders holding approximately $904 million (96%) aggregate principal amount of the outstanding term loans and revolving loans under the 2017 Credit Agreement (as defined below) (the "Consenting Lenders") entered into an amended and restated support agreement (the "Support Agreement") with cxLoyalty Holdings, cxLoyalty and certain other subsidiaries of the Company. Among other things, the Support Agreement contemplated (i) a private offer to exchange (the "2019 Exchange Offer") outstanding 2017 Notes for shares of cxLoyalty Holdings' Class M common stock, par value $0.01 per share ("Class M Common Stock"), which shares of Class M Common Stock were converted immediately following the consummation of the 2019 Exchange Offer as a result of the Merger (as described below) into shares of common stock ("Common Stock"), par value $0.000001 per share, of cxLoyalty Holdings as the surviving entity, (ii) entry into the Amended Credit Agreement (as defined below), (iii) a rights offering (the "2019 Rights Offering") giving tendering holders of the 2017 Notes and certain holders of common stock, par value $0.01 per share, of cxLoyalty Holdings ("Old Common Stock") the right to purchase an aggregate principal amount of $300.0 million of cxLoyalty's new 18% Senior PIK Notes due 2024 (the "New Notes") for an aggregate cash purchase price of $300.0 million and (iv) Metro SPV, affiliates of Elliott, affiliates of Empyrean and Jefferies, LLC (collectively, the "Second Lien Commitment Parties" and together with the Consenting Noteholders and the Consenting Lenders, the "Consenting Stakeholders") agreed to waive certain conditions and requirements under the Second Lien Commitment Letter and agreed to amend terms relating to the repayment of amounts outstanding under the Second Lien Facility and related fees, if funded, as set forth in the Support Agreement (collectively, the "2019 Recapitalization"). Pursuant to the Support Agreement, each of the Consenting Noteholders agreed to tender its 2017 Notes in the 2019 Exchange Offer in exchange for the Class M Common Stock, New Penny Warrants (as defined below), as applicable, and the right to participate in its pro rata share of the 2019 Rights Offering.

CXLOYALTY GROUP HOLDINGS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS—CONTINUED
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On April 10, 2019, cxLoyalty Holdings completed the 2019 Recapitalization. To the extent that the issuance of Common Stock to any investor or group of investors (whether as a result of participation in the 2019 Exchange Offer, the Pre-Emptive Rights Offer or pursuant to the Investor Purchase Agreement (as defined below)) would require the consent of, or notice to, any governmental authority (including the U.K. Financial Conduct Authority), and such consent or notice had not been obtained or delivered prior to the settlement of the 2019 Exchange Offer, new penny warrants ("New Penny Warrants") were issued in lieu of shares of Common Stock. Pursuant to the 2019 Exchange Offer, $670.8 million of the 2017 Notes were exchanged for 725,678 shares of Common Stock and 10,522,940 New Penny Warrants. Upon closing of the 2019 Exchange Offer, there remained outstanding $10.7 million aggregate principal amount of the 2017 Notes. Previously, on March 20, 2019, cxLoyalty entered into Supplemental Indenture No. 1 (the "Supplemental Indenture") between cxLoyalty and Wilmington Trust, National Association, as trustee (the "2017 Notes Trustee"), to the indenture, dated as of May 10, 2017 (the "2017 Notes Indenture"), among cxLoyalty, the subsidiary guarantors named therein and the 2017 Notes Trustee, relating to the 2017 Notes. The Supplemental Indenture, which became operative on April 10, 2019, amended the 2017 Notes Indenture by (a) eliminating substantially all of the restrictive covenants, (b) making amendments to certain existing terms and (c) eliminating certain events of default and related provisions contained in the 2017 Notes Indenture.

Immediately following the consummation of the 2019 Exchange Offer and the exercises of the new warrants (the "2017 Warrants") to acquire shares of Old Common Stock, issued pursuant to that certain Warrant Agreement, dated as of May 10, 2017, by and between cxLoyalty Holdings and American Stock Transfer & Trust Company, LLC, as transfer agent, and the nonparticipating penny warrant of Metro SPV (the "Limited Warrant"), AGHI Merger Sub, Inc., a Delaware corporation and direct wholly-owned subsidiary of cxLoyalty Holdings ("Merger Sub"), merged with and into cxLoyalty Holdings with cxLoyalty Holdings as the surviving entity (the "Merger"). The Merger was approved by the board of directors and stockholders of each of cxLoyalty Holdings and Merger Sub. As a result of the Merger, (i) each holder of Class C Common Stock, par value $0.01 per share, of cxLoyalty Holdings or Class D Common Stock, par value $0.01 per share, of cxLoyalty Holdings (the "Class C/D Common Stock") received for each share of Class C/D Common Stock cash equal to $0.01 per share of Class C/D Common Stock held thereby, (ii) each holder of Old Common Stock, including as a result of the exercise of 2017 Warrants and the Limited Warrant as described above, received for each share of Old Common Stock 0.089809 New Investor Warrants to be issued by cxLoyalty Holdings (the "New Investor Warrants") and (iii) each holder of Class M Common Stock received for each share of Class M Common Stock one share of Common Stock of the surviving entity. In connection with the issuance of the Class M Common Stock, the Company and its stockholders approved amendments to cxLoyalty Holdings' Fourth Amended and Restated Certificate of Incorporation to create a new class of common stock, designated as "Class M Common Stock," having par value $0.01 per share (the "Charter Amendment") and Fourth Amended and Restated By-laws (the "By-laws") to make them consistent with provisions of the Charter Amendment (the "By-laws Amendment").

Pursuant to the Investor Warrant Agreement, dated as of April 10, 2019, by and between cxLoyalty Holdings and American Stock Transfer & Trust Company, LLC, as warrant agent (the "New Investor Warrant Agreement"), each New Investor Warrant is exercisable for one share of Common Stock at any time, subject to required regulatory approval and filings applicable to the holder of a New Investor Warrant. In order to exercise its New Investor Warrant, a holder of New Investor Warrants will need to submit an exercise notice to cxLoyalty Holdings, together with payment of the exercise price equal to $67.12 per share. As a result of the Loyalty Spin-Off, the exercise price of the New Investor Warrants was adjusted to $36.422 per share. The New Investor Warrants will be immediately exercisable upon issuance at the option of the holders thereof, and will be mandatorily redeemable by cxLoyalty Holdings on the fifth year anniversary of the initial issuance thereof, for $0.01 per share. New Investor Warrants will not be exercisable if the recipient of the Common Stock to be issued upon exercise has failed to obtain any required consents or waivers from, or failed to file any required notices with, any applicable governmental agency, including the U.K. Financial Conduct Authority. The New Investor Warrants will not be entitled to participate in dividends on Common Stock but instead will benefit from customary anti-dilution protections that result in an adjustment of the conversion price when and if dividends, distributions or stock buy-backs are effected. In addition to the antidilution adjustments to exercise price in the event of dividends and distributions declared and paid on Common Stock, the New Investor Warrant has limited and customary anti-dilution adjustments for stock dividends, splits, reverse splits, reclassifications, reorganizations and similar transformative transactions that alter, amend or modify the Common Stock.

Upon exercise of New Investor Warrants, such holders will be required to execute joinders to the Stockholders Agreement (as defined below).

The consummation of the 2019 Recapitalization resulted in an "ownership change" for the Company pursuant to Section 382 of the Internal Revenue Code. This substantially limits our ability to use our pre-change net operating loss carryforwards (including those attributable to the 2005 acquisition (the "2005 Acquisition") of the Cendant Marketing Services Division by the Company and an affiliate of Apollo Global Management, Inc.) and certain other pre-change tax attributes.

CXLOYALTY GROUP HOLDINGS, INC.
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2017 Exchange Offers, Issuance of 2017 Notes and 2017 Warrants and Redemptions of Other Existing Notes

On May 10, 2017, (a) cxLoyalty completed a private offer to exchange or repurchase at the holder's election (collectively, the "AGI Exchange Offer") cxLoyalty's 7.875% senior notes due 2018 (the "2010 senior notes") for (i) new Senior Cash 12.5%/ PIK Step-Up to 15.5% Notes due 2022 of cxLoyalty (the "2017 Notes") and 2017 Warrants or (ii) cash; (b) cxLoyalty Holdings completed a private offer to exchange or repurchase at the holder's election (collectively, the "Holdings Exchange Offer") cxLoyalty Holdings' outstanding 13.75%/14.5% senior secured PIK/toggle notes due 2018 (the "2013 senior notes") for (i) 2017 Notes and 2017 Warrants or (ii) cash; and (c) cxLoyalty Investments completed a private offer to exchange or repurchase at the holder's election (collectively, the "Investments Exchange Offer" and, together with the AGI Exchange Offer and the Holdings Exchange Offer, the "2017 Exchange Offers") cxLoyalty Investments' senior subordinated notes (the Investments senior subordinated notes together with cxLoyalty's 2010 senior notes and cxLoyalty Holdings' 2013 senior notes, the "Existing Notes") for (i) 2017 Notes and 2017 Warrants or (ii) cash.

Previously, in connection with the 2017 Exchange Offers, on March 31, 2017, affiliates of Elliott, Franklin Mutual Quest Fund, an affiliate of Franklin Mutual Advisers, LLC ("Franklin"), affiliates of Empyrean and Metro SPV (collectively, in such capacity, the "Investors"), all of whom were, at the time of the closing, or became, as a result of the 2017 Exchange Offers, Issuance of the 2017 Notes and 2017 Warrants and redemption of cxLoyalty's 2010 senior notes, related parties, entered into an investor purchase agreement (the "2017 Investor Purchase Agreement") with cxLoyalty Holdings, cxLoyalty and cxLoyalty Investments, in which they agreed to purchase 2017 Notes and 2017 Warrants in an aggregate principal amount sufficient to pay all holders that participate in the 2017 Exchange Offers and elect to receive cash (the "Initial Investment"). Further, pursuant to the 2017 Investor Purchase Agreement, if cxLoyalty Holdings, cxLoyalty or cxLoyalty Investments exercised its option to redeem any of cxLoyalty's 2010 senior notes, cxLoyalty Holdings' 2013 senior notes and/or Investments senior subordinated notes not tendered in the 2017 Exchange Offers (the "Follow-On Investment" and, together with the Initial Investment, the "Investment"), the Company could obligate the Investors to purchase an aggregate principal amount of the 2017 Notes and 2017 Warrants that would yield sufficient cash proceeds to fund any such redemptions. In addition, pursuant to the terms of the 2017 Investor Purchase Agreement, cxLoyalty was required to pay to the Investors upon the closing of the 2017 Exchange Offers a commitment premium of $17.5 million and a funding premium of $7.4 million in aggregate principal amount of the 2017 Notes and the same number of 2017 Warrants that such principal amount of the 2017 Notes would have been issued as part of the 2017 Exchange Offers, as described in more detail in Note 10—Long-Term Debt in the audited consolidated financial statements included elsewhere herein.

On May 10, 2017, cxLoyalty exercised its option to redeem cxLoyalty's 2010 senior notes that were not tendered in the AGI Exchange Offer and to fund such redemption with proceeds from the Investors pursuant to the terms of the 2017 Investor Purchase Agreement.

On May 10, 2017, cxLoyalty issued $532.6 million aggregate principal amount of the 2017 Notes and cxLoyalty Holdings issued 2017 Warrants to purchase 3,974,581 shares of Old Common Stock.

On June 13, 2017, (i) cxLoyalty Holdings exercised its option to redeem the $11.5 million in aggregate principal amount of cxLoyalty Holdings' 2013 senior notes that were not tendered in the Holdings Exchange Offer and to fund such redemption with proceeds from the Investors pursuant to the terms of the 2017 Investor Purchase Agreement and (ii) cxLoyalty Investments exercised its option to redeem the $10.2 million in aggregate principal amount of the Investments senior subordinated notes that were not tendered in the Investments Exchange Offer and to fund such redemption with proceeds from the Investors pursuant to the terms of the 2017 Investor Purchase Agreement.

On July 17, 2017, pursuant to the 2017 Investor Purchase Agreement, cxLoyalty issued $23.7 million aggregate principal amount of the 2017 Notes to the Investors and cxLoyalty Holdings issued 2017 Warrants to the Investors. Pursuant to the 2017 Investor Purchase Agreement, the Investors paid a purchase price of $23.5 million to cxLoyalty, which amount included the payment of pre-issuance accrued interest of $0.6 million from May 10, 2017. The 2017 Notes and 2017 Warrants issued by cxLoyalty and cxLoyalty Holdings, respectively, to the Investors include the funding premium payable under the 2017 Investor Purchase Agreement. The 2017 Notes constitute a further issuance of, and form a single series with, the $532.6 million in aggregate principal amount of the 2017 Notes that cxLoyalty issued on May 10, 2017.

The consummation of the 2017 Exchange Offers resulted in an "ownership change" for the Company pursuant to Section 382 of the Internal Revenue Code. This substantially limits our ability to use our pre-change net operating loss carryforwards (including those attributable to the 2005 Acquisition) and certain other pre-change tax attributes to offset our post-change income. Similar rules and limitations may apply for state tax purposes as well.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS—CONTINUED
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Results of Operations

Supplemental Data

We manage our business using a portfolio approach, meaning that we allocate our investments in the ongoing pursuit of the highest and best available returns and allocate our resources to whichever products, services, geographies and programs offer the best opportunities. With the globalization of our clients, programs and solutions and the ongoing refinement and execution of our capital allocation strategy, we have developed the following table that we believe captures the way we look at our businesses (amounts in thousands, except dollars per unit).

	Three Months Ended December 31,		Year Ended December 31,		
	2020	2019	2020	2019	2018
Global Customer Engagement					
Average Subscribers (1)	2,465	2,488	2,463	2,440	2,414
Annualized Net Revenue per Average Subscriber (2)	$ 106.68	$ 100.27	$ 108.34	$ 104.52	$ 108.44
Engagement Solutions Platform Revenue	$ 15,195	$ 21,142	$ 63,507	$ 85,001	$ 99,591
Legacy Membership and Package					
Average Legacy Members (1)	491	563	517	602	730
Annualized Net Revenue per Legacy Member (2)	$ 101.79	$ 103.11	$ 100.08	$ 102.49	$ 104.72

(1) Average Subscribers and Average Legacy Members for the period are each calculated by determining the average subscribers or members, as applicable, for each month in the period (adding the number of subscribers or members, as applicable, at the beginning of the month with the number of subscribers or members, as applicable, at the end of the month and dividing that total by two) and then averaging that result for the period. A subscriber's or member's, as applicable, account is added or removed in the period in which the subscriber or member, as applicable, has joined or cancelled.

(2) Annualized Net Revenue per Average Subscriber and Legacy Member are each calculated by taking the revenues from subscribers or members, as applicable, for the period and dividing it by the average subscribers or members, as applicable, for the period. Quarterly periods are then multiplied by four to annualize this amount for comparative purposes. Upon cancellation of a subscriber or a member, as applicable, the subscriber's or member's, as applicable, revenues are no longer recognized in the calculation.

Segment EBITDA and Adjusted EBITDA

Segment EBITDA consists of income from operations before depreciation and amortization. Segment EBITDA is the measure management uses to evaluate segment performance and we present Segment EBITDA to enhance your understanding of our operating performance. We use Segment EBITDA as one criterion for evaluating our performance relative to that of our peers. We believe that Segment EBITDA is an operating performance measure, and not a liquidity measure, that provides investors and analysts with a measure of operating results unaffected by differences in capital structures, capital investment cycles and ages of related assets among otherwise comparable companies. However, Segment EBITDA is not a measurement of financial performance under U.S. GAAP (as defined in Note 1—Basis of Presentation and Business Description in the audited consolidated financial statements included elsewhere herein), and Segment EBITDA may not be comparable to similarly titled measures of other companies. You should not consider Segment EBITDA as an alternative to operating or net income determined in accordance with U.S. GAAP, as an indicator of operating performance or as an alternative to cash flows from operating activities determined in accordance with U.S. GAAP, as an indicator of cash flows, or as a measure of liquidity.

We believe that Adjusted EBITDA for each segment provides supplemental information useful to investors as it is frequently used by the financial community to analyze performance period to period, to analyze a company's ability to service its debt and to facilitate comparisons among companies. We believe Adjusted EBITDA also provides additional supplemental information to compare results among our segments. However, Adjusted EBITDA by segment is not a measurement of financial performance under U.S. GAAP, and Adjusted EBITDA by segment may not be comparable to similarly titled measures of other companies. You should not consider Adjusted EBITDA by segment as an alternative to operating or net income determined in accordance with U.S. GAAP, as an indicator of operating performance or as an alternative to cash flows from operating activities determined in accordance with U.S. GAAP, as an indicator of cash flows, or as a measure of liquidity.

CXLOYALTY GROUP HOLDINGS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS—CONTINUED
(Unless otherwise noted, all dollar amounts are in millions, except per share amounts)

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

The following table summarizes our consolidated results of operations for the years ended December 31, 2020 and 2019:

	Year Ended December 31, 2020	Year Ended December 31, 2019	Increase (Decrease)
		(in millions)	
Net revenues	$ 398.8	$ 416.8	$ (18.0)
Expenses:			
Cost of revenues, exclusive of depreciation and amortization shown separately below:			
Marketing and commissions	141.8	132.3	9.5
Operating costs	152.6	186.1	(33.5)
General and administrative	74.1	62.7	11.4
Facility exit costs	0.3	—	0.3
Depreciation and amortization	17.2	28.3	(11.1)
Total expenses	386.0	409.4	(23.4)
Income from operations	12.8	7.4	5.4
Interest income	0.1	0.2	(0.1)
Interest expense	(1.7)	(2.3)	0.6
Loss on extinguishment of debt	(1.2)	(0.1)	(1.1)
Other expense, net	(1.8)	(28.5)	26.7
Income (loss) from continuing operations before income taxes	8.2	(23.3)	31.5
Income tax (provision) benefit	(4.6)	1.0	(5.6)
Income (loss) from continuing operations, net of tax	3.6	(22.3)	25.9
Loss from discontinued operations, net of tax	(155.0)	(121.0)	(34.0)
Net loss	(151.4)	(143.3)	(8.1)
Less: net income attributable to non-controlling interest	(0.6)	(0.4)	(0.2)
Net loss attributable to cxLoyalty Group Holdings, Inc.	$ (152.0)	$ (143.7)	$ (8.3)

Summary of Operating Results for the Year Ended December 31, 2020

The following is a summary of changes affecting our operating results for the year ended December 31, 2020.

Net revenues decreased $18.0 million, or 4.3%, for the year ended December 31, 2020 as compared to the same period of the prior year primarily due to lower Global Customer Engagement revenues from lower member travel benefits as a result of the COVID-19 pandemic in the engagement solutions business, partially offset by growth in online membership in the revenue enhancement business and lower Legacy Membership and Package revenues from an expected decline in retail member volumes.

Segment EBITDA decreased $5.7 million for the year ended December 31, 2020 as compared to the same period of the prior year as the impact of lower net revenues and higher general and administrative expenses and marketing and commissions was partially offset by lower operating costs.

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

The following section provides an overview of our consolidated results of operations for the year ended December 31, 2020 as compared to the year ended December 31, 2019.

Net Revenues. During the year ended December 31, 2020, we reported net revenues of $398.8 million, a decrease of $18.0 million, or 4.3%, as compared to net revenues of $416.8 million in the same period of the prior year. Net revenues decreased $9.7 million in Global Customer Engagement primarily from lower member travel benefits as a result of the COVID-19 pandemic in the engagement solutions business, partially offset by growth in online membership in the revenue enhancement business. Net revenues in Legacy Membership and Package decreased $8.3 million primarily due to the expected attrition of legacy members due to the cessation of marketing campaigns and terminated programs.

CXLOYALTY GROUP HOLDINGS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS—CONTINUED
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Marketing and Commissions Expense. Marketing and commissions expense increased $9.5 million, or 7.2%, to $141.8 million for the year ended December 31, 2020 from $132.3 million for the year ended December 31, 2019. Marketing and commissions expense increased $11.1 million in Global Customer Engagement primarily from higher commissions on growth in online membership in the revenue enhancement business, partially offset by a $1.9 million decrease in expense in Legacy Membership and Package primarily from the decline in the member base.

Operating Costs. Operating costs decreased $33.5 million, or 18.0%, to $152.6 million for the year ended December 31, 2020 from $186.1 million for the year ended December 31, 2019. Costs decreased $27.7 million in Global Customer Engagement and $6.5 million in Legacy Membership and Package primarily from lower product and servicing costs and employee-related costs.

General and Administrative Expense. General and administrative expense increased $11.4 million, or 18.2% to $74.1 million for the year ended December 31, 2020 from $62.7 million for the year ended December 31, 2019, primarily due to higher corporate costs of $16.5 million principally from higher employee-related costs, partially offset by a $4.3 million decrease in costs in Legacy Membership and Package primarily from the effect of a prior year's legal reserve adjustment.

Depreciation and Amortization Expense. Depreciation and amortization expense decreased $11.1 million for the year ended December 31, 2020 to $17.2 million from $28.3 million for the year ended December 31, 2019, primarily due to a decrease in depreciation expense of $10.7 million primarily attributable to the reduction of estimated useful lives of certain assets driven by planned technology infrastructure enhancements and a decrease in amortization expense of $0.4 million attributable to certain assets becoming fully amortized during 2019.

Interest Expense. Interest expense decreased $0.6 million, or 26.1% to $1.7 million for the year ended December 31, 2020 as compared to $2.3 million for the year ended December 31, 2019 primarily attributable to decreased accretion on finance lease obligations during 2020.

Loss on Extinguishment of Debt. For the year ended December 31, 2020, we recorded a loss in the amount of $1.2 million as a result of the prepayment of the Company's 2017 Notes.

Other Expense, Net. Other expense, net decreased $26.7 million to $1.8 million for the year ended December 31, 2020 as compared to $28.5 million for the year ended December 31, 2019 primarily due to transaction costs incurred during 2019 in connection with the 2019 Recapitalization.

Income Tax (Provision) Benefit. Income tax provision from continuing operations was $4.6 million for the year ended December 31, 2020 as compared to an income tax benefit of $1.0 million for the year ended December 31, 2019. The change was primarily due to increases in the federal, state and foreign tax provisions for the year ended December 31, 2020 as compared to the prior year.

The Company's effective income tax rates for the year ended December 31, 2020 and 2019 were (102.9)% and 4.2%, respectively. The difference in the effective tax rates for the year ended December 31, 2020 and 2019 is primarily a result of the change from a loss from continuing operations before income taxes from $23.3 million for the year ended December 31, 2019 to income from continuing operations before income taxes of $8.2 million for the year ended December 31, 2020 and the change from an income tax benefit on continuing operations of $1.0 million for the year ended December 31, 2019 to an income tax provision on continuing operations of $4.6 million for the year ended December 31, 2020. The Company's tax rate is affected by recurring items, such as tax rates in foreign jurisdictions and the relative amount of income it earns in those jurisdictions. It is also affected by discrete items that may occur in any given year, but are not consistent from year to year. In addition to state and foreign income taxes, the requirement to maintain valuation allowances had the most significant impact on the difference between the Company's effective tax rate and the statutory U.S. federal income tax rate of 21%.

Income from Discontinued Operations, net of tax. Loss from discontinued operations, net of tax increased $34.0 million to $155.0 million for the year ended December 31, 2020 as compared $121.0 million for the year ended December 31, 2019 primarily due to lower net revenues as a result of reductions in travel and gift-card sales volumes as a result of the COVID-19 pandemic and an increase in other expense, net, driven by transaction costs incurred in connection with the Loyalty Spin-Off, partially offset by lower interest expense due to lower average outstanding term loan balances and to amortization of the carrying value adjustment on the New Notes following the 2019 Recapitalization and lower servicing and employee-related costs as a result of the COVID-19 pandemic.

CXLOYALTY GROUP HOLDINGS, INC.
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Operating Segment Results

Net revenues, Segment EBITDA and Adjusted EBITDA by operating segment are as follows:

	Year Ended December 31,								
	Net Revenues			Segment EBITDA (1)			Adjusted EBITDA		
	2020	2019	Increase (Decrease)	2020	2019	Increase (Decrease)	2020	2019	Increase (Decrease)
					(in millions)				
Global Customer Engagement	$ 330.0	$ 339.7	$ (9.7)	$ 68.0	$ 60.6	$ 7.4	$ 97.3	$ 64.6	$ 32.7
Legacy Membership and Package	68.8	77.1	(8.3)	27.0	22.7	4.3	32.1	26.8	5.3
Corporate	—	—	—	(65.0)	(47.6)	(17.4)	(36.3)	(40.9)	4.6
Total - Continuing operations	$ 398.8	$ 416.8	$ (18.0)	30.0	35.7	(5.7)	93.1	50.5	42.6
Business optimization expenses and restructuring charges or expenses							(6.6)	(5.6)	(1.0)
Extraordinary or nonrecurring or unusual losses, expenses or charges							(32.9)	(4.4)	(28.5)
Other, net							(23.6)	(4.8)	(18.8)
Depreciation and amortization				(17.2)	(28.3)	11.1	(17.2)	(28.3)	11.1
Income from continuing operations				$ 12.8	$ 7.4	$ 5.4	$ 12.8	$ 7.4	$ 5.4

	Year Ended December 31, 2020			
	Global Customer Engagement	Legacy Membership and Package	Corporate	Total
	(in millions)			
Business optimization expenses and restructuring charges or expenses	$ 3.6	$ 0.2	$ 2.8	$ 6.6
Extraordinary or nonrecurring or unusual losses, expenses or charges	20.4	4.9	7.6	32.9
Other, net	5.3	—	18.3	23.6
Total	$ 29.3	$ 5.1	$ 28.7	$ 63.1

	Year Ended December 31, 2019			
	Global Customer Engagement	Legacy Membership and Package	Corporate	Total
	(in millions)			
Business optimization expenses and restructuring charges or expenses	$ 2.9	$ (0.1)	$ 2.8	$ 5.6
Extraordinary or nonrecurring or unusual losses, expenses or charges	—	4.2	0.2	4.4
Other, net	1.1	—	3.7	4.8
Total	$ 4.0	$ 4.1	$ 6.7	$ 14.8

(1) See " – Financial Condition, Liquidity and Capital Resources – Reconciliation of Non-GAAP Financial Measures to GAAP Financial Measures" below and Note 18—Segment Information in the audited consolidated financial statements included elsewhere herein for a discussion on Segment EBITDA.

Global Customer Engagement. Global Customer Engagement net revenues decreased $9.7 million, or 2.9%, to $330.0 million for the year ended December 31, 2020 as compared to $339.7 million for the year ended December 31, 2019 primarily from lower member travel benefits as a result of the COVID-19 pandemic in the engagement solutions business, partially offset by growth in online membership in the revenue enhancement business.

CXLOYALTY GROUP HOLDINGS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS—CONTINUED
(Unless otherwise noted, all dollar amounts are in millions, except per share amounts)

Segment EBITDA increased $7.4 million, or 12.2%, for the year ended December 31, 2020 as compared to the year ended December 31, 2019, primarily due to lower operating costs driven by lower product and servicing costs and employee-related costs, partially offset by lower net revenues and increased marketing investment driven by higher commissions on growth in online membership in the revenue enhancement business.

Legacy Membership and Package. Legacy Membership and Package net revenues decreased $8.3 million, or 10.8%, to $68.8 million for the year ended December 31, 2020 as compared to $77.1 million for the year ended December 31, 2019. Net revenues decreased primarily from the expected attrition of legacy members due to the cessation of marketing campaigns and terminated programs.

Segment EBITDA increased $4.3 million, or 18.9%, for the year ended December 31, 2020 as compared to the year ended December 31, 2019, primarily due to lower operating costs and marketing and commissions expense driven by the decline in the member base and lower employee-related costs and lower general and administrative expenses driven by the effect of a prior year's legal reserve adjustment, partially offset by lower net revenues.

Corporate. Corporate costs include certain departmental service costs such as human resources, legal, corporate finance and accounting functions and unallocated portions of information technology costs. Corporate costs also include professional fees related to debt financing activities and stock compensation costs. Corporate costs increased $17.4 million for the year ended December 31, 2020 as compared to the year ended December 31, 2019, primarily due to higher employee-related costs.

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

The following table summarizes our consolidated results of operations for the years ended December 31, 2019 and 2018:

	Year Ended December 31, 2019	Year Ended December 31, 2018	Increase (Decrease)
		(in millions)	
Net revenues	$ 416.8	$ 462.5	$ (45.7)
Expenses:			
Cost of revenues, exclusive of depreciation and amortization shown separately below:			
Marketing and commissions	132.3	131.7	0.6
Operating costs	186.1	205.3	(19.2)
General and administrative	62.7	86.8	(24.1)
Facility exit costs	—	3.5	(3.5)
Depreciation and amortization	28.3	26.9	1.4
Total expenses	409.4	454.2	(44.8)
Income from operations	7.4	8.3	(0.9)
Interest income	0.2	0.2	—
Interest expense	(2.3)	(3.7)	1.4
Loss on extinguishment of debt	(0.1)	(32.0)	31.9
Other expense, net	(28.5)	(1.8)	(26.7)
Loss from continuing operations before income taxes	(23.3)	(29.0)	5.7
Income tax benefit	1.0	27.1	(26.1)
Loss from continuing operations, net of tax	(22.3)	(1.9)	(20.4)
(Loss) income from discontinued operations, net of tax	(121.0)	305.2	(426.2)
Net (loss) income	(143.3)	303.3	(446.6)
Less: net income attributable to non-controlling interest	(0.4)	(1.2)	0.8
Net (loss) income attributable to cxLoyalty Group Holdings, Inc.	$ (143.7)	$ 302.1	$ (445.8)

Summary of Operating Results for the Year Ended December 31, 2019

The following is a summary of changes affecting our operating results for the year ended December 31, 2019.

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Net revenues decreased $45.7 million, or 9.9%, for the year ended December 31, 2019 as compared to the same period of the prior year primarily from the expected attrition of legacy members due to the cessation of marketing campaigns and terminated programs in Legacy Membership and Package and from the unfavorable impact of foreign exchange in Global Customer Engagement.

Segment EBITDA increased $0.5 million for the year ended December 31, 2019 as compared to the same period of the prior year as the impact of lower general and administrative expense, operating costs and facility exit costs was partially offset by lower net revenues.

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

The following section provides an overview of our consolidated results of operations for the year ended December 31, 2019 as compared to the year ended December 31, 2018.

Net Revenues. During the year ended December 31, 2019, we reported net revenues of $416.8 million, a decrease of $45.7 million, or 9.9%, as compared to net revenues of $462.5 million in the same period of the prior year. Net revenues in Legacy Membership and Package decreased $24.3 million primarily due to the expected attrition of legacy members due to the cessation of marketing campaigns and terminated programs. Net revenues decreased $21.4 million in Global Customer Engagement primarily from the unfavorable impact of foreign exchange.

Marketing and Commissions Expense. Marketing and commissions expense increased $0.6 million, or 0.5%, to $132.3 million for the year ended December 31, 2019 from $131.7 million for the year ended December 31, 2018.

Operating Costs. Operating costs decreased $19.2 million, or 9.4%, to $186.1 million for the year ended December 31, 2019 from $205.3 million for the year ended December 31, 2018. Costs decreased $11.5 million in Global Customer Engagement primarily from the favorable impact of foreign exchange and lower employee-related costs. Costs decreased $5.6 million in Legacy Membership and Package primarily due to lower member volumes.

General and Administrative Expense. General and administrative expense decreased $24.1 million, or 27.8% to $62.7 million for the year ended December 31, 2019 from $86.8 million for the year ended December 31, 2018. Corporate costs decreased $16.9 million primarily from lower employee-related costs and professional fees and $9.0 million in Global Customer Engagement primarily from lower employee-related costs and professional fees.

Depreciation and Amortization Expense. Depreciation and amortization expense increased $1.4 million to $28.3 million for the year ended December 31, 2019 from $26.9 million for the year ended December 31, 2018 primarily from an increase in depreciation expense of $2.0 million, principally the result of an increase in capitalized software put into service, partially offset by a decrease in amortization expense of $0.6 million primarily attributable to certain assets becoming fully amortized in 2018.

Interest Expense. Interest expense decreased $1.4 million for the year ended December 31, 2019 as compared to the year ended December 31, 2018 as a result of a decrease in accretion on facility exit cost liabilities driven by the adoption of ASC 842.

Loss on Extinguishment of Debt. For the year ended December 31, 2018, we recorded a $32.0 million loss as a result of the prepayment of long-term debt immediately following the closing of the ABG Sale.

Income Tax Benefit. Income tax benefit decreased $26.1 million for the year ended December 31, 2019 as compared to the year ended December 31, 2018, primarily due to an increase in the federal deferred tax provision, partially offset by increases in the state and foreign tax benefits for the same period.

The Company's effective income tax rates for the year ended December 31, 2019 and 2018 were 4.2% and 93.7%, respectively. The difference in the effective tax rates for the year ended December 31, 2019 and 2018 is primarily a result of the decrease in the loss from continuing operations before income taxes from $29.0 million for the year ended December 31, 2018 to $23.3 million for the year ended December 31, 2019 and a decrease in the income tax benefit on continuing operations from $27.1 million for the year ended December 31, 2018 to $1.0 million for the year ended December 31, 2019. The Company's tax rate is affected by recurring items, such as tax rates in foreign jurisdictions and the relative amount of income it earns in those jurisdictions. It is also affected by discrete items that may occur in any given year, but are not consistent from year to year. The requirement to maintain valuation allowances also had an impact on the difference in the Company's effective tax rates.

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(Loss) Income from Discontinued Operations, net of tax. Loss from discontinued operations, net of tax totaled $121.0 million for the year ended December 31, 2019 as compared to income from discontinued operations, net of tax of $305.2 million for the year ended December 31, 2018. Excluding the gain on sale, net of tax of $443.0 million upon completion of the ABG Sale and income from discontinued operations, net of tax of $4.8 million attributable to operations of ABG for the year ended December 31, 2018, the loss from discontinued operations, net of tax decreased $18.7 million to $123.9 million for the year ended December 31, 2019 as compared to $142.6 million for the year ended December 31, 2018 primarily due to lower interest expense driven by lower average outstanding term loan and notes balances and amortization of the carrying value adjustment on the New Notes following the 2019 Recapitalization and lower operating costs driven by lower servicing costs from the impact of the reduction in volume by a top five loyalty partner in the fourth quarter of 2018, partially offset by the impact of a meaningful reduction in volume by a top five loyalty partner in the fourth quarter of 2018.

Operating Segment Results

Net revenues, Segment EBITDA and Adjusted EBITDA by operating segment are as follows:

	Year Ended December 31,								
	Net Revenues			Segment EBITDA (1)			Adjusted EBITDA		
	2019	2018	Increase (Decrease)	2019	2018	Increase (Decrease)	2019	2018	Increase (Decrease)
					(in millions)				
Global Customer Engagement	$ 339.7	$ 361.1	$ (21.4)	$ 60.6	$ 63.7	$ (3.1)	$ 64.6	$ 72.5	$ (7.9)
Legacy Membership and Package	77.1	101.4	(24.3)	22.7	37.3	(14.6)	26.8	40.7	(13.9)
Corporate	—	—	—	(47.6)	(65.8)	18.2	(40.9)	(48.4)	7.5
Total - Continuing operations	$ 416.8	$ 462.5	$ (45.7)	35.7	35.2	0.5	50.5	64.8	(14.3)
Business optimization expenses and restructuring charges or expenses							(5.6)	(11.0)	5.4
Extraordinary or nonrecurring or unusual losses, expenses or charges							(4.4)	(10.0)	5.6
Other, net							(4.8)	(8.6)	3.8
Depreciation and amortization				(28.3)	(26.9)	(1.4)	(28.3)	(26.9)	(1.4)
Income from continuing operations				$ 7.4	$ 8.3	$ (0.9)	$ 7.4	$ 8.3	$ (0.9)

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	Year Ended December 31, 2019			
	Global Customer Engagement	Legacy Membership and Package	Corporate	Total
	(in millions)			
Business optimization expenses and restructuring charges or expenses	$ 2.9	$ (0.1)	$ 2.8	$ 5.6
Extraordinary or nonrecurring or unusual losses, expenses or charges	—	4.2	0.2	4.4
Other, net	1.1	—	3.7	4.8
Total	$ 4.0	$ 4.1	$ 6.7	$ 14.8

	Year Ended December 31, 2018			
	Global Customer Engagement	Legacy Membership and Package	Corporate	Total
	(in millions)			
Business optimization expenses and restructuring charges or expenses	$ 4.4	$ 1.4	$ 5.2	$ 11.0
Extraordinary or nonrecurring or unusual losses, expenses or charges	3.9	2.0	4.1	10.0
Other, net	0.5	—	8.1	8.6
Total	$ 8.8	$ 3.4	$ 17.4	$ 29.6

(1) See " – Financial Condition, Liquidity and Capital Resources – Reconciliation of Non-GAAP Financial Measures to GAAP Financial Measures" below and Note 18—Segment Information in the audited consolidated financial statements included elsewhere herein for a discussion on Segment EBITDA.

Global Customer Engagement. Global Customer Engagement net revenues decreased $21.4 million, or 5.9%, to $339.7 million for the year ended December 31, 2019 as compared to $361.1 million for the year ended December 31, 2018. Net revenues decreased $14.7 million from the unfavorable impact of foreign exchange and decreased $6.7 million on a currency consistent basis.

Segment EBITDA decreased $3.1 million, or 4.9%, for the year ended December 31, 2019 as compared to the year ended December 31, 2018, primarily due to lower net revenues and increased marketing investment, partially offset by lower operating costs and general and administrative expenses driven by lower employee-related costs and professional fees.

Legacy Membership and Package. Legacy Membership and Package net revenues decreased $24.3 million, or 24.0%, to $77.1 million for the year ended December 31, 2019 as compared to $101.4 million for the year ended December 31, 2018. Net revenues decreased primarily from the expected attrition of legacy members due to the cessation of new marketing campaigns and terminated programs.

Segment EBITDA decreased $14.6 million, or 39.1%, for the year ended December 31, 2019 as compared to the year ended December 31, 2018. Segment EBITDA decreased as lower net revenues and higher general and administrative expenses driven by an adjustment to a reserve related to a prior year legal matter were partially offset by lower marketing and commissions expense and lower operating costs driven by a decline in the member base.

Corporate. Corporate costs include certain departmental service costs such as human resources, legal, corporate finance and accounting functions and unallocated portions of information technology costs. Corporate costs also include professional fees related to debt financing activities and stock compensation costs. Corporate costs decreased $18.2 million for the year ended December 31, 2019 as compared to the year ended December 31, 2018, primarily due to lower employee-related costs and professional fees.

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Financial Condition, Liquidity and Capital Resources

Financial Condition – December 31, 2020 and December 31, 2019

	December 31, 2020	December 31, 2019	Increase (Decrease)
		(in millions)	
Total assets	$ 344.0	$ 641.5	$ (297.5)
Total liabilities	209.1	1,812.9	(1,603.8)
Total stockholders' equity (deficit)	134.9	(1,171.4)	1,306.3

Total assets decreased $297.5 million, primarily due to decreases in current assets held for sale and noncurrent assets held for sale of $125.3 million and $198.5 million, respectively, from the completion of the Loyalty Spin-Off, partially offset by an increase in cash and cash equivalents and restricted cash of continuing operations of $21.3 million driven by (i) noncash expenses, net of $108.4 million, (ii) net borrowings under our revolving credit facility of $79.6 million, (iii) a net decrease in operating assets of $60.6 million and (iv) a capital contribution from stockholders of $32.7 million, partially offset by (i) a net loss of $151.4 million, (ii) a net decrease in operating liabilities of $34.1 million, (iii) capital expenditures of $26.3 million, (iv) payments to settle share-based compensation awards of $24.8 million, (v) principal payments on borrowings of $15.8 million and (vi) payments to settle contingent consideration liabilities associated with a prior year's acquisition of $5.0 million.

Total liabilities decreased $1,603.8 million, primarily due to decreases in current liabilities held for sale and noncurrent liabilities held for sale of $110.8 million and $1,485.8 million, respectively, from the completion of the Loyalty Spin-Off.

Total stockholders' equity (deficit) increased $1,306.3 million, primarily due to (a) the derecognition of $1,422.5 million in net liabilities from the completion of the Loyalty Spin-Off and (b) a capital contribution of $49.4 million from the Company's stockholders, partially offset by a net loss of $151.4 million.

Liquidity and Capital Resources

Our primary sources of liquidity on both a short-term and long-term basis are cash on hand and cash generated through operating and financing activities. Our primary cash needs are for working capital, capital expenditures and general corporate purposes. Many of the Company's significant costs are variable in nature, including marketing and commissions. The Company has a great degree of flexibility in the amount and timing of marketing expenditures and focuses its marketing expenditures on its most profitable marketing opportunities.

cxLoyalty Holdings is a holding company, with no direct operations and no significant assets other than the ownership of 100% of the equity interests of cxLoyalty. Because we conduct our operations through our subsidiaries, our cash flows are dependent upon cash dividends and distributions or other transfers from our subsidiaries. Payments to us by our subsidiaries are contingent upon our subsidiaries' earnings.

Cash Flows – Years Ended December 31, 2020 and 2019

At December 31, 2020, we had $82.5 million of cash and cash equivalents and restricted cash on hand, an increase of $21.1 million from $61.4 million at December 31, 2019. The following table summarizes our cash flows and compares changes in our cash and cash equivalents and restricted cash on hand to the same period in the prior year.

	Year Ended December 31,		
	2020	2019	Change
		(in millions)	
Cash (used in) provided by:			
Operating activities	$ (17.7)	$ (76.0)	$ 58.3
Investing activities	(26.3)	(34.8)	8.5
Financing activities	63.3	72.9	(9.6)
Effect of exchange rate changes	1.8	0.2	1.6
Net change in cash, cash equivalents and restricted cash	$ 21.1	$ (37.7)	$ 58.8

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Operating Activities

During the year ended December 31, 2020, we used $17.7 million in cash for operating activities, a decrease of $58.3 million as compared to the $76.0 million in cash used in operating activities during the year ended December 31, 2019. This change was driven by (a) a net decrease in operating assets of $60.6 million for the year ended December 31, 2020, driven primarily by a decrease in receivables and other current assets, as compared to $23.8 million for the year ended December 31, 2019, (b) a net decrease in operating liabilities of $34.1 million for the year ended December 31, 2020, driven primarily by a decrease in accounts payable and accrued expenses, as compared to $69.0 million for the year ended December 31, 2019, partially offset by a net loss of $151.4 million for the year ended December 31, 2020, as compared to $143.3 million for the year ended December 31, 2019.

Investing Activities

During the year ended December 31, 2020, we used $26.3 million in cash for investing activities, a decrease of $8.5 million as compared to the $34.8 million in cash used in investing activities during the year ended December 31, 2019. During the year ended December 31, 2020, we used $26.3 million for capital expenditures. During the year ended December 31, 2019, we used $29.9 million for capital expenditures, used $3.0 million in connection with the ABG Sale and made $1.9 million of acquisition-related payments.

Financing Activities

During the year ended December 31, 2020, we generated $63.3 million in cash from financing activities, a decrease of $9.6 million as compared to the $72.9 million in cash generated from financing activities during the year ended December 31, 2019. During the year ended December 31, 2020, we had net borrowings under our revolving credit facility of $79.6 million, received a capital contribution from our stockholders of $32.7 million, made payments of $24.8 million to settle share-based compensation awards, made principal payments on borrowings of $15.8 million, paid $5.0 million to settle contingent consideration liabilities associated with a prior year's acquisition and deconsolidated $1.7 million of cash in connection with the Loyalty Spin-Off. During the year ended December 31, 2019, we issued the New Notes for $300.0 million, made principal payments on borrowings of $122.4 million, had net repayments under our revolving credit facility of $100.0 million, made payments of $3.0 million to settle contingent consideration liabilities associated with a prior year's acquisition and paid a dividend to non-controlling interests of $0.7 million.

Cash Flows – Years Ended December 31, 2019 and 2018

At December 31, 2019, we had $61.4 million of cash and cash equivalents and restricted cash on hand, a decrease of $37.7 million from $99.1 million at December 31, 2018. The following table summarizes our cash flows and compares changes in our cash and cash equivalents and restricted cash on hand to the same period in the prior year.

	Year Ended December 31,		
	2019	2018	Change
		(in millions)	
Cash provided by (used in):			
Operating activities	$ (76.0)	$ 21.0	$ (97.0)
Investing activities	(34.8)	479.5	(514.3)
Financing activities	72.9	(463.3)	536.2
Effect of exchange rate changes	0.2	(2.7)	2.9
Net change in cash, cash equivalents and restricted cash	$ (37.7)	$ 34.5	$ (72.2)

Operating Activities

During the year ended December 31, 2019, we used $76.0 million in cash for operating activities, a decrease of $97.0 million as compared to the $21.0 million in cash generated from operating activities during the year ended December 31, 2018. This change was driven by (a) a net loss of $143.3 million for the year ended December 31, 2019, which includes $27.0 million of transaction costs incurred related to the 2019 Recapitalization, as compared to net income of $303.3 million for the year ended December 31, 2018 and (b) a net decrease in operating liabilities of $69.0 million for the year ended December 31, 2019, driven primarily by a decrease in accounts payable and accrued expenses, as compared to a net increase in operating liabilities of $13.0 million for the year ended December 31, 2018, partially offset by (c) a change from noncash income, net of $283.6 million for the year ended December 31, 2018 to noncash expenses, net of $110.8 million for the year ended December 31, 2019, driven primarily by a decrease in the gain from the ABG Sale and (d) a net decrease in operating assets of $23.8 million for the year ended December 31, 2019, driven primarily by decreases in other current assets and other non-current assets, as compared to a net increase in operating assets of $14.6 million for the year ended December 31, 2018.

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Investing Activities

During the year ended December 31, 2019, we used $34.8 million in cash for investing activities, a decrease of $514.3 million as compared to the $479.5 million in cash generated from investing activities during the year ended December 31, 2018. During the year ended December 31, 2019, we used $29.9 million for capital expenditures, used $3.0 million in connection with the ABG Sale, and made $1.9 million of acquisition-related payments. During the year ended December 31, 2018, we received proceeds, net of cash transferred, of $517.3 million from the ABG Sale, used $32.1 million for capital expenditures and made $5.7 million of acquisition-related payments, net of cash acquired.

Financing Activities

During the year ended December 31, 2019, we generated $72.9 million in cash from financing activities, an increase of $536.2 million as compared to the $463.3 million in cash used in financing activities during the year ended December 31, 2018. During the year ended December 31, 2019, we issued the New Notes for $300.0 million, made principal payments on borrowings of $122.4 million, had net repayments under our revolving credit facility of $100.0 million, made payments of $3.0 million to settle contingent consideration liabilities associated with a prior year's acquisition and paid a dividend to non-controlling interests of $0.7 million. During the year ended December 31, 2018, we made payments on borrowings of $507.1 million, including $14.0 million in repayment premiums, had net borrowings under our revolving credit facility of $45.0 million and paid a dividend to non-controlling interests of $0.9 million.

Reconciliation of Non-GAAP Financial Measures to GAAP Financial Measures

Adjusted EBITDA consists of income from operations before depreciation and amortization further adjusted to exclude noncash and unusual items and other adjustments. We present Adjusted EBITDA in a manner that is consistent with past practice and prior periods. We use Adjusted EBITDA to evaluate our operating performance and as a basis for determining payment of bonuses under our annual incentive plan. We present Adjusted EBITDA to enhance your understanding of our operating performance. We believe that Adjusted EBITDA is an operating performance measure, and not a liquidity measure, that provides investors and analysts with a measure of operating results unaffected by differences in capital structures, capital investment cycles and ages of related assets among otherwise comparable companies. However, Adjusted EBITDA is not a measurement of financial performance under U.S. GAAP and Adjusted EBITDA may not be comparable to similarly titled measures of other companies. You should not consider Adjusted EBITDA as an alternative to operating or net income determined in accordance with U.S. GAAP, as an indicator of operating performance or as an alternative to cash flows from operating activities determined in accordance with U.S. GAAP, as an indicator of cash flows, or as a measure of liquidity.

Set forth below is a reconciliation of our consolidated net income attributable to cxLoyalty Group Holdings, Inc. for the twelve months ended December 31, 2020 to Adjusted EBITDA.

	For the Twelve Months Ended December 31, 2020 (in millions)	
Net loss attributable to cxLoyalty Group Holdings, Inc.	$	(152.0)
Less: loss from discontinued operations, net of tax		155.0
Loss from continuing operations attributable to cxLoyalty Group Holdings, Inc.		3.0
Interest expense, net		1.6
Income tax provision		4.6
Net income attributable to non-controlling interest		0.6
Other expense, net		1.8
Loss on extinguishment of debt		1.2
Depreciation and amortization		17.2
Business optimization expenses and restructuring charges or expenses (a)		6.6
Extraordinary or nonrecurring or unusual losses, expenses or charges (b)		32.9
Other, net (c)		23.6
Adjusted EBITDA, excluding pro forma adjustments (d)		93.1
Effect of pro forma adjustments (e)		2.7
Adjusted EBITDA, including pro forma adjustments (f)	$	95.8

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(a) Represents the elimination of the effect of business optimization expenses and restructuring charges or expenses.
(b) Represents the elimination of extraordinary or nonrecurring or unusual losses, expenses or charges.
(c) Primarily represents the elimination of (i) net changes in certain reserves, (ii) share-based compensation expense and (iii) foreign currency gains and losses related to unusual, non-recurring intercompany transactions.
(d) Adjusted EBITDA, excluding pro forma adjustments, does not give pro forma effect to the projected annualized benefits of restructurings and other cost savings initiatives. However, we do make such accretive pro forma adjustments as if such restructurings and cost savings initiatives had occurred on January 1, 2020 in calculating the Adjusted EBITDA, subject to certain limitations.
(e) Gives effect to the projected annualized benefits of restructurings and other cost savings initiatives as if such restructurings and cost savings initiatives had occurred on January 1, 2020.
(f) Adjusted EBITDA, including pro forma adjustments, gives pro forma effect to the adjustments discussed in (e) above.

Contractual Obligations and Commitments

The following table summarizes our aggregate contractual obligations at December 31, 2020, and the estimated timing and effect that such obligations are expected to have on our liquidity and cash flow in future periods. We expect to fund the contractual obligations and commitments with operating cash flow generated in the normal course of business.

	2021	2022	2023	2024 (in millions)	2025	2026 and thereafter	Total
Operating lease commitments	$ 12.5	$ 11.6	$ 10.1	$ 3.6	$ 1.5	$ 3.3	$ 42.6
Commitments from purchase agreements (1)	18.0	9.5	0.1	—	—	—	27.6
Finance lease obligations	0.9	0.8	0.7	0.4	—	—	2.8
Liabilities for uncertain tax positions	3.6	—	—	—	—	—	3.6
Total firm commitments and outstanding debt	$ 35.0	$ 21.9	$ 10.9	$ 4.0	$ 1.5	$ 3.3	$ 76.6

(1) Represents commitments under purchase agreements for marketing and membership program support services as well as contractual obligations under the Transition Services Agreement.

The above table does not give effect to contingent obligations, such as litigation claims, standard guarantees and indemnities, contingent consideration related to acquisitions, surety bonds and letters of credit, as we cannot determine either the amount or timing of payments related to these contingent obligations. See Note 13—Commitments and Contingencies in the audited consolidated financial statements included elsewhere herein for a discussion of these contingent obligations.

Off-Balance Sheet Arrangements

We do not have any significant off-balance sheet arrangements that have not been disclosed in "—Contractual Obligations and Commitments."

Critical Accounting Policies

In presenting our audited consolidated financial statements in conformity with accounting principles generally accepted in the United States, we are required to make estimates and assumptions that affect the amounts reported therein. We believe that the estimates, assumptions and judgments involved in the accounting policies related to revenue recognition, accounting for marketing costs, share-based compensation, income taxes, goodwill and intangible assets could potentially affect our reported results and as such, we consider these to be our critical accounting policies. Several of the estimates and assumptions we are required to make relate to matters that are inherently uncertain, as they pertain to future events. However, certain events outside our control cannot be predicted and, as such, they cannot be contemplated in evaluating such estimates and assumptions. We believe that the estimates and assumptions used when preparing our audited consolidated financial statements were the most appropriate at the time. Significant estimates include accounting for accruals and income tax valuation allowances, litigation accruals, and the estimated fair values of share-based compensation, assets and liabilities acquired in business combinations and financial instruments. For a summary of all of our significant accounting policies, see Note 2—Summary of Significant Accounting Policies in the audited consolidated financial statements included elsewhere herein.

Revenue Recognition

Within the Company's Global Customer Engagement segment, payments made by our customers for the provision of services are amortized over the non-cancellable period of the contract, though where the cancellation of a contract would be cost prohibitive to the customer, the Company may amortize its revenue beyond the non-cancellable period. Within the Legacy Membership and Package

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segment, certain members are entitled to a full membership refund throughout their entire membership term, regardless of when they cancel. Revenues are recognized over time in a manner that reflects the timing of transfer of goods and services to these customers.

Goodwill and Intangible Assets

In connection with the Apollo Transactions, the Company recorded goodwill of approximately $315.3 million and intangible assets of $1,430.0 million. In subsequent years, the Company has consummated several acquisitions resulting in the recognition of additional goodwill, as well as intangible assets.

Under current accounting guidance, there is a requirement to assess goodwill and indefinite-lived intangible assets for impairment annually, or more frequently if circumstances indicate impairment may have occurred. We first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. If, after assessing the totality of relevant events or circumstances, we determine that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, we compare the carrying value of our reporting units to their fair values. Fair values of the reporting units are determined based on the present value of estimated future cash flows and incorporate assumptions that we believe marketplace participants would utilize.

During the fourth quarter of 2020, the Company assessed qualitative factors to determine whether it was more likely than not that the fair value of the Global Customer Engagement reporting unit was less than its carrying amount, including goodwill. Management concluded that it is not more likely than not that the fair value of the Global Customer Engagement reporting unit was less than its carrying amount.

Indefinite-lived intangible assets are tested for impairment and written down to fair value, as required by current accounting guidance. We perform reviews annually, or more frequently if circumstances indicate that an impairment may have occurred. There were no impairments identified during each of the years ended December 31, 2020, 2019 and 2018. As of December 31, 2020, intangible assets consist of assets with finite useful lives initially recorded at their respective fair values.

Income Taxes

Income taxes are presented in the audited consolidated financial statements included elsewhere herein using the asset and liability approach. Deferred tax assets and liabilities are calculated based upon the temporary differences between the financial statements and income tax bases of assets and liabilities using currently enacted tax rates. Deferred tax assets are recorded net of a valuation allowance when, based on the weight of available evidence, it is more likely than not that some portion or all of the recorded deferred tax assets will not be realized in future periods. Decreases to the valuation allowance are recorded as reductions to the income tax provision, while increases to the valuation allowance result in additional income tax provision. The realization of deferred tax assets is primarily dependent on estimated future taxable income. As of December 31, 2020 and 2019, the Company has recorded a full valuation allowance for its U.S. federal net deferred tax assets. As of December 31, 2020 and 2019, the Company has also recorded valuation allowances against the deferred tax assets of certain state and foreign taxing jurisdictions.

The tax effects of an uncertain tax position ("UTP") taken or expected to be taken in income tax returns are recognized only if it is "more likely-than-not" to be sustained on examination by the taxing authorities, based on its technical merits as of the reporting date. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. The Company recognizes changes in estimated accrued interest and penalties related to UTPs as an increase or decrease to the income tax provision, as applicable.

The Company recognizes the benefit of a UTP in the period when it is effectively settled. Previously recognized tax positions are derecognized in the first period in which it is no longer more likely than not that the tax position would be sustained upon examination.

Skattedirektoratet

Saksbehandler	Deres dato	Vår dato
Inger Helene Iversen	09.07.2013	14.08.2013
Telefon	Deres referanse	Vår referanse
61236772	Dagfinn Haldorsen	2013/555607

DELOITTE AS
Postboks 347 Skøyen
0213 OSLO

Fritak for konsernregnskapsplikten for underkonsernet Affinion International AS, org.nr. 939 118 756

Vi viser til deres brev av 9. juli 2013 hvor dere på vegne av Affinion International AS søker om fritak fra plikten til å utarbeide konsernregnskap.

Affinion International AS er eid av Affinion Group Holdings Inc. Konsoliderte regnskaper utarbeides i USA hvor Affinion Group Holdings Inc. er registrert. Konsernregnskap rapporteres til United States Securities And Exchange Commission (SEC), og omfatter også den norske regnskapspliktige og dennes datterselskap. Konsernregnskapet er utarbeidet på engelsk og i samsvar med amerikanske regnskapsprinsipper, USGAAP.

Skattedirektoratet finner med hjemmel i regnskapsloven av 17. juni 1998 nr. 56 § 3-7 fjerde ledd å kunne gi tillatelse til at det gjøres unntak for konsernregnskapsplikten for Affinion International AS. Det forutsettes at Affinion Group Holdings Inc. utarbeider konsernregnskap som omfatter den regnskapspliktige og dennes datterselskap. Det legges til grunn at dette konsernregnskapet er utarbeidet i samsvar med USGAAP og at kravene i regnskapsloven § 3-7 med forskrifter for øvrig følges. Bestemmelsene i regnskapsloven kapittel 8 gjelder tilsvarende for dette konsernregnskapet.

Når det gjelder hvilket språk morselskapet skal utarbeide konsernregnskapet på, vises det til forskrift av 7.9.2006 nr. 1062 til utfylling og gjennomføring mv. av regnskapsloven. Det følger av § 3-7-1 at konsernregnskapet foruten på norsk, kan være på svensk, dansk eller engelsk.

Kopi av dette brev må sendes Regnskapsregisteret i Brønnøysund sammen med årsregnskapet mv. Det påligger den regnskapspliktige å dokumentere ved dette brev at tillatelsen er gitt.

Vennligst oppgi vår referanse ved henvendelser i saken.

Med hilsen

Rune Tystad
Seniorrådgiver
Rettsavdelingen, foretaksskatt
Skattedirektoratet

Inger Helene Iversen

Postadresse	Besøksadresse:	Sentralbord
Postboks 9200 Grønland	Se www.skatteetaten.no	800 80 000
0134 Oslo	Org.nr. 996250318	Telefaks
For elektronisk henvendelse se www.skatteetaten.no		22 17 08 60

Our date	Your date	Case officer
23.10.2019	12.09.2019	Lars Waaltorp
800 80 000 skatteetaten.no	Your reference	Telephone +4732212244
Org. nr: 974761076	Our reference 2019/6476692	Postal address P.O. Box 9200 Grønland 0134 OSLO

CXLOYALTY INTERNATIONAL AS
P.O. Box 185
1377 BILLINGSTAD

Callers from abroad, please call +47 22 07 70 00

Att: Rikard af Sandeberg

Permission to prepare the annual accounts and directors' report in English language for CxLoyalty International AS, org.no 939 118 756

With reference to your letter received 12 September 2019 with respect to the above matter regarding CxLoyalty International AS.

Based on a total evaluation, the view of the tax office is that CxLoyalty International AS may make the directors' report and annual accounts in English language according to the Norwegian Accounting Act § 3-4 third paragraph. The exemption requires that the information the decision is based on, does not change significantly.

A copy of this letter must be sent to the Register of Company Accounts in Brønnøysund together with the financial statements. It is incumbent on the company to document by this letter that the permit is granted.

Background

CxLoyalty International AS is a foreign subsidiary of its Parent company Affinioin International Limited. The subsidiary's financial accounts are prepared in the Parent company's shared service centre, based in England. The company operates in a global industry and primarily serves large financial institutions and telecom operators. The business language is primarily in English.

Condition for the permission

According to the Norwegian Accounting Act § 3-4, third paragraph shall "the directors' report and annual accounts ... be in Norwegian. The Ministry can in an individual decision decide that the directors' report and/or annual accounts may be in another language".

Ot. prp. nr. 42 (1997-1998) About Act about annual accounts etc., says the following about the purpose of the Accounting Act, refer section 1.1:

> "The aim of the Government with respect to the Accounting Act is that it shall contribute towards providing informative accounts for different users of accounts. The users of accounts include investors and creditors, which provide capital for the companies. Other groups include those who have an interest in knowing how the companies are operated, for example employees and the local community. The information to the capital market is an important basis for the correct pricing of

> financial instruments. The correct pricing of stocks is an important factor in securing the best possible allocation of resources in the economy. High quality accounts will also make it more difficult for market participants to obtain speculative gains as a result of non-publicly available information."

One of the main goals of the Accounting Act is to contribute to "informative accounts for different users of accounts". The users of the accounts will include investors, creditors, employees and the local community.

Hence, it is the view of the Ministry that it is crucial that the question of dispensation from the general rule that the annual accounts and/or directors' report should be prepared in Norwegian, not in any significant way deviate from the consideration of users of the accounts.

As mentioned above it is particularly the consideration of the users of the account information, which has to be taken into consideration when considering the application for permission. In this assessment, the tax office has emphasized that the company is a subsidiary of a foreign company. Furthermore, all key players and partners understand and use English.

Please state "our reference" (see above) in all written communication with the Norwegian Tax Authorities.

Yours sincerely,

Lars Waaltorp
Adviser
Customer Interaction Division, Customer Service
The Norwegian Tax Administration

This document has been electronically approved and therefore has no handwritten signatures.

Side 2 / 2

Tenerity AS

Income statement for the period 1. January to 31. December

All amounts in NOK

	Notes		2020	2019
Sales		Kr	**21 719 928**	29 187 533
Other revenue			**29 918 000**	38 651 724
Total operating income			**51 637 928**	67 839 257
Operating expenses:				
Cost of materials			**3 563 362**	4 350 734
Personnel expenses	2		**38 585 858**	44 397 022
Other operating expenses	2		**10 133 251**	14 295 914
Depreciations	3,4		**2 018 091**	1 833 389
Total operating expenses			**54 300 561**	64 877 059
Operating profit			**(2 662 633)**	2 962 198
Financial income and expenses				
Other interest income			**860**	0
Other financial income			**21 662 216**	68 699
Other interest expenses			**(19 744)**	(73 680)
Other financial expenses			**(9 545 994)**	(2 435 295)
Net financial items			**12 097 338**	(2 440 276)
Ordinary profit before tax			**9 434 706**	521 921
Taxes on ordinary profit	8		**0**	0
Net profit for the year			**9 434 706**	521 921
Allocations				
Other equity	7		**9 434 706**	521 921
Allocated for dividend			**0**	0
Total allocations			**9 434 706**	521 921

Tenerity AS

Balance sheet 31. December
Assets
All amounts in NOK

	Notes		2020	2019
Non-current assets				
Intangible assets				
Acquired intangible assets	3	**Kr**	**3 251 403**	2 749 223
Total intangible assets			**3 251 403**	2 749 223
Tangible fixed assets				
Property, plant and equipment, net	4		**551 184**	690 545
Total tangible assets			**551 184**	690 545
Financial fixed assets				
Investments in subsidiaries	5		**31 445 357**	31 445 357
Total financial fixed assets			**31 445 357**	31 445 357
Total fixed assets			**35 247 944**	34 885 125
Current assets				
Inventory			**329 897**	0
Receivables				
Intercompany receivables	9		**138 089 790**	131 526 271
Accounts receivables			**4 719 281**	3 336 086
Other receivables			**847 965**	4 475 184
Total receivables			**143 657 036**	139 337 541
Cash and cash equivalents	10		**5 281 106**	4 051 291
Total current assets			**149 268 039**	143 388 832
Total assets			**184 515 983**	**178 273 957**

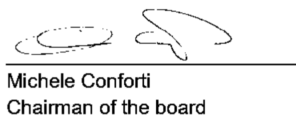
Tenerity AS

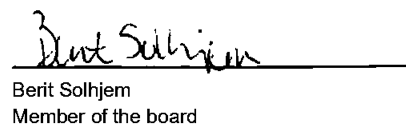
Balance sheet 31. December
Equity and liabilities
All amounts in NOK

	Notes		2020	2019
Equity				
Paid-in capital				
Share capital	6,7	**Kr**	**5 067 090**	5 067 090
Share premium reserve	7		**7 716 546**	7 716 546
Total paid-in capital			**12 783 636**	12 783 636
Retained earnings				
Other equity	7		**24 203 942**	14 769 236
Total equity			**36 987 578**	27 552 872
Liabilities				
Current liabilities				
Intercompany debt	9		**136 902 184**	140 949 525
Trade creditors			**307 117**	102 402
Liabilities to public autorities			**3 342 273**	3 553 429
Other current debt			**6 976 832**	6 115 729
Total current liabilities			**147 528 405**	150 721 085
Total liabilities			**147 528 405**	150 721 085
Total equity and liabilities			**184 515 983**	**178 273 957**

Oslo/London, Septemer 15, 2021

Rikard David Holm Af Sandeberg
General Manager


Michele Conforti
Chairman of the board


Berit Solhjem
Member of the board

CASH FLOW STATEMENT

		2020	2019
Cash flow from operating activities			
Profit before tax	Kr	**9 434 706**	521 921
Depreciations		**2 018 091**	1 833 389
Net benefit plan scheme payments		**0**	(448 019)
Changes in inventories		**(329 897)**	0
Changes in receivables		**(1 383 195)**	1 040 709
Changes in account payables		**204 715**	(65 516)
Tax paid		**0**	0
Changes in other accruals		**4 277 166**	(3 241 966)
Net cash flow from operating activities		**14 221 586**	**(359 483)**
Cash flow from Investing activites			
Purchase of equipment		**(2 380 910)**	(2 526 317)
Net cash flow from Investing activites		**(2 380 910)**	**(2 526 317)**
Cash low from financing activities			
Changes in Intercompany balances		**(10 610 860)**	0
Net cash low from financing activities		**(10 610 860)**	**0**
Net increase (decrease) in cash and cash equivalents		**1 229 816**	**(2 885 800)**
Cash and cash equivalents, start of period		**4 051 291**	6 937 090
Cash and cash equivalents, end of period		**5 281 106**	**4 051 291**

Tenerity AS

Notes to the financial statement

31. December 2020

1 Accounting principles

The annual accounts have been prepared in compliance with the Accounting Act and accounting principles generally accepted in Norway.

Use of estimates
The preparation of financial statements in compliance with the Accounting Act requires the use of estimates. The application of the company's accounting principles also require management to apply assessments. Areas which to a great extent contain such assessments, a high degree of complexity, or areas in which assumptions and estimates are significant for the financial statements, are described in the notes.

Revenues
Income from sale of goods and services are recognised at fair value of the consideration, net after deduction of VAT, returns, discounts and reductions. Sales are taken to income when the company has delivered its products to the customer and there are no unsatisfied commitments which may influence the customer's acceptance of the product. Delivery is not completed until the products have been sent to the agreed place, and risks relating to loss and obsolescence have been transferred to the customer. Historical data is applied to estimate and recognise provisions for quantity rebates and returns at the sales date. Provisions for expected guarantee work are recognised as expenses and provisions for liabilities. Services are recognised in proportion to the work performed.

Classification of balance sheet items
Assets intended for long term ownership or use have been classified as fixed assets. Assets relating to the trading cycle have been classified as current assets. Other receivables are classified as current assets if they are to be repaid within one year after the transaction date. Similar criteria apply to liabilities. First year's instalment on long term liabilities and long term receivables are, however, not classified as short term liabilities and current assets.

Intangible assets
R& D expenses are taken into the balance sheet providing a future financial benefit relating to the development of an identifiable intangible asset can be identified and the expenses can be reliably measured. Otherwise such expenses are expensed as and when incurred. R& D expenses are depreciated on a straight- line basis over the asset's expected useful life.

Fixed assets
Land is not depreciated. Other fixed assets are reflected in the balance sheet and depreciated to residual value over the asset's expected useful life on a straight- line basis. If changes in the depreciation plan occur the effect is distributed over the remaining depreciation period. Direct maintenance of an asset is expensed under operating expenses as and when it is incurred. Additions or improvements are added to the asset's cost price and depreciated together with the asset. The split between maintenance and additions/ improvements is calculated in proportion to the asset's condition at the acquisition date.
Leased assets are reflected in the balances sheet as assets if the leasing contract is considered a financial lease.
Investments in subsidiaries
The cost method is applied to investments in subsidiaries. The cost price is increased when funds are added through capital increases or when group contributions are made to subsidiaries. Dividends received are initially taken to income. Dividends exceeding the portion of retained equity after the purchase are reflected as a reduction in purchase cost. Dividend/ group contribution from subsidiaries are reflected in the same year as the subsidiary makes a provision for the amount. Dividend from other companies are reflected as financial income when it has been approved.

Asset impairments
Impairment tests are carried out if there is indication that the carrying amount of an asset exceeds the estimated recoverable amount. The test is performed on the lowest level of fixed assets at which independent cashflows can be identified. If the carrying amount is higher than both the fair value less cost to sell and recoverable amount (net present value of future use/ ownership) , the asset is written down to the highest of fair value less cost to sell and the recoverable amount.
Previous impairment charges, except writedown of goodwill, are reversed in later periods if the conditions causing the write- down are no longer present.

Debtors
Trade debtors are recognised in the balance sheet after provision for bad debts. The bad debts provision is made on basis of an individual assessment of each debtor and an additional provision is made for other debtors to cover expected losses. Significant financial problems for the customers, the likelihood that the customer will become bankrupt or experience financial restructuring and postponements and insufficient payments, are considered indicators that the debtors should be written down.
Other debtors, both current and long term, are recognised at the lower of nominal and net realisable value. Net realisable value is the present value of estimated future payments. When the effect of a writedown is insignificant for accounting purposes this is, however, not carried out. Provisions for bad debts are valued the same way as for trade debtors.

Tenerity AS

Notes to the financial statement

31. December 2020

Foreign currencies
Assets and liabilities in foreign currencies are valued at the exchange rate on the balance sheet date. Exchange gains and losses relating to sales and purchases in foreign currencies are recognised as operating income and cost of goods

Liabilities
Liabilities, with the exception of certain liability provisions, are recognised in the balance sheet at nominal amount.
Guarantee commitments/ complaints
Guarantee commitments relating to completed sales are valued at the estimated cost of such work. The estimate is made on the basis of historical figures for guarantee work, but adjusted for expected differences due to, for instance, changes in quality assurance routines and changes in product range. The provision is recognised under 'Other short term liabilities' and changes in the provision are recognised in income.

Pensions
The company has defined contribution plans, and the pension schemes are financed through payments to insurance companies.

Taxes
The tax charge in the income statement includes both payable taxes for the period and changes in deferred tax. Deferred tax is calculated at relevant tax rates on the basis of the temporary differences which exist between accounting and tax values, and any carryforward losses for tax purposes at the year- end. Tax enhancing or tax reducing temporary differences, which are reversed or may be reversed in the same period, have been eliminated. The disclosure of deferred tax benefits on net tax reducing differences which have not been eliminated, and carryforward losses, is based on estimated future earnings. Deferred tax and tax benefits which may be shown in the balance sheet are presented net.
Tax reduction on group contributions given and tax on group contribution received, booked as a reduction of cost price or taken directly to equity, are booked directly against tax in the balance sheet (offset against payable taxes if the group contribution has affected payable taxes, and offset against deferred taxes if the group contribution has affected deferred taxes) .
Deferred tax is reflected at nominal value.

Cash flow statement
The cash flow statement has been prepared according to the indirect method. Cash and cash equivalents include cash, bank deposits, and other short term investments which immediately and with minimal exchange risk can be converted into known cash amounts, with due date less than three months from purchase date.

Tenerity AS

Notes to the financial statement

31. December 2020

2 Salary and personnel costs, number of employees, loans to employees and auditor's fee

Salary and personnel costs	2020	2019
Salaries/ wages	**30 709 322**	36 697 717
Social security fees	**4 219 381**	5 336 715
Pension expenses	**1 936 005**	1 885 908
Other remuneration	**1 721 151**	476 683
Total	**38 585 858**	44 397 023
Average man-years	69	69

Remuneration to management and board members	General manager	Board members
Salaries	1 542 054	940 352
Pension expenses	154 817	77 484
Other remuneration	96 000	96 000

Required occupation pension

The company is required to have an occupational pension scheme in accordance with the Norwegian Mandatory Occupational Pension Act ("Lov om Obligatorisk Tjenestepensjon"). The company's pension scheme meets the requirements of the law.

Auditor

Specification of auditor's fee (amounts ex VAT) as charged to the profit and loss	2020	2019
Statutory audit (incl. technical assistance with financial statements)	**249 022**	427 453
Other assurance services	**50 000**	50 000
Tax advisory fee (incl. technical assistance with tax return)	**16 720**	31 250
Total:	**315 742**	508 703

3 Intangible assets

	Franchise	Software	Total
Acquisition cost at 01.01.	562 615	15 083 717	15 646 332
Additions	0	2 052 004	2 052 004
Acquisition cost at 31.12.	562 615	17 135 721	17 698 336
Accumulated depreciation at 31.12.	562 615	13 884 317	14 446 932
Net value at 31.12.	**0**	**3 251 403**	**3 251 403**
Depreciation of the year (linear)	47 080	1 502 743	1 549 823
Useful economic life	3 years	3 years	

4 Fixed assets

	Movables	Total
Acquisition cost at 01.01.	5 334 411	5 334 411
Additions	328 906	328 906
Acquisition cost at 31.12.	5 663 317	5 663 317
Accumulated depreciation at 31.12.	5 112 133	5 112 133
Net value at 31.12.	**551 184**	**551 184**
Depreciation of the year (linear)	468 267	468 267
Useful economic life	3 -5 years	

Tenerity AS

Notes to the financial statement

31. December 2020

5 Subsidiaries

Investments in subsidiaries, associated companies and joint ventures are booked according to the cost method.

Subsidiaries	Acquistion year	Location	Ownership	Voting rights
Tenerity ApS, Denmark	1986	København	100 %	100 %
Tenerity AB, Sweden	1986	Stockholm	100 %	100 %
Affinion OY AB, Finland	1993	Helsinki	100 %	100 %

Subsidiaries	Costs	Result	Equity	Booked value
Tenerity ApS, Denmark	15 551 547	DKK 1 420 622	DKK 25 515 091	15 551 547
Tenerity AB, Sweden	15 790 580	SEK 13 240 098	SEK 47 706 929	15 790 580
Affinion OY AB, Finland	212 800	EUR -65	EUR 11 809	103 229
Balance sheet value 31.12.				31 445 356

6 Share capital

The parent company Tenerity Inc has its registered offices in 6 High Ridge Park, Stamford, Connecticut, USA, CT 06905, where the consolidated accounts which include the company can be obtained.

The share capital of NOK 5 067 090 consist of 168 903 shares with nominal value of NOK 30 each.

List of (20) major shareholders at 31.12.	Number of shares	Ownership
Bassae Holding B. V.	168 903	100 %
Total number of shares	168 903	100 %

7 Shareholders' equity

	Share capital	Share premium	Other equity	Total
Equity 01.01	5 067 090	7 716 546	14 769 236	27 552 872
Net profit	0	0	9 434 706	9 434 706
Equity 31.12	**5 067 090**	**7 716 546**	**24 203 942**	**36 987 578**

Tenerity AS

Notes to the financial statement

31. December 2020

8 Income taxes

Taxes on ordinary profit consists of:	**2020**	2019
Taxes payable	**0**	0
Changes in deferred tax	**0**	0
Difference from prior year	**0**	0
Total taxes on ordinary profit	**0**	0

Tax base calculation:	**2020**	2019
Profit before income tax	**9 434 706**	521 921
Permanent differences	**3 176**	(77 347)
Changes in temporary differences	**(9 437 884)**	(444 575)
Total	**0**	0

Temporary differences	**Change**	**2020**	2019
Receivables	178 587	**(389 671)**	(211 084)
Inventory	0	**0**	0
Fixed assets	87 293	**(492 393)**	(405 100)
Other provisions	(22 862)	**(267 500)**	(290 362)
Net temporary differences	243 018	**(1 149 564)**	(906 546)
Tax losses carried forward	(9 680 902)	**(89 817 345)**	(99 498 247)
Basis for deferred tax	(9 437 884)	**(90 966 909)**	(100 404 793)

	2020	2019
Deferred tax	**(20 012 720)**	(22 089 054)
Deferred tax benefit not shown in the balance sheet	**20 012 720**	22 089 054
Deferred tax (asset) 22 % (2019: 22 %)	**0**	0

Tenerity AS

Notes to the financial statement

31. December 2020

9 Intercompany balances

Intercompany balances:

	2020	2019
Receivables		
Tenerity AB, Sweden	**117 794 406**	110 287 297
Tenerity ApS, Denmark	**20 295 384**	20 984 628
Webloyalty International Sarl, Switzerland	**0**	254 346
Total	**138 089 790**	131 526 271
Payables		
Loyaltybuild Ltd, Ireland	**8 250 370**	7 761 115
Affinion International Limited	**128 651 815**	127 226 569
Tenerity AB, Sweden	**0**	3 990 767
Tenerity ApS, Denmark	**0**	1 971 075
Total	**136 902 184**	140 949 525
Transaction/transaction group		
Intercompany revenue	**29 918 000**	36 851 724
Dividends received	**0**	0
Intercompany interest	**0**	0
Intercompany costs	**0**	0
Total	**29 918 000**	36 851 724

10 Restricted bank deposits

	2020	2019
Bank accounts related to employee tax accounts	**1 546 511**	1 896 804

	2020	2019
Unused bank overdraft	**50 000**	50 000

Annual Report 2020

for

Tenerity AS

Nature of the business
Tenerity AS primary business area is to deliver customer engagement programmes and value-added services for leading companies to help enrich their offerings to drive deeper connections and give their customers reasons to engage more and stay longer thereby generating increased lifetime value. The Company primarily focuses on the financial sector and other service sectors with large membership bases.
The company is located in Bærum municipality and Tenerity AS is part of the Tenerity Group, a global group headquartered in the United States.

True overview of development and results
Compared to 2019, there is a reduction in operating income of NOK 16.2 million, though only 7.5 million of this is related to client sales. The remaining 8.7 million is from a reduction in Management Fee revenue received from Tenerity AS subsidiaries. Client sales reduced due to the cessation of a couple of contracts, and discounts agreed with long term clients. The recharge of Management costs to Subsidiaries reduced in relation to a lower level of office resource deployment during the year, because of the Covid-19 pandemic. There was a reduction in Operating Expenses of 10.6 million, mainly attributed to cost reductions in Personnel and Other Operating Expenses. However due to the reduction in Operating Income, there was an overall reduction in Gross Profit compared to 2019 of 5.6 million.

Profit before tax for 2020 was NOK 9,434,706, which is a significant improvement when compared to 2019 which saw a lower profit of NOK 521,921. This is due to an increase in Other Financial Income during 2020 of 21.6 million. Gains on Foreign Exchange fluctuations during 2020 were realised on the Intercompany balances, particularly the Intercompany balance with Tenerity AS subsidiary Tenerity AB.

The Company's Intercompany transactions are invoiced in the subsidiary's local currencies and are therefore subject to exchange rate fluctuations at the time of invoicing. The intercompany balance sheet is reviewed monthly at the value of the local currencies, including Danish Kroner, Euro and Swedish Kroner. The company is not subject to changes in interest rates. As at 31 December 2020 the company is mainly financed by equity and loans from group companies.

The level of liquidity at year-end has improved compared to 2019, and is considered satisfactory. The management continuously funds the liquidity and actively manages the liquidity situation, to ensure that the company has sufficient cash reserves to meet known cash flows, at all times. Management believes that cash and cash flows from operating activities will be sufficient to meet expected operational needs in the coming period. If the opposite is the case, one will be supported by the parent company.

Although there is an increase in the Trade Receivables compared to 2019, credit risk for counterparties lacking financial ability to fulfil their obligations is considered low. Historically, there has been little loss on receivables. The company's Accounts Receivable ledger is exposed to concentration risk. However, the risk of the largest customers defaulting on a claim is not considered to be present.

The company does not conduct research and development within the meaning of the Accounting Act but has development activities in connection with the further development of the Company's products.

The Board believes that the annual accounts give a true and fair view of the Company's Assets and Liabilities, Financial Position, and Earnings.

Still operating
The Company's Equity situation per 31.12.20 is satisfactory. It is expected that the company will be able to increase earnings while keeping costs down. This means that the Company will be able to deliver a positive result for the future and, in the opinion of the board, the conditions are well suited for further operation and development. The Annual Accounts have been prepared under the assumption of continued operations. The Board confirms that the assumption of continued operations is present.

The COVID-19 outbreak affects the Norwegian public & private sector and the population in general. To date our business in Norway is proceeding according to initial plans, both with regards to the commercial and financial aspects. Our operation in Norway is performing well given the external circumstances and we have taken necessary preventive actions such as “Work from Home” for most of the employees and introduced some cost reduction initiatives. During the pandemic utilization of services related to lifestyle & travel has seen some decline. As the COVID-19 situation has stabilized in Norway and the impact is decreasing, the government is lifting sanctions and we expect a gradual normalization in the months to come.

Toward the end of the year JP Morgan Chase acquired part of the business, the “points-based travel & rewards fulfillment” in the US (including the trademark cxLoyalty). This will not affect the Norwegian or Nordic business, except for the fact that the remaining business internationally and in Norway changed their Company names to Tenerity during 2021.

Work environment
The Board considers the working environment of the company as good. This is based, among other things, on the results of regular employee surveys on the working environment. No special measures have been taken in this regard.

Employees in the business have not been exposed to accidents or injuries in connection with the performance of their work.

Sick leave during the year was a total of 3,975 hours. In total, the absence amounts to 4.1% and long-term sick leave 0.9%, of the total working time of the company during the financial year.

Equality
The company had 69 employees at the end of the year (13 of whom are part-time employees), a total of 39 women and 30 men. Working hours and wages are justly distributed between the sexes.
The Company's personnel policy is considered to be gender neutral in all areas.
The board consists of 2 people, of which 1 is a woman.

Environmental
The company does not conduct activities that pollute the external environment.

Other relationships
The Board of Directors is not aware of any matters of importance in assessing the Company's position and earnings that are not shown in the Financial Statements and Balance Sheet with notes. Neither have circumstances occurred after the end of the Financial Year which are, in the opinion of the Board, important in the assessment of the accounts.

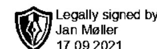
Prospects
The company has a long-term cooperation with customers in the financial sector (Banking and Insurance), but also looks at the opportunity to offer its products and services in telecommunications and utility. The market outlook is good, but the long-term effect from Covid-19 and lower utilization of services creates margin pressure and some uncertainty. Changes are taking place at a faster pace than previously due to digitalisation and new business models. The company is therefore actively working on digitizing and modernizing its products and services, as well as focusing on efficient operations to be better equipped for the future. Demand for loyalty-creating products and services is present, as is the focus on security solutions to protect individuals. The Company develops its Strategy in line with this and has ambitions to strengthen its market position in both areas.

Sandvika, 15 September 2021

Michele Conforti
Chairman

Rikard Af Sandeberg
Chief Operating Officer

Berit Solhjem
Board Member



Legally signed by
Jan Møller
17.09.2021

To the Shareholders' Meeting of Tenerity AS

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Independent auditor's report

Report on the Audit of the Financial Statements

Opinion
We have audited the financial statements of Tenerity AS (the Company), showing a profit of NOK 9 434 706. The financial statements comprise the balance sheet as at December 31, 2020, and the statement of income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are prepared in accordance with laws and regulations and present fairly, in all material respect, the financial position of the Company as at December 31, 2020, and (of) its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Basis for Opinion
We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, included International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information
Management is responsible for the other information. The other information comprises the information included in the Director's Report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.
In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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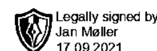


If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements
The Board of Directors and the Managing Director (Management) are responsible for the preparation and fair presentation of the financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

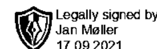
In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to



the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

Opinion on Registration and Documentation
Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 17. September 2021
Grant Thornton Revisjon AS

Jan Møller
State Authorised Public Accountant
(This document is signed electronically)