



## ÅRSREGNSKAPET FOR REGNSKAPSÅRET 2019 - GENERELL INFORMASJON

### Enheten

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

### Regnskapsår

Årsregnskapets periode:	01.01.2019 - 31.12.2019
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### Konsern

Mørselskap 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 Af Sandeberg
Dato for fastsettelse av årsregnskapet:	01.07.2020

### Grunnlag for avgivelse

År 2019: Årsregnskapet er elektronisk innlevert  
År 2018: Tall er hentet fra elektronisk innlevert årsregnskap fra 2019

*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, 13.10.2021



## Resultatregnskap

Beløp i: NOK	Note	2019	2018
<b>RESULTATREGNSKAP</b>			
<b>Inntekter</b>			
Sales		29 187 533	35 618 531
Other revenue	10	38 651 724	38 530 000
<b>Sum inntekter</b>		<b>67 839 257</b>	<b>74 148 531</b>
<b>Kostnader</b>			
Endring i beholdning av varer under tilvirkning og ferdig tilvirkede varer		4 350 734	1 963 145
Personnel expenses	2	44 397 022	54 402 962
Depreciations	3, 4	1 833 389	1 130 583
Other operating expenses	2	14 295 914	14 862 223
<b>Sum kostnader</b>		<b>64 877 059</b>	<b>72 358 913</b>
<b>Driftsresultat</b>		<b>2 962 197</b>	<b>1 789 618</b>
<b>Finansinntekter og finanskostnader</b>			
Income from subsidiaries	10		9 427 549
Other financial income		68 699	868 181
<b>Sum finansinntekter</b>		<b>68 699</b>	<b>10 295 730</b>
Annen rentekostnad		73 680	93 973
Other financial expenses		2 435 295	142 281
<b>Sum finanskostnader</b>		<b>2 508 975</b>	<b>236 254</b>
<b>Netto finans</b>		<b>-2 440 276</b>	<b>10 059 476</b>
<b>Ordinært resultat før skattekostnad</b>		<b>521 921</b>	<b>11 849 094</b>
Tax on ordinary result	9		
<b>Ordinært resultat etter skattekostnad</b>		<b>521 921</b>	<b>11 849 094</b>
<b>Årsresultat</b>		<b>521 921</b>	<b>11 849 094</b>
<b>Årsresultat etter minoritetsinteresser</b>		<b>521 921</b>	<b>11 849 094</b>
<b>Totalresultat</b>		<b>521 921</b>	<b>11 849 094</b>



## Resultatregnskap

<b>Beløp i: NOK</b>	<b>Note</b>	<b>2019</b>	<b>2018</b>
<b>Overføringer og disponeringer</b>			
Overført fra overkurs	7		
Allocated to other equity	7		
Net income attributable to equity	7	521 921	11 849 094
<b>Sum overføringer og disponeringer</b>		<b>521 921</b>	<b>11 849 094</b>



### Balanse

Beløp i: NOK	Note	2019	2018
<b>BALANSE - EIENDELER</b>			
<b>Anleggsmidler</b>			
<b>Immaterielle eiendeler</b>			
Acquired intangible assets	3	2 749 223	2 394 644
<b>Sum immaterielle eiendeler</b>		<b>2 749 223</b>	<b>2 394 644</b>
<b>Varige driftsmidler</b>			
Property, plant and equipment, net	4	690 545	352 196
<b>Sum varige driftsmidler</b>		<b>690 545</b>	<b>352 196</b>
<b>Finansielle anleggsmidler</b>			
Investering i datterselskap	5	31 445 357	31 445 357
<b>Sum finansielle anleggsmidler</b>		<b>31 445 357</b>	<b>31 445 357</b>
<b>Sum anleggsmidler</b>		<b>34 885 125</b>	<b>34 192 197</b>
<b>Omløpsmidler</b>			
<b>Varer</b>			
<b>Fordringer</b>			
Accounts receivables		3 336 086	4 135 409
Other short-term receivables		4 475 184	4 716 570
Konsernfordringer	10	131 526 271	93 097 736
<b>Sum fordringer</b>		<b>139 337 540</b>	<b>101 949 715</b>
<b>Bankinnskudd, kontanter og lignende</b>			
Cash and bank deposits	11	4 051 291	6 937 090
<b>Sum bankinnskudd, kontanter og lignende</b>		<b>4 051 291</b>	<b>6 937 090</b>
<b>Sum omløpsmidler</b>		<b>143 388 832</b>	<b>108 886 805</b>
<b>SUM EIENDELER</b>		<b>178 273 957</b>	<b>143 079 002</b>

### BALANSE - EGENKAPITAL OG GJELD



### Balanse

Beløp i: NOK	Note	2019	2018
<b>Egenkapital</b>			
<b>Innskutt egenkapital</b>			
Share capital	6, 7	5 067 090	5 067 090
Overkurs	7	7 716 546	7 716 546
<b>Sum innskutt egenkapital</b>		<b>12 783 636</b>	<b>12 783 636</b>
<b>Opptjent egenkapital</b>			
Other equity	7	14 769 236	14 350 452
<b>Sum opptjent egenkapital</b>		<b>14 769 236</b>	<b>14 350 452</b>
<b>Sum egenkapital</b>		<b>27 552 872</b>	<b>27 134 088</b>
<b>Gjeld</b>			
<b>Langsiktig gjeld</b>			
Pensjonsforpliktelser	8		344 882
<b>Sum avsetninger for forpliktelser</b>			<b>344 882</b>
<b>Annen langsiktig gjeld</b>			
<b>Sum langsiktig gjeld</b>		<b>0</b>	<b>344 882</b>
<b>Kortsiktig gjeld</b>			
Konvertible lån	10	140 949 525	99 137 127
Leverandørgjeld		102 402	167 918
Liabilities to public authorities		3 553 429	3 650 819
Other current debt		6 115 729	12 644 168
<b>Sum kortsiktig gjeld</b>		<b>150 721 085</b>	<b>115 600 032</b>
<b>Sum gjeld</b>		<b>150 721 085</b>	<b>115 944 914</b>
<b>SUM EGENKAPITAL OG GJELD</b>		<b>178 273 957</b>	<b>143 079 002</b>



Our date 23.10.2019	Your date 12.09.2019	Case officer 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 Affinoin 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 Waalorp  
Adviser  
Customer Interaction Division, Customer Service  
The Norwegian Tax Administration

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



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# **CXLOYALTY GROUP HOLDINGS, INC.**

## **Financial Report**

**For the annual period ended December 31, 2019**

Prepared and delivered pursuant to each of the following: (a) Section 4.02 of the Indenture, dated as of April 10, 2019, among cxLoyalty Group, Inc., as issuer, the guarantors party thereto and GLAS Trust Company LLC, as trustee, relating to the 18% Senior PIK Notes due 2024; (b) Section 5.04 of the Credit Agreement, dated as of May 10, 2017, as amended, by and among cxLoyalty Group Holdings, Inc., cxLoyalty Group, Inc., as Borrower, the lenders party thereto, HPS Investment Partners, LLC, as Administrative Agent and Collateral Agent and HPS Investment Partners, LLC, as Lead Arranger, Syndication Agent, Documentation Agent and Bookrunner; and (c) Section 3.1 of the Stockholders Agreement, dated as of April 10, 2019, by and among cxLoyalty Group Holdings, Inc. and the stockholders party thereto.

cxLoyalty Group Holdings, Inc. and cxLoyalty Group, Inc. were formerly known as Affinion Group Holdings, Inc. and Affinion Group, Inc., respectively.

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Date of this Report: March 2, 2020



**NOTE REGARDING CONFIDENTIALITY**

This Report is confidential and has been prepared exclusively for use by (i) holders of the New Notes (as defined below) and the Trustee (as defined below) under the New Notes Indenture (as defined below) and any prospective investor in the New Notes in accordance with Section 4.02 of the New Notes Indenture, (ii) the Administrative Agent (as defined below) and Lenders (as defined below) under the Amended Credit Agreement (as defined below) and (iii) stockholders of cxLoyalty Group Holdings, Inc. in accordance with Section 3.1 of the Stockholders Agreement (as defined below). 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 or use any information herein for any purpose other than evaluating your investment as a holder of cxLoyalty Group, Inc.'s or cxLoyalty Group Holdings Inc.'s debt or equity, as applicable. You agree to the foregoing by accepting delivery of, or access to, 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.



## EXPLANATORY NOTE

On April 10, 2019, (i) cxLoyalty Group, Inc. (“cxLoyalty”) (f/k/a Affinion Group, Inc.) issued \$357.0 million aggregate principal amount of its 18% Senior PIK Notes due 2024 (the “New Notes”) under an indenture (the “New Notes Indenture”), dated as of April 10, 2019, among cxLoyalty, as issuer, the guarantors party thereto and GLAS Trust Company LLC, as trustee (the “Trustee”), (ii) cxLoyalty, as Borrower, entered into certain amendments to that certain Credit Agreement dated as of May 10, 2017, among cxLoyalty Group Holdings, Inc. (the “Company” or “cxLoyalty Holdings”) (f/k/a Affinion Group Holdings, Inc.), the lenders party thereto, HPS Investment Partners, LLC, as Administrative Agent (in such capacity, the “Administrative Agent”) and Collateral Agent and HPS Investment Partners, LLC, as Lead Arranger, Syndication Agent, Documentation Agent and Bookrunner (as amended and/or amended and restated by that First Amendment to Credit Agreement, dated as of November 30, 2017, that Second Amendment to Credit Agreement, dated as of May 4, 2018, that Third Amendment to Credit Agreement, dated as of July 16, 2018 and that Fourth Amendment to Credit Agreement, dated as of November 14, 2018, the “2017 Credit Agreement,” and, as amended by that Fifth Amendment to Credit Agreement, dated as of April 10, 2019, the “Amended Credit Agreement”) and (iii) cxLoyalty Holdings entered into that certain Stockholders Agreement (the “Stockholders Agreement”), dated as of April 10, 2019, by and among cxLoyalty Holdings and the stockholders party thereto (the “Stockholders”).

Section 4.02 of the New Notes Indenture requires, among other things, cxLoyalty to furnish to the Trustee within 120 days after the end of each fiscal year, audited year-end consolidated financial statements and a “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and a report on the annual financial statements by cxLoyalty’s independent registered public accounting firm.

Section 5.04(b) of the Amended Credit Agreement requires cxLoyalty to furnish to the Administrative Agent within 45 days after the end of the first three fiscal quarters of each fiscal year and within 75 days of the end of the fourth fiscal quarter of any fiscal year (i) a consolidated balance sheet and related statements of operations and cash flows showing the financial position of the Borrower and its subsidiaries as of the close of such fiscal quarter and the consolidated results of its operations during such fiscal quarter and the then-elapsed portion of the fiscal year and setting forth in comparative form the corresponding figures for the corresponding periods of the prior fiscal year, and (ii) management’s discussion and analysis of significant operational and financial developments during such quarterly period and a “key performance indicator” report with such content as may be mutually agreed by the Administrative Agent and the Borrower.

Section 3.1(a) of the Stockholders Agreement requires, among other things, cxLoyalty Holdings to furnish to the Stockholders within 90 days after the end of each fiscal year, audited financial statements of cxLoyalty Holdings and its subsidiaries on a consolidated basis.

In the cases under the New Notes Indenture and the Amended Credit Agreement, notwithstanding the foregoing, the reporting obligations detailed above may be satisfied, at the option of cxLoyalty, with respect to financial information of cxLoyalty and its subsidiaries by furnishing the applicable financial statements of cxLoyalty Holdings (or any direct or indirect parent of cxLoyalty Holdings) provided that, to the extent such information relates to cxLoyalty Holdings (or any direct or indirect parent of cxLoyalty Holdings), such information is accompanied by consolidating information (which may be unaudited) that explains in reasonable detail the differences between the information relating to cxLoyalty Holdings (or such direct or indirect parent), on the one hand, and the information relating to cxLoyalty and its subsidiaries on a standalone basis, on the other hand. cxLoyalty is exercising such option under Section 4.02(c) of the New Notes Indenture and Section 5.04(d) of the Amended Credit Agreement. Accordingly, this Report contains the consolidating information of cxLoyalty Holdings, on the one hand, and the information relating to cxLoyalty and its subsidiaries on a standalone basis, on the other hand, which is provided under Part III of this Report.

This Report has been prepared, distributed to the Trustee and Administrative Agent, and posted to IntraLinks pursuant to the requirements of Section 4.02 of the New Notes Indenture, Section 5.04 of the Amended Credit Agreement and Section 3.1 of the Stockholders Agreement. cxLoyalty does not file reports with the U.S. Securities and Exchange Commission and the preparation of this Report and the posting of this Report on a non-public website pursuant to the requirements of the New Notes Indenture, Amended Credit Agreement and Stockholders Agreement shall in no way be interpreted as an undertaking on the part of cxLoyalty to otherwise comply with all of the rules and regulations that are applicable to a company subject to the reporting requirements of the Securities Exchange Act of 1934, as amended.



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**PART I**

**CXLOYALTY GROUP HOLDINGS, INC.  
CONSOLIDATED FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2019 AND 2018  
AND FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017  
(Unless otherwise noted, all dollar amounts are in millions, except per share amounts)**



### Report of Independent Auditors

To the Management and Board of Directors of cxLoyalty Group Holdings, Inc.

We have audited the accompanying consolidated financial statements of cxLoyalty Group Holdings, Inc. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of comprehensive income (loss), of changes in deficit and of cash flows for the three years ended December 31, 2019.

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

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

#### **Auditors' Responsibility**

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


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

#### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of cxLoyalty Group Holdings, Inc. and its subsidiaries as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the three years ended December 31, 2019 in accordance with accounting principles generally accepted in the United States of America.

#### **Emphasis of Matter**

As discussed in Note 9 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2019. Our opinion is not modified with respect to this matter.

  
March 2, 2020

PricewaterhouseCoopers LLP, PricewaterhouseCoopers Center, 300 Madison Avenue, New York, NY 10017  
T: (646) 471 3000, F: (813) 286 6000, www.pwc.com/us



**CXLOYALTY GROUP HOLDINGS, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF DECEMBER 31, 2019 AND 2018**  
**(In millions, except share and per share amounts)**

	December 31, 2019	December 31, 2018
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 55.4	\$ 84.7
Restricted cash	6.0	14.4
Receivables (net of allowances for doubtful accounts of \$4.4 and \$7.6, respectively)	111.2	109.5
Prepaid commissions	45.8	38.6
Other current assets	74.8	91.6
Total current assets	293.2	338.8
Property and equipment, net	84.9	91.9
Operating lease right-of-use assets	36.3	—
Goodwill	173.6	173.4
Other intangibles, net	20.0	28.6
Other non-current assets	33.5	49.3
<b>Total assets</b>	<b>\$ 641.5</b>	<b>\$ 682.0</b>
<b>Liabilities and Deficit</b>		
Current liabilities:		
Current portion of long-term debt	\$ 1.8	\$ 13.8
Accounts payable and accrued expenses	236.5	291.3
Deferred revenue	27.9	29.7
Income taxes payable	1.3	2.3
Total current liabilities	267.5	337.1
Long-term debt (outstanding principal of \$1,126.0 and \$1,606.0, respectively) (Note 11)	1,486.0	1,559.2
Deferred income taxes	1.8	2.9
Deferred revenue	2.9	3.2
Long-term operating lease liabilities	38.4	—
Other long-term liabilities	16.3	37.0
Total liabilities	1,812.9	1,939.4
Commitments and contingencies		
<b>Deficit:</b>		
Common Stock, \$0.000001 par value, 540,000,000 shares authorized, 11,248,608 issued and outstanding as of December 31, 2019	—	—
Common Stock, \$0.01 par value, 520,000,000 shares authorized, 9,090,404 shares issued and outstanding as of December 31, 2018	—	0.1
Class C Common Stock, \$0.01 par value, 10,000,000 shares authorized, 434,897 shares issued and 433,813 shares outstanding as of December 31, 2018	—	—
Class D Common Stock, \$0.01 par value, 10,000,000 shares authorized, 457,784 shares issued and 456,643 shares outstanding as of December 31, 2018	—	—
Additional paid in capital	663.6	414.2
Warrants	7.8	31.1
Accumulated deficit	(1,831.7)	(1,688.0)
Accumulated other comprehensive loss	(12.1)	(14.9)
Treasury stock, at cost, 1,084 Class C and 1,141 Class D shares as of December 31, 2018	—	(1.1)
Total cxLoyalty Group Holdings, Inc. deficit	(1,172.4)	(1,258.6)
Non-controlling interest in subsidiary	1.0	1.2
Total deficit	(1,171.4)	(1,257.4)
<b>Total liabilities and deficit</b>	<b>\$ 641.5</b>	<b>\$ 682.0</b>

See accompanying notes to the consolidated financial statements.



**CXLOYALTY GROUP HOLDINGS, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017**  
(In millions)

	For the Year Ended December 31,		
	2019	2018	2017
<b>Net revenues</b>	\$ 556.7	\$ 699.8	\$ 724.1
<b>Expenses:</b>			
Cost of revenues, exclusive of depreciation and amortization shown separately below:			
Marketing and commissions	142.2	142.8	173.5
Operating costs	277.9	331.3	352.3
General and administrative	78.6	113.7	85.8
Facility exit costs	—	4.3	0.9
Depreciation and amortization	48.9	48.2	45.3
Total expenses	<u>547.6</u>	<u>640.3</u>	<u>657.8</u>
<b>Income from continuing operations</b>	9.1	59.5	66.3
Interest income	0.2	0.2	0.3
Interest expense	(128.0)	(197.4)	(142.8)
(Loss) gain on extinguishment of debt	(0.1)	(32.0)	3.5
Other expense, net	(28.5)	(1.8)	(0.4)
<b>Loss from continuing operations before income taxes</b>	<u>(147.3)</u>	<u>(171.5)</u>	<u>(73.1)</u>
Income tax benefit	1.1	27.0	27.2
<b>Loss from continuing operations, net of tax</b>	<u>(146.2)</u>	<u>(144.5)</u>	<u>(45.9)</u>
<b>Income from discontinued operations, net of tax</b>	<u>2.9</u>	<u>447.8</u>	<u>21.5</u>
<b>Net (loss) income</b>	<u>(143.3)</u>	<u>303.3</u>	<u>(24.4)</u>
Less: net income attributable to non-controlling interest	(0.4)	(1.2)	(0.8)
<b>Net (loss) income attributable to cxLoyalty Group Holdings, Inc.</b>	<u>\$ (143.7)</u>	<u>\$ 302.1</u>	<u>\$ (25.2)</u>
<b>Net (loss) income</b>	\$ (143.3)	\$ 303.3	\$ (24.4)
Currency translation adjustment, net of tax	<u>(2.9)</u>	<u>(5.5)</u>	<u>6.3</u>
<b>Comprehensive (loss) income</b>	<u>(146.2)</u>	<u>297.8</u>	<u>(18.1)</u>
Less: comprehensive income attributable to non-controlling interest	<u>(0.5)</u>	<u>(1.1)</u>	<u>(0.9)</u>
<b>Comprehensive (loss) income attributable to cxLoyalty Group Holdings, Inc.</b>	<u>\$ (146.7)</u>	<u>\$ 296.7</u>	<u>\$ (19.0)</u>

See accompanying notes to the consolidated financial statements.



**CXLOYALTY GROUP HOLDINGS, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN DEFICIT**  
**FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017**  
(In millions, except share amounts)

	cxLoyalty Group Holdings, Inc. Deficit							
	Common Shares	Common Stock and Additional Paid-in Capital	Warrants	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock	Non-Controlling Interest	Total Deficit
<b>Balance, January 1, 2017</b>	9,093,330	\$ 409.6	\$ —	\$ (1,966.5)	\$ (15.7)	\$ (1.1)	\$ 0.8	\$ (1,572.9)
Net (loss) income		—	—	(25.2)	—	—	0.8	(24.4)
Currency translation adjustment		—	—	—	6.2	—	0.1	6.3
Dividend to non-controlling interest		—	—	—	—	—	(0.7)	(0.7)
Issuance of warrants		—	31.6	—	—	—	—	31.6
Exercise of warrants	63,741	0.5	(0.5)	—	—	—	—	—
Share-based compensation		2.5	—	—	—	—	—	2.5
<b>Balance, December 31, 2017</b>	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
<b>Adjusted balance, January 1, 2018</b>		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
<b>Balance, December 31, 2018</b>	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
<b>Balance, December 31, 2019</b>	<u>11,248,608</u>	<u>\$ 663.6</u>	<u>\$ 7.8</u>	<u>\$ (1,831.7)</u>	<u>\$ (12.1)</u>	<u>\$ —</u>	<u>\$ 1.0</u>	<u>\$ (1,171.4)</u>

See accompanying notes to the consolidated financial statements.



**CXLOYALTY GROUP HOLDINGS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017**  
(In millions)

	For the Year Ended December 31,		
	2019	2018	2017
<b>Operating Activities</b>			
Net (loss) income	\$ (143.3)	\$ 303.3	\$ (24.4)
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:			
Depreciation and amortization	48.9	48.9	46.8
Payment-in-kind interest	85.8	88.7	41.7
Amortization of debt discount, financing costs and carrying value adjustment, net	(21.9)	16.0	(0.1)
Provision for accounts receivable loss	1.1	0.9	4.8
Loss (gain) on extinguishment of debt	0.1	32.0	(3.5)
Gain on sale of business	(3.7)	(473.1)	—
Facility exit costs	—	4.3	1.4
Share-based compensation	0.6	1.7	2.5
Deferred income taxes	(0.1)	(3.0)	(22.0)
Net change in assets and liabilities:			
Receivables	8.4	29.6	(20.9)
Prepaid commissions	(6.9)	(5.6)	(5.8)
Other current assets	16.7	(15.4)	0.8
Other non-current assets	5.6	(23.2)	3.9
Accounts payable and accrued expenses	(53.6)	12.3	(10.8)
Deferred revenue	(1.9)	2.8	(5.4)
Income taxes receivable and payable	(0.9)	(1.1)	(0.2)
Other long-term liabilities	(12.6)	(1.0)	0.2
Other, net	1.7	2.9	(3.4)
<b>Net cash (used in) provided by operating activities</b>	<u>(76.0)</u>	<u>21.0</u>	<u>5.6</u>
<b>Investing Activities</b>			
Capital expenditures	(29.9)	(32.1)	(38.1)
Acquisition-related payments, net of cash acquired	(1.9)	(5.7)	(0.4)
Proceeds from sale of business, net of cash transferred	(3.0)	517.3	—
<b>Net cash (used in) provided by investing activities</b>	<u>(34.8)</u>	<u>479.5</u>	<u>(38.5)</u>
<b>Financing Activities</b>			
Proceeds from issuance of debt	300.0	—	1,539.6
(Repayments) borrowings under revolving credit facility, net	(100.0)	45.0	55.0
Principal payments on borrowings	(122.4)	(507.1)	(1,534.7)
Principal payments on finance leases	(1.0)	—	—
Financing costs	—	(0.3)	(29.3)
Payments to settle contingent consideration liabilities	(3.0)	—	—
Dividend paid to non-controlling interest	(0.7)	(0.9)	(0.7)
Proceeds from sale of warrants	—	—	0.5
<b>Net cash provided by (used in) financing activities</b>	<u>72.9</u>	<u>(463.3)</u>	<u>30.4</u>
Effect of changes in exchange rates on cash, cash equivalents and restricted cash	0.2	(2.7)	3.3
Net (decrease) increase in cash, cash equivalents and restricted cash	(37.7)	34.5	0.8
Cash, cash equivalents and restricted cash, beginning of period	99.1	64.6	63.8
Cash, cash equivalents and restricted cash, end of period	61.4	99.1	64.6
Less: cash, cash equivalents and restricted cash of discontinued operations, end of period	—	—	(15.2)
<b>Cash, cash equivalents and restricted cash of continuing operations, end of period</b>	<u>\$ 61.4</u>	<u>\$ 99.1</u>	<u>\$ 49.4</u>
<b>Supplemental Disclosure of Cash Flow Information:</b>			
Interest payments	\$ 72.9	\$ 128.8	\$ 120.1
Income tax payments, net of refunds	\$ 4.5	\$ 5.2	\$ 4.5
Payments of transaction costs related to the 2019 Recapitalization in net cash (used in) provided by operating activities	\$ 26.7	\$ —	\$ —

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”), the parent of cxLoyalty Group, Inc. (“cxLoyalty”). cxLoyalty Holdings and cxLoyalty were formerly known as Affinion Group Holdings, Inc. and Affinion Group, Inc., respectively.

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

On July 3, 2018, the Company, cxLoyalty Group, LLC, a Delaware limited liability company (the “Seller” or “cxLoyalty LLC”) and indirect wholly-owned subsidiary of the Company, and Affinion Benefits Group, LLC, a Delaware limited liability company and wholly owned subsidiary of the Seller (“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.

On April 10, 2019, we consummated the 2019 Recapitalization, as defined and described below in Note 11—Long-Term Debt and Note 12—Deficit.

Subsequent events have been evaluated through March 2, 2020, 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:

- Loyalty solutions that help reward, motivate and retain consumers. We create and manage any and all aspects of our clients’ points-based loyalty programs, including design, platform, analytics, points management and fulfillment. Our loyalty solutions offer relevant, best-in-class rewards (such as travel, gift cards and merchandise) to consumers enabling clients to motivate, retain and thank their best customers. For example, our platform and technology support points-based programs for financial services, automotive, gaming, travel and hospitality companies.
- 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 three operating segments:

- *Global Loyalty.* This segment consists of all of our loyalty assets globally in which we are a provider of end-to-end loyalty solutions that help clients reward, enrich, motivate and retain customers, including program design, points management and administration, and broad-based fulfillment and redemption across multiple channels.
- *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 from our clients through our Global Loyalty segment by designing (management, analytics and customer experience) and administering points-based loyalty programs on a platform licensing, fee-for-service basis. The Company typically charges a per-subscriber and/or a per-activity administrative fee to clients for our services. In addition, commissions may be earned from our suppliers and/or a transaction fee from our clients based on volume for enabling or executing transactions such as fees generated from loyalty points related purchases and redemption. In most circumstances, revenue is recognized net of the cost of fulfillment.

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** — Within the Global Loyalty segment, we provide end-to-end loyalty solutions that help 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 pay us on a cost-per-transaction basis for which we recognize revenue at a point in time that a transaction occurs. For our administrative services, our clients typically pay a fixed fee for which we recognize revenue over time as the services rendered are consistent throughout the performance period. The different services we provide are a single performance obligation covering a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer. Hence, we have determined that the nature of our promise is to provide one overall end-to-end loyalty service and, as such, each day of service is substantially the same. Accordingly, revenue is recognized ratably over time.

For our travel and gift card fulfillment services we typically act as an agent, as our performance obligation is to ensure the transfer of goods or services on behalf of our clients. Under these arrangements, we earn revenue in the form of commissions. We are required to estimate variable consideration for any contracts with our clients that have revenue-sharing or tiered pricing components related to transaction volumes. In these cases, we defer recognizing a portion of our revenue to a future period as these contract features provide a material right to our clients in the form of an accumulating benefit. In deriving our estimates, we consider 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 affect the amount of revenue we recognize in a given period, we review and update our contract-related estimates each reporting period and recognize 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 is recognized in the period the adjustment is identified.

In addition, certain clients may receive credits, which are also accounted for as variable consideration and as a reduction in the transaction price. We estimate 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 is appropriately constrained to reflect the expectation that the client will utilize the credit.



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

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 the Global Loyalty, 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 these contracts provide a material right to our clients in the form of an accumulating benefit, we defer recognizing a portion of this revenue to a future period. 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 each of our reportable 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. Within the Global Loyalty segment, we pay commissions to internal salespeople which we generally expense as incurred because these expenses do not have a material impact on our financial statements. 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. 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.

Within the Global Loyalty segment, we incur costs to fulfill a contract. Such costs are typically incurred during the implementation phase of a new contract with a client. To the extent these costs are deemed material and meet the criteria for capitalization, we capitalize and amortize 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 are continually monitored for impairment. 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 — Global Customer Engagement and Legacy Membership and Package* — 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.



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

**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, 2019 and 2018, the Company has recorded a full valuation allowance for its U.S. federal net deferred tax assets. As of December 31, 2019 and 2018, 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.

On December 22, 2017, the Tax Cuts and Jobs Act (the “TCJA”) was enacted into law. The TCJA significantly revises the U.S. corporate income tax laws by, among other things, lowering the corporate income tax rate to 21%, implementing a modified territorial tax system and imposing a one-time repatriation tax on deemed repatriated earnings and profits of U.S.-owned foreign subsidiaries (the “transition tax”). The U.S. federal income tax rate reduction was effective as of January 1, 2018. The Company has elected to account for global intangible low-taxed income, as a period cost if and when incurred. The Company recorded provisional amounts related to the TCJA for the remeasurement of deferred taxes and the transition tax for the year ended December 31, 2017. During 2018, and prior to December 22, 2018, the Company finalized and completed its accounting associated with the TCJA with no subsequent adjustments to provisional amounts previously recorded.

**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.

**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.



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

**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. Goodwill is tested for impairment by comparing the carrying value of each 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 2019, the Company performed its annual goodwill impairment test for those reporting units that had goodwill recorded. 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 have goodwill exceeded its respective carrying amount by more than 25% of the carrying amount. If the timing or extent of key assumptions and estimates differs significantly from management's expectations, the Company will reassess its conclusion.

During the fourth quarter of 2018, the Company performed its annual goodwill impairment test for those reporting units that had goodwill recorded. Key assumptions used in the goodwill impairment test were a long-term growth rate of 2.0% growth and discount rates ranging from 10.0% to 11.0%. In 2018, the fair value of each of the reporting units that have goodwill exceeded its respective carrying amount by more than 25% of the carrying amount.

Indefinite-lived intangible assets, if any, are tested for impairment annually, or sooner if events occur or circumstances change. An indefinite-lived intangible asset is tested for impairment by comparing its fair value to its carrying amount and, if the carrying amount is greater than the fair value, recognizing an impairment loss for the excess.

The Company's intangible assets as of December 31, 2019 and 2018 consist of assets with finite useful lives initially recorded at their respective fair values. Finite-lived intangible assets are amortized as follows:

<u>Intangible Asset</u>	<u>Amortization Method</u>	<u>Estimated Useful Lives</u>
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.



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

**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, evaluation of going concern assessment, 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.

**Concentration of Risk** — The Company generally derives a substantial portion of its net revenues from customers of the Company’s top-10 clients. For the years ended December 31, 2019, 2018 and 2017, the Company derived approximately 35.1%, 42.5% and 42.3%, respectively, of its net revenues from customers through marketing and servicing agreements with these 10 clients. For the year ended December 31, 2019, no single client and its customers represented more than 10% of the Company’s net revenues. For the years ended December 31, 2018 and 2017, the Company derived approximately 14.8% and 14.6%, respectively, of its net revenues from a single client and its customers. Many of these key client relationships are governed by agreements that may be terminated without cause by the clients upon notice of as few as 90 days without penalty. Some of these agreements may be terminated by the Company’s clients upon notice of as few as 30 days without penalty. Moreover, under many of these agreements, the clients may cease or reduce their marketing of the Company’s services without terminating or breaching agreements with the Company. A loss of key clients, a cessation or reduction in their marketing of the Company’s services, or a decline in their businesses could have a material adverse effect on the Company’s future revenue.

**Allowance for Doubtful Accounts** — A summary of activity in the allowance for doubtful accounts for the years ended December 31, 2019, 2018 and 2017 is as follows:

	For the Year Ended December 31,		
	2019	2018	2017
	(in millions)		
Balance, beginning of period	\$ 7.6	\$ 7.5	\$ 3.0
Provision, net of recoveries	0.2	0.8	4.6
Write-offs	(3.5)	(0.6)	(0.3)
Currency translation	0.1	(0.1)	0.2
Balance, end of period	<u>\$ 4.4</u>	<u>\$ 7.6</u>	<u>\$ 7.5</u>

**Supplemental Disclosure of Cash Flow Information**

At December 31, 2019, the Company had an accrual for the acquisition of property and equipment of \$2.3 million, increased long-term debt by \$42.8 million in connection with payment-in-kind interest and acquired property and equipment of \$2.5 million in exchange for finance lease obligations.



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In connection with the 2019 Recapitalization, the Company exchanged \$695.7 million of 2017 Notes (as defined in Note 11—Long-Term Debt) and related accrued interest for \$198.2 million of Common Stock and New Penny Warrants (as defined in Note 12—Deficit) and issued \$57.0 million in aggregate principal amount of New Notes (as defined in Note 11—Long-Term Debt) and \$28.3 million of Common Stock and New Penny Warrants as payment of a financing premium to the Financing Parties (as defined in Note 11—Long-Term Debt).

At December 31, 2018, the Company had an accrual for the acquisition of property and equipment of \$0.7 million and increased long-term debt by \$86.2 million in connection with payment-in-kind interest.

In connection with the debt restructuring that was consummated in May 2017, the Company exchanged notes with an aggregate principal amount of \$286.3 million plus accrued interest of \$9.0 million, issuing (1) new notes with an aggregate principal amount of \$321.1 million, including \$25.8 million issued in connection with commitment and funding premiums, and (2) warrants to acquire shares of the Company's common stock valued at \$7.7 million, including \$0.6 million issued in connection with commitment and funding premiums. During the year ended December 31, 2017, the Company increased long-term debt by \$41.7 million in connection with payment-in-kind interest. During 2017, the Company entered into a capital lease, acquiring property and equipment with a fair value of \$1.1 million. At December 31, 2017, the Company had an accrual for the acquisition of property and equipment of \$1.3 million.

***Recently Adopted Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board ("FASB") issued new accounting guidance related to revenue recognition. The new standard, Accounting Standards Codification ("ASC") Topic 606, Revenues from Contracts with Customers ("ASC 606"), outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The fundamental principles of the guidance are that entities should recognize revenue in a manner that reflects the timing of transfer of goods and services to customers and the amount of revenue recognized reflects the consideration that an entity expects to receive for the goods and services provided. The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (modified retrospective). We adopted the new guidance effective January 1, 2018 using the modified retrospective method, focusing on contracts not yet completed as of December 31, 2017. We recognized the cumulative effect of applying ASC 606 as of January 1, 2018 as an adjustment to the opening balance of accumulated deficit. The comparative information for the year ended December 31, 2017 has not been restated and continues to be reported under the accounting standards in effect for those periods. See Note 3—Revenues for additional information relating to the adoption of ASC 606 and its impact on the Company.

In February 2016, the 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 years ended December 31, 2018 and 2017 has not been restated and continues to be reported under the accounting standards in effect for those periods. See Note 9—Leases for additional information relating to the adoption of ASC 842 and its impact on the Company.

In August 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-15 which addresses eight specific cash flow issues, including presentation of debt prepayments or debt extinguishment costs, with the objective of reducing the existing diversity in practice. The adoption of this update by the Company as of January 1, 2018 did not have any impact on the Company's consolidated financial position, results of operations or cash flows.

In November 2016, the FASB issued ASU No. 2016-18, which requires an entity's reconciliation of the beginning-of-period and end-of-period total amounts shown on the statement of cash flows to include in cash and cash equivalents amounts generally described as restricted cash and restricted cash equivalents. The adoption of this update by the Company as of January 1, 2018 did not have a material impact on the Company's consolidated financial position, results of operations or cash flows. The consolidated statement of cash flows for the year ended December 31, 2017 was revised to exclude the \$1.4 million and \$0.6 million change in restricted cash from net cash provided by operating activities and net cash used in investing activities, respectively, and to include \$26.1 million and \$24.8 million in cash, cash equivalents and restricted cash, beginning of period and cash, cash equivalents and restricted cash, end of period, respectively.

In August 2018, the FASB issued 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 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 this update, 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 U.S. GAAP, however, requires an impairment charge to be calculated as the excess of the carrying value of goodwill over its implied fair value. This update is effective for annual and interim goodwill impairment tests in fiscal years beginning after December 15, 2021. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. When adopted, this update 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. When 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**

**Impact of New Standard**

The cumulative effect of the changes made to the Company's unaudited condensed consolidated balance sheet as of January 1, 2018 to reflect the adoption of ASC 606 was as follows:

	Balance at December 31, 2017	Adjustments Due to Adoption of ASC 606 (in millions)	Balance at January 1, 2018
<b>Balance Sheet</b>			
<b>Liabilities</b>			
Deferred revenue	\$ 39.3	\$ (1.6)	\$ 37.7
<b>Equity</b>			
Accumulated deficit	(1,991.7)	1.6	(1,990.1)

The impact of adoption was not material to the Company's consolidated statements of comprehensive income (loss) for the years ended December 31, 2018 and 2019 or to the consolidated balance sheets as of December 31, 2018 and 2019.

**Disaggregated Revenues**

The following table represents a disaggregation of revenue from contracts with customers for the years ended December 31, 2019, 2018 and 2017, along with the reportable segment for each category:

	For the Year Ended December 31,		
	2019	2018	2017 (a)
	(in millions)		
Global Loyalty	\$ 139.5	\$ 239.3	\$ 225.1
Global Customer Engagement:			
Revenue Enhancements	254.7	261.5	255.3
Engagement Solutions	85.0	99.6	104.0
Subtotal	479.2	600.4	584.4
Legacy Membership and Package	77.5	99.4	139.7
	<u>\$ 556.7</u>	<u>\$ 699.8</u>	<u>\$ 724.1</u>

(a) Prior period amounts have not been adjusted under the modified retrospective adoption method.

**Transaction Price Allocated to Remaining Performance Obligations**

As of December 31, 2019, the Company has remaining performance obligations under fixed consideration arrangements of \$0.3 million in 2020 and \$0.1 million in 2021, for a total of \$0.4 million, all of which relate to the Global Customer Engagement segment.



**CXLOYALTY GROUP HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
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**Costs to Obtain and Fulfill a Contract**

Within the Global Loyalty segment, we pay commissions to internal salespeople which we generally expense as incurred because these expenses do not have a material impact on our financial statements. 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 \$57.4 million and \$55.1 million in prepaid commissions as of December 31, 2019 and 2018, respectively, and recognized \$69.0 million and \$56.8 million of amortization for the years ended December 31, 2019 and 2018, respectively.

Within the Global Loyalty segment, we incur costs to fulfill a contract. Such costs are typically incurred during the implementation phase of a new contract with a client. We had a balance of \$0.8 million and \$1.4 million in deferred costs as of December 31, 2019 and 2018, respectively, and recognized \$0.6 million and \$0.5 million of amortization for the years ended December 31, 2019 and 2018, respectively.

**Contract Assets and Liabilities**

The following table reflects the balances of our contract liabilities, which we classify as deferred revenue, as of December 31, 2019 and 2018:

	December 31,	
	2019	2018
	(in millions)	
Deferred revenue - current	\$ 27.9	\$ 29.7
Deferred revenue - non-current	2.9	3.2
Total	<u>\$ 30.8</u>	<u>\$ 32.9</u>

The change in the total contract liabilities balances from December 31, 2018 to December 31, 2019 of \$2.1 million, or 6.4%, 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**

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. The adoption of ASC 606 did not affect the operating results of the insurance solutions business for the year ended December 31, 2018.

**4. DISCONTINUED OPERATIONS**

On August 15, 2018, the Seller 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 2018 in connection with the ABG Sale was as follows:

	(in millions)
Cash received	\$ 542.5
Net assets sold	(58.9)
Direct costs to sell	(10.5)
Gain on sale of business before income taxes	<u>\$ 473.1</u>

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 11—Long-Term Debt for more information on the 2017 Credit Facility and amendments thereto.



**CXLOYALTY GROUP HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
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During the year ended December 31, 2019, the Seller 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 the Seller 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, the Seller and certain of the Seller'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).

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 in the long-term arrangements for the year ended December 31, 2019 totaled \$1.3 million of net expenses 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, 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, 2018 and 2017.

	For the Year Ended December 31,		
	2019	2018 (a)	2017
		(in millions)	
<b>Operations</b>			
Net revenues	\$ —	\$ 127.3	\$ 229.0
Expenses:			
Cost of revenues, exclusive of depreciation and amortization shown separately below:			
Marketing and commissions	—	78.8	134.7
Operating costs	—	6.3	9.8
General and administrative	—	5.5	8.0
Facility exit costs	—	—	0.5
Depreciation and amortization	—	0.7	1.5
Total expenses	—	91.3	154.5
Income from operations	—	36.0	74.5
Interest expense	—	(31.2)	(43.7)
Income from discontinued operations before income taxes	—	4.8	30.8
Income tax provision	—	—	(9.3)
Income from discontinued operations, net of tax	—	4.8	21.5
<b>Disposal</b>			
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	\$ 21.5

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



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
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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, 2018 and 2017:

	For the Year Ended December 31,		
	2019	2018 (a)	2017
	(in millions)		
Net cash flows provided by operating activities	\$ —	\$ 11.7	\$ 0.3
Cash flows used in investing activities:			
Capital expenditures	\$ —	\$ (1.7)	\$ (1.5)

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

**5. ACQUISITION**

On February 8, 2018, the Company entered into a definitive agreement to acquire 100% of the equity capital of one of its top technology partners, Tavisca Solutions Private Limited ("Tavisca"), a leading provider of innovative technology to the travel industry. Tavisca is headquartered in Pune, India, with a U.S. office in Plano, Texas. The acquisition closed at a purchase price of \$8.5 million, comprised of \$6.5 million paid at closing and the balance of \$2.0 million, with an acquisition date fair value of \$1.7 million, which was paid on the first anniversary of the closing date. In addition, the Company may make certain additional payments of up to \$13.0 million, with an acquisition date fair value of \$9.6 million, based on a discounted cash flow model using a 14.4% discount rate. The amount of additional payments to be paid is dependent on Tavisca achieving certain agreed-upon cost of operations targets for each of the three annual periods following the acquisition date.

During the year ended December 31, 2019, the Company made additional payments of \$4.9 million, including the \$2.0 million deferred purchase price balance, in connection with the acquisition of Tavisca. Additional payments yet to be made are included in accounts payable and accrued expenses and other long-term liabilities on the accompanying consolidated balance sheets as of December 31, 2019 and 2018, are measured at fair value on a recurring basis and are considered Level 3 financial instruments.

The acquisition of Tavisca strengthened and expanded the Global Loyalty segment's loyalty platform capabilities to help our clients improve program efficiency, customer loyalty, and customer lifetime value.

The following table summarizes the estimated acquisition date fair values of the assets acquired and liabilities assumed in the transaction:

	Amount
	(in millions)
Cash and cash equivalents	\$ 0.8
Receivables	0.6
Other current assets	1.2
Property and equipment	0.1
Goodwill	11.3
Other intangibles	5.2
Other non-current assets	0.6
Deferred income taxes	(1.6)
Other long-term liabilities	(0.4)
Total consideration	\$ 17.8



**CXLOYALTY GROUP HOLDINGS, INC.**  
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The intangible assets assumed are comprised of patents and technology (\$4.6 million) and affinity relationships (\$0.6 million), which were estimated to have useful lives of two years and one year, respectively. The goodwill, which will not be deductible for India income tax purposes, is attributed to the Global Loyalty segment. In connection with the acquisition of Tavisca, the Company incurred \$1.5 million of acquisition costs, of which \$1.1 million and \$0.4 million were recognized for the years ended December 31, 2018 and 2017, respectively and are included in general and administrative expense on the accompanying consolidated statements of comprehensive income (loss). As Tavisca's pre-acquisition results of operations are not material to the consolidated financial statements, no pro forma financial information is provided. As Tavisca's post-acquisition results of operations are not material to the consolidated financial statements, the post-acquisition revenue and earnings of Tavisca are not provided.

**6. INTANGIBLE ASSETS AND GOODWILL**

Intangible assets consisted of:

	December 31, 2019			December 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(in millions)					
Amortizable intangible assets:						
Member relationships	\$ 585.8	\$ (585.0)	\$ 0.8	\$ 585.5	\$ (584.3)	\$ 1.2
Affinity relationships	585.2	(567.9)	17.3	585.9	(564.6)	21.3
Proprietary databases and systems	45.7	(45.3)	0.4	45.7	(44.9)	0.8
Trademarks and tradenames	26.3	(25.0)	1.3	26.5	(23.7)	2.8
Patents and technology	52.2	(52.0)	0.2	52.2	(49.7)	2.5
Covenants not to compete	1.3	(1.3)	—	1.3	(1.3)	—
	<u>\$ 1,296.5</u>	<u>\$ (1,276.5)</u>	<u>\$ 20.0</u>	<u>\$ 1,297.1</u>	<u>\$ (1,268.5)</u>	<u>\$ 28.6</u>

During 2019 and 2018, foreign currency translation resulted in decreases of \$0.6 million and \$8.6 million, respectively, in the gross carrying amount of intangible assets and decreases of \$0.5 million and \$7.9 million, respectively, in accumulated amortization.

Amortization expense relating to intangible assets was as follows:

	For the Year Ended December 31,		
	2019	2018	2017
	(in millions)		
Amortizable intangible assets:			
Member relationships	\$ 0.4	\$ 0.4	\$ 0.6
Affinity relationships	4.0	5.5	5.6
Proprietary databases and systems	0.4	0.4	0.4
Trademarks and tradenames	1.4	1.4	1.4
Patents and technology	2.3	2.1	0.1
Covenants not to compete	—	0.1	0.1
	<u>\$ 8.5</u>	<u>\$ 9.9</u>	<u>\$ 8.2</u>

Amortization expense relating to intangible assets for each of the five years following December 31, 2019 is estimated to be \$5.8 million in 2020, \$3.8 million in 2021, \$3.5 million in 2022, and \$2.8 million in 2023 and 2024.

At December 31, 2019 and 2018, and January 1, 2018, the Company had gross goodwill of \$602.6 million, \$602.4 million and \$595.4 million, respectively, and accumulated impairment losses of \$429.0 million at each date. The accumulated impairment losses represent the \$15.5 million impairment loss recognized in 2006 impairing all of the goodwill assigned to the Global Loyalty segment related to the Apollo Transactions, 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.



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The changes in the Company's carrying amount of goodwill for the years ended December 31, 2019 and 2018 are as follows:

	Global Loyalty	Global Customer Engagement	Legacy Membership and Package	Total
Balance at January 1, 2018	\$ 105.9	\$ 60.5	\$ —	\$ 166.4
Acquisition	11.3	—	—	11.3
Currency translation	(0.4)	(3.9)	—	(4.3)
Balance at December 31, 2018	\$ 116.8	\$ 56.6	\$ —	\$ 173.4
Currency translation	(0.2)	0.4	—	0.2
Balance at December 31, 2019	<u>\$ 116.6</u>	<u>\$ 57.0</u>	<u>\$ —</u>	<u>\$ 173.6</u>

**7. OTHER CURRENT ASSETS**

Other current assets consisted of:

	December 31,	
	2019	2018
	(in millions)	
Prepaid credit card charges	\$ 22.6	\$ 33.6
Gift card inventory	18.3	23.7
Other prepaid expenses	8.8	10.2
Income and other taxes receivable	6.8	2.1
Prepaid information technology costs	5.8	7.2
Accrued revenues	4.4	4.9
Other	8.1	9.9
Total	<u>\$ 74.8</u>	<u>\$ 91.6</u>

**8. PROPERTY AND EQUIPMENT, NET**

Property and equipment, net consisted of:

	December 31,	
	2019	2018
	(in millions)	
Leasehold improvements	\$ 22.2	\$ 20.4
Capitalized software	374.2	353.0
Computer equipment	71.2	71.1
Furniture, fixtures and equipment	21.8	23.4
Projects in progress	22.3	16.9
Finance lease right-of-use assets	6.0	3.5
	517.7	488.3
Less: Accumulated depreciation	(432.8)	(396.4)
Total	<u>\$ 84.9</u>	<u>\$ 91.9</u>

Depreciation expense on property and equipment, including assets acquired under finance leases, totaled \$40.4 million, \$38.3 million and \$37.1 million for the years ended December 31, 2019, 2018 and 2017, respectively.

See Note 9—Leases for more information on the Company's finance leases in effect as of and during the year ended December 31, 2019.

**9. LEASES**

The Company has operating and finance leases for corporate office space and certain equipment. As of December 31, 2019, our leases, certain of which include options to extend, and some of which include options to terminate, have remaining lease terms of less than one year through 10.0 years. 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.



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The Company subleases certain corporate office space to a third party. As of December 31, 2019, our sublease has a remaining lease term of 4.1 years. 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.

**Impact of New Standard**

The Company has applied ASC 842 at January 1, 2019 and, as permitted by ASU 2018-11, the recognition and measurement of leases under ASC 842 began on January 1, 2019, with no adjustments made to comparative period information. The effect of adopting ASC 842 did not require a cumulative-effect adjustment to the Company's accumulated deficit balance.

Under the new standard, right-of-use assets and lease liabilities are recorded for all operating leases with lease terms in excess of twelve months, taking into account lease renewal options that are likely to be exercised. The adoption of ASC 842 did not have a material effect on the Company's consolidated statements of comprehensive income (loss) or cash flows.

The adoption date effect of ASC 842 to the Company's unaudited consolidated balance sheet as of January 1, 2019 was as follows:

	Balance at December 31, 2018	Adjustments Due to Adoption of ASC 842 (in millions)	Balance at January 1, 2019
<b>Balance Sheet</b>			
<b>Assets</b>			
Other current assets	\$ 91.6	\$ (0.7)	\$ 90.9
Operating lease right-of-use asset	—	37.6	37.6
<b>Liabilities</b>			
Accounts payable and accrued expenses	291.3	9.2	300.5
Long-term operating lease liabilities	—	42.0	42.0
Other long-term liabilities	37.0	(14.3)	22.7

**Total Lease Cost**

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

	For the Year Ended December 31, 2019 (in millions)
<b>Finance lease cost</b>	
Amortization of right-of-use assets	\$ 1.6
Interest on lease liabilities	0.2
Total	1.8
Operating lease cost	14.5
Variable lease cost	—
Operating lease sublease income	(0.3)
Total lease cost	\$ 16.0

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 year ended December 31, 2019:

	For the Year Ended December 31, 2019 (in millions)
Marketing and commissions	\$ 1.1
Operating costs	8.3
General and administrative	4.8
Total	\$ 14.2



**CXLOYALTY GROUP HOLDINGS, INC.**  
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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 year ended December 31, 2019.

The weighted-average remaining lease term for operating leases as of December 31, 2019 was 4.4 years. The weighted-average remaining lease term for finance leases as of December 31, 2019 was 3.0 years.

The weighted-average discount rate applied to operating lease right-of-use assets as of December 31, 2019 was 12.6%. The weighted-average discount rate applied to finance lease right-of-use assets as of December 31, 2019 was 8.1%.

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

	<u>For the Year Ended December 31, 2019</u>	
	(in millions)	
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from finance leases	\$	0.2
Operating cash flows from operating leases		16.2
Financing cash flows from finance leases		0.8
Right-of-use assets obtained in exchange for lease obligations, net		
Operating leases		6.6
Finance leases		2.5

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, 2019, as well as a reconciliation to amounts recorded on the accompanying consolidated balance sheet as of December 31, 2019:

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025 and Thereafter</u>	<u>Total</u>
	(in millions)						
Operating lease payments	\$ 16.1	\$ 15.9	\$ 14.3	\$ 10.7	\$ 3.6	\$ 3.1	\$ 63.7
Less: imputed interest							(14.9)
Operating lease liabilities							48.8
Finance lease payments	1.1	0.6	0.5	0.4	—	—	2.6
Less: imputed interest							(0.3)
Finance lease liabilities							2.3

**10. ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Accounts payable and accrued expenses consisted of:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
	(in millions)	
Accounts payable	\$ 62.9	\$ 69.7
Gift card deposits	30.1	46.6
Accrued payroll and related costs	29.2	46.7
Accrued product costs	19.5	18.1
Accrued interest	16.8	25.8
Accrued legal and professional fees and loss contingency accruals	13.6	14.5
Current operating lease liabilities	10.4	—
Accrued revenue sharing payable	4.6	7.0
Other	49.4	62.9
Total	\$ 236.5	\$ 291.3



**CXLOYALTY GROUP HOLDINGS, INC.**  
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**11. LONG-TERM DEBT**

Long-term debt consisted of:

	December 31, 2019		December 31, 2018	
	Principal Amount	Carrying Value	Principal Amount	Carrying Value
	(in millions)			
Term loan due 2022, with a carrying value net of unamortized discount of \$0.3 million and \$12.0 million	\$ 21.1	\$ 20.8	\$ 837.4	\$ 825.4
Term loan due 2024, with a carrying value net of unamortized discount of \$9.1 million as of December 31, 2019	702.9	693.8	—	—
Revolving credit facility expiring in 2023, with a carrying value net of unamortized discount of \$1.4 million and \$1.8 million	—	(1.4)	100.0	98.2
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 and \$18.1 million	12.4	12.2	681.5	663.4
Senior 18.0% PIK notes due 2024, with an unamortized carrying value adjustment of \$383.1 million as of December 31, 2019	389.1	772.2	—	—
Finance lease obligations	2.3	2.3	0.9	0.9
Total debt	1,127.8	1,499.9	1,619.8	1,587.9
Less: current portion of long-term debt	(1.8)	(1.8)	(13.8)	(13.8)
Less: unamortized deferred financing costs	—	(12.1)	—	(14.9)
Long-term debt	<u>\$ 1,126.0</u>	<u>\$ 1,486.0</u>	<u>\$ 1,606.0</u>	<u>\$ 1,559.2</u>

*Revolving Credit Facility*

As of December 31, 2019, there were no borrowings outstanding under the Amended Credit Agreement. As of December 31, 2018, there were outstanding borrowings of \$100.0 under the 2017 Credit Facility. 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. During the period from April 10, 2019 through December 31, 2019, the Company had no borrowings or repayments under the Amended Credit Agreement. During the year ended December 31, 2018, the Company had borrowings and repayments of \$289.7 million and \$244.7 million, respectively, under the 2017 Credit Facility. As of December 31, 2019, cxLoyalty had \$79.8 million available for borrowing under the Amended Credit Agreement, after giving effect to the issuance of \$5.2 million of letters of credit.

*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 ("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" and together, with the Consenting Noteholders and the Second Lien Commitment Parties, the "Consenting Stakeholders") 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 Old Common Stock (as defined below) the right to purchase an aggregate principal amount of \$300.0 million of cxLoyalty's new Senior PIK Notes due 2024 (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 (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 applicable, and the right to participate in its pro rata share of the 2019 Rights Offering.



**CXLOYALTY GROUP HOLDINGS, INC.**  
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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, 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.

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:

	<u>(in millions)</u>
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	<u>\$ 412.2</u>

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



**CXLOYALTY GROUP HOLDINGS, INC.**  
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*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 are the following:

The Amended Credit Agreement provides for quarterly amortization payments of the 2019 Term Loans totaling (i) for the first 3 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 mature on April 10, 2024. The Revolving Facility Commitments under the Amended Credit Agreement mature on April 10, 2023. The Non-Extended Term Loans continue to be subject to an amortization schedule consistent with that set forth in the 2017 Credit Agreement.

In addition, the Amended Credit Agreement requires 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.

The terms of the Amended Credit Agreement allow 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 may not be reduced below the aggregate outstanding amount of revolving loans and letters of credit. In addition, cxLoyalty will be able to terminate the Amended Credit Agreement upon prior written notice, and, in some cases, be able to revoke such notice. Upon termination, cxLoyalty will be 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 will be 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 will continue to be subject to the premiums set forth in the 2017 Credit Agreement.

The interest rates are 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 will continue to be the same as those set forth in the 2017 Credit Agreement.



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Additionally, if any amount payable under the Amended Credit Agreement is not paid when due, (i) all overdue amounts owing under the Amended Credit Agreement will bear 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 is otherwise applicable thereto and (ii) all other principal amounts outstanding under the Amended Credit Agreement will bear interest at a rate per annum equal to the rate otherwise applicable thereto plus an additional 2.0%.

cxLoyalty has 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 will be payable in arrears at the end of each applicable interest period, but in any event at least every three (3) months. With respect to ABR loans, interest will be payable on the last business day of each fiscal quarter. In each case, calculations of interest are 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 is to use a 365 or 366 day year) and actual days elapsed.

cxLoyalty's obligations under the Amended Credit Agreement continue 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 continues to be secured to the extent legally permissible by substantially all the assets of (i) cxLoyalty Holdings, which continue 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 contains financial, affirmative and negative covenants that we believe are usual and customary for a senior secured credit agreement. The negative covenants in the Amended Credit Agreement include, among other things, limitations (all of which are 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;
- 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 requires cxLoyalty to comply with a maximum Senior Secured Leverage Ratio (as defined in the Amended Credit Agreement) beginning with the fiscal quarter ending on September 30, 2020.

The events of default under the Amended Credit Agreement include, 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 shall also become due and payable.



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As of December 31, 2019, cxLoyalty was in compliance with the applicable covenants under the Amended Credit Agreement.

*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 are unsecured senior obligations of cxLoyalty, as issuer, and each of cxLoyalty Holdings’ and cxLoyalty’s restricted subsidiaries that guarantee the Amended Credit Agreement (collectively, the “Guarantors”), as guarantors; provided that the obligations of any Guarantor that is organized in any jurisdiction other than the United States or the United Kingdom with respect to its guarantee is 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 will 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 accrues at a rate per annum of 18.00%. Interest on the New Notes will be payable semi-annually in arrears on April 10 and October 10, commencing on October 10, 2019. The Company will 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 will accrue interest from the most recent date to which interest has been paid or, if no interest has been paid, from and including October 10, 2024, and will be computed on the basis of a 360-day year comprised of twelve 30-day months. Interest will be 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 will bear interest on such increased principal amount from and after the interest payment date in respect of which such PIK Payment was made.

cxLoyalty may redeem 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 have 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).

The New Indenture contains certain covenants that limit 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 restrict cxLoyalty Holdings’ ability to engage in certain businesses or business activities. cxLoyalty is 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 provides that if the Consolidated Net Leverage Ratio of cxLoyalty on the maturity date of the New Notes is 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 may, with the consent of the Company elect 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).



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*2018 Financing Transactions*

On November 14, 2018, Metro SPV, affiliates of Elliott, affiliates of Empyrean and Jefferies, LLC (“Jefferies,” and together with Metro SPV, Elliott and Empyrean collectively, 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 is 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 will immediately be used to 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 will 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, shall 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.”

*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. 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 GROUP HOLDINGS, INC.**  
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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.

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 9 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 have been capitalized and are being amortized over the term of the term loans and revolving facility, respectively. The Company also incurred lender transaction fees of \$36.3 million, which have been accounted for as a debt discount and are being 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 have been adjusted to the terms of the 2019 Term Loans and New Notes, as appropriate.



**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 new warrants (the "2017 Warrants") to acquire Old Common Stock 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. Under the terms of the AGI Exchange Offer, for each \$1,000 principal amount of cxLoyalty's 2010 senior notes accepted in the AGI Exchange Offer, holders could elect to receive (i)(A) \$1,000 principal amount of the 2017 Notes and 2017 Warrants to purchase 3.37 shares of Old Common Stock or (B) \$930 in cash. Under the terms of the Holdings Exchange Offer, for each \$1,000 principal amount of cxLoyalty Holdings' 2013 senior notes accepted in the Holdings Exchange Offer, holders could elect to receive (i)(A) \$1,000 principal amount of the 2017 Notes and 2017 Warrants to purchase 3.37 shares of Old Common Stock or (B) \$700 in cash. Under the terms of the Investments Exchange Offer, for each \$1,000 principal amount of the Investments senior subordinated notes accepted in the Investments Exchange Offer, holders could elect to receive (i)(A) \$1,000 principal amount of the 2017 Notes and 2017 Warrants to purchase 3.37 shares of Old Common Stock or (B) \$880 in cash. Pursuant to the AGI Exchange Offer, \$269.7 million of cxLoyalty's 2010 senior notes plus accrued and unpaid interest were exchanged for \$277.8 million of the 2017 Notes, 2017 Warrants to purchase 1,103,203 shares of Old Common Stock and \$417,386 in cash, including \$238.0 million of cxLoyalty's 2010 senior notes plus accrued and unpaid interest exchanged by related parties in exchange for \$245.5 million of the 2017 Notes and 2017 Warrants to purchase 985,438 shares of Old Common Stock; pursuant to the Holdings Exchange Offer, \$4.6 million of cxLoyalty Holdings' 2013 senior notes plus accrued and unpaid interest were exchanged by a related party for \$4.7 million of the 2017 Notes and 2017 Warrants to purchase 18,539 shares of Old Common Stock; and pursuant to the Investments Exchange Offer, \$12.4 million of the Investments senior subordinated notes plus accrued and unpaid interest were exchanged for \$12.8 million of the 2017 Notes, 2017 Warrants to purchase 51,005 shares of Old Common Stock and \$912 in cash, including \$12.2 million of the Investments senior subordinated notes plus accrued and unpaid interest exchanged by related parties in exchange for \$12.6 million of the 2017 Notes and 2017 Warrants to purchase 49,894 shares of Old Common Stock. cxLoyalty used the proceeds of the 2017 Notes issued pursuant to the 2017 Investor Purchase Agreement (as defined below) to pay the cash tender consideration to participating holders in the 2017 Exchange Offers.

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"), Empryean 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. As a result, on May 10, 2017, cxLoyalty (i) elected to redeem all of its outstanding \$205.3 million aggregate principal amount of cxLoyalty's 2010 senior notes on May 15, 2017 at a redemption price of 100% of the principal amount, plus accrued and unpaid interest to the redemption date, (ii) irrevocably deposited sufficient funds received from the Investors pursuant to the 2017 Investor Purchase Agreement to effect such redemption with the trustee under the indenture governing cxLoyalty's 2010 senior notes and (iii) entered into a satisfaction and discharge agreement to discharge its obligations under the indenture governing cxLoyalty's 2010 senior notes. cxLoyalty's 2010 senior notes were originally issued by cxLoyalty on November 19, 2010 in an aggregate principal amount of \$475.0 million and bore interest at 7.875% per annum. The redemption of cxLoyalty's 2010 senior notes was consummated on May 15, 2017.



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Accordingly, 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, of which (i) \$295.3 million in aggregate principal amount of the 2017 Notes and 2017 Warrants to purchase 1,172,747 shares of Old Common Stock were issued to participating holders (including the Investors) in the 2017 Exchange Offers, including \$262.8 million of the 2017 Notes and 2017 Warrants to purchase 1,053,871 shares of Old Common Stock issued to related parties, and (ii) \$237.3 million in aggregate principal amount of the 2017 Notes and 2017 Warrants to purchase 2,801,834 shares of Old Common Stock were issued, including all of the 2017 Notes and 2017 Warrants to purchase 2,791,475 shares of Old Common Stock issued to the Investors, all of whom are related parties, pursuant to the 2017 Investor Purchase Agreement to fund the cash consideration payable in the 2017 Exchange Offers and the cash redemption price for the balance of cxLoyalty's 2010 senior notes that were not exchanged or tendered in the AGI Exchange Offer and to pay the commitment premium and funding premium under the 2017 Investor Purchase Agreement. The 2017 Warrants received by the Investors on May 10, 2017, represented approximately 26.7% of the pro forma fully diluted ownership of cxLoyalty Holdings after giving effect to issuances pursuant to the 2017 Exchange Offers and the 2017 Investor Purchase Agreement, but without giving effect to options and restricted stock units granted under cxLoyalty Holdings' management compensation and incentive plans. The number of shares of Old Common Stock issuable upon the exercise of the 2017 Warrants, as described herein, reflects the application of the anti-dilution protections of the 2017 Warrants issued in the 2017 Exchange Offers and pursuant to the 2017 Investor Purchase Agreement (other than the 2017 Warrants issued as part of the funding premium) that are triggered by the issuance of 2017 Warrants as part of the funding premium.

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. cxLoyalty Holdings' 2013 senior notes were redeemed on July 17, 2017 at a redemption price of 103.4375% of the principal amount, plus accrued and unpaid interest to the redemption date and the Investments senior subordinated notes were redeemed on July 17, 2017 at a redemption price of 103.375% of the principal amount, plus accrued and unpaid interest to the redemption date. cxLoyalty Holdings' 2013 senior notes were originally issued by cxLoyalty Holdings on December 12, 2013 in an aggregate principal amount of \$292.8 million and bore interest at 13.75% per annum in cash, or at cxLoyalty Holdings' option, in payment-in-kind interest at 13.75% per annum plus 0.75%. The Investments senior subordinated notes were originally issued by cxLoyalty Investments on December 12, 2013 in an aggregate principal amount of \$360.0 million and bore interest at 13.50% per annum.

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.

In connection with the 2017 Exchange Offers and the redemption of cxLoyalty's 2010 senior notes, cxLoyalty Holdings' 2013 senior notes and the Investments senior subordinated notes that were not tendered pursuant to the 2017 Exchange Offers, the Company determined that the debt had been extinguished and the Company recognized a loss of \$1.8 million for the year ended December 31, 2017, which represented the excess of the fair value of the 2017 Notes and 2017 Warrants issued over the carrying value of the notes exchanged in the 2017 Exchange Offers and cxLoyalty's 2010 senior notes, cxLoyalty Holdings' 2013 senior notes and the Investments senior subordinated notes that were redeemed, including all associated unamortized fees, discounts and 2015 troubled debt restructuring carrying value adjustments. Transaction fees and expenses of \$8.4 million related to the issuance of the 2017 Notes have been capitalized and were being 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 are being amortized over the term of the New Notes using the effective interest method.

In connection with the 2017 Exchange Offers and the 2017 Investor Purchase Agreement, and in accordance with cxLoyalty Holdings' obligations under the Shareholders Agreement, due to the issuance of the 2017 Warrants in the 2017 Exchange Offers and pursuant to the 2017 Investor Purchase Agreement, cxLoyalty Holdings offered to each Pre-Emptive Rights Holder the right to purchase with cash up to such Pre-Emptive Rights Holder's pro rata share (as determined in accordance with the Shareholders Agreement) of 2017 Warrants at an exercise price of \$0.01 per 2017 Warrant pursuant to the 2017 Pre-Emptive Rights Offer. On July 12, 2017, cxLoyalty Holdings issued 2017 Warrants to purchase 63,741 shares of Old Common Stock to participants in the 2017 Pre-Emptive Rights Offer.



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The Company performed an accounting analysis and determined that the 2017 Warrants represent in substance common stock and that the 2017 Warrants issued pursuant to the 2017 Exchange Offers and the 2017 Investor Purchase Agreement required anti-dilution provisions and commitment premium and funding premium represented a debt discount of \$16.1 million. Fees associated with new lenders of \$4.6 million have been recorded as debt discount. Fees related to existing lenders who continued to be lenders in connection with the 2017 Exchange Offers have been expensed.

The 2017 Notes bear 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 may, at its option, elect to pay interest on the 2017 Notes (1) entirely in cash ("Cash Interest") at a rate per annum of 12.50% 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 14.00%, provided that interest for the first interest period commencing on the Settlement Date shall be payable entirely in PIK Interest. The interest for the first interest period was paid in PIK Interest on November 10, 2017.

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")) would be less than or equal to 4.375 to 1.000, cxLoyalty's Consolidated Fixed Charge Coverage Ratio (as defined in the 2017 Notes Indenture) would be 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 is equal to or greater than \$80.0 million as of the record date for such interest payment, then cxLoyalty shall be required to pay interest on the 2017 Notes for such interest period entirely in Cash Interest at a rate per annum of 12.50%, (ii) if immediately after giving effect to such interest payment, on a pro forma basis, cxLoyalty's Senior Secured Leverage Ratio would be less than or equal to 4.375 to 1.000, cxLoyalty's Consolidated Fixed Charge Coverage Ratio would be 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 is equal to or greater than \$80.0 million as of the record date for such interest payment, then cxLoyalty shall be 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 6.50% and PIK Interest at a rate per annum of 7.50% and (iii) if immediately after giving effect to such interest payment, on a pro forma basis, cxLoyalty's Senior Secured Leverage Ratio would be greater than 4.375 to 1.000, cxLoyalty's Consolidated Fixed Charge Coverage Ratio would be 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 is less than \$80.0 million as of the record date for such interest payment, then cxLoyalty may elect 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 is the 30 month anniversary of the Settlement Date and (y) 15.50% for any interest payment period ending after the date that is the 30 month anniversary of the Settlement Date; provided that, for the avoidance of doubt, if the aforementioned ratios are satisfied and require 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 relieve cxLoyalty of such obligation to pay Cash Interest or Combined Interest, as applicable, for such interest period and cxLoyalty shall take all such actions as may be 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 is payable semi-annually on May 10 and November 10 of each year, commencing on November 10, 2017. The 2017 Notes will mature on November 10, 2022. Under certain circumstances, the 2017 Notes are redeemable at cxLoyalty's option prior to maturity. If the 2017 Notes are not so redeemed by cxLoyalty, under certain circumstances, cxLoyalty may be required to make an offer to purchase 2017 Notes.



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cxLoyalty's obligations under the 2017 Notes are jointly and severally and fully and unconditionally guaranteed on an unsecured senior basis by the same entities that guarantee the 2017 Credit Agreement. The 2017 Notes and guarantees thereof are 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.

Upon closing of the 2019 Exchange Offer, there remained outstanding \$10.7 million aggregate principal amount of the 2017 Notes.

The aggregate maturities of debt, including finance leases, for each of the five years that follow December 31, 2019 are as follows:

	<u>(in millions)</u>
2020	\$ 1.7
2021	2.0
2022	36.9
2023	15.2
2024	1,072.0

**12. DEFICIT**

As of December 31, 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, 2018 and 2017, the Company's capital stock consisted of a total of 550,000,000 authorized shares, of which 520,000,000 shares, \$0.01 par value per share, were designated as "Common Stock," (following the consummation of the 2019 Recapitalization, "Old Common Stock"), 10,000,000 shares, \$0.01 par value per share, were designated as "Class C Common Stock," 10,000,000 shares, \$0.01 par value per share, were designated as "Class D Common Stock" (and, together with the Class C Common Stock, the "Class C/D Common Stock") and 10,000,000 shares, \$0.01 par value per share, were designated as "preferred stock." As of December 31, 2019, the Company had outstanding 11,248,608 shares of Common Stock. As of December 31, 2018, the Company had outstanding (i) 9,090,404 shares of Old Common Stock, (ii) 433,813 shares of Class C Common Stock and (iii) 456,643 shares of Class D Common Stock. As of December 31, 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, 2018, the Company had outstanding 2017 Warrants (as described further below) to purchase 4,392,936 shares of Old Common Stock, and a Limited Warrant (as described further below) to purchase up to 462,266 shares of Old Common Stock. As of December 31, 2019 and 2018, there were no shares of preferred stock outstanding.

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 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, 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 warrants (the "2017 Warrants") to purchase 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"), 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 (as defined below). 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.



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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 2019 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.

In connection with the 2019 Rights Offering, affiliates of Elliott, Metro SPV, Mudrick Capital Management, LP ("Mudrick"), affiliates of 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 the New MIP and the New Investor Warrants (as defined below)).

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.

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 the exercise price equal of \$67.12 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.



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

The New Indenture also provides that if the Consolidated Net Leverage Ratio of cxLoyalty on the maturity date of the New Notes is 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 may, with the consent of the Company elect 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).

*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 are immediately exercisable upon issuance and will have no stated expiration date. Each New Penny Warrant is 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.

### 13. INCOME TAXES

On December 22, 2017, the TCJA was enacted into law. For the year ended December 31, 2017, we recognized a provisional tax benefit of \$25.5 million for items related to the TCJA for which we were able to determine a reasonable estimate. During 2018, and prior to December 22, 2018, we finalized and completed our accounting associated with the TCJA with no subsequent adjustments to provisional amounts recorded. See Note 2—Summary of Significant Accounting Policies for more information on the TCJA.



**CXLOYALTY GROUP HOLDINGS, INC.**  
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 (Unless otherwise noted, all dollar amounts are in millions, except per share amounts)

The income tax benefit consisted of the following:

	For the Year Ended December 31,		
	2019	2018	2017
	(in millions)		
Current:			
Federal	\$ —	\$ —	\$ —
State	0.1	(0.8)	(0.7)
Foreign	0.1	(5.3)	(3.4)
	<u>0.2</u>	<u>(6.1)</u>	<u>(4.1)</u>
Deferred:			
Federal	1.1	28.5	30.6
State	(1.0)	4.3	0.7
Foreign	0.8	0.3	—
	<u>0.9</u>	<u>33.1</u>	<u>31.3</u>
Income tax benefit	<u>\$ 1.1</u>	<u>\$ 27.0</u>	<u>\$ 27.2</u>

Loss from continuing operations before income taxes for domestic and foreign operations consisted of the following:

	For the Year Ended December 31,		
	2019	2018	2017
	(in millions)		
Domestic	\$ (139.5)	\$ (179.4)	\$ (73.5)
Foreign	(7.8)	7.9	0.4
Loss from continuing operations before income taxes	<u>\$ (147.3)</u>	<u>\$ (171.5)</u>	<u>\$ (73.1)</u>

Deferred income tax assets and liabilities consisted of the following:

	December 31,	
	2019	2018
	(in millions)	
Non-current deferred income tax assets:		
Net operating loss carryforwards	\$ 198.7	\$ 187.4
State net operating loss carryforwards	32.8	33.2
Depreciation and amortization	22.2	43.6
Accrued expenses and deferred revenue	15.1	21.9
Prepaid expenses	1.6	1.2
Provision for doubtful accounts	0.5	1.1
Other	44.3	23.4
Non-current deferred income tax assets	<u>315.2</u>	<u>311.8</u>
Non-current deferred income tax liabilities:		
Other	—	—
Non-current deferred income tax liabilities	—	—
Valuation allowance	(315.0)	(311.9)
Non-current net deferred income tax asset (liability), net of non-current deferred income tax liabilities and assets of \$(1.8) and \$2.8, respectively	<u>\$ 0.2</u>	<u>\$ (0.1)</u>

As of December 31, 2019, cxLoyalty Holdings and its subsidiaries had federal net operating loss carryforwards available to offset future taxable income of \$568.6 million (which will expire in 2032 through 2037, or may be carried forward indefinitely).

As of December 31, 2019, cxLoyalty Holdings and its subsidiaries had state net operating loss carryforwards of \$605.2 million (which expire, depending on the jurisdiction, between 2020 and 2039, or may be carried forward indefinitely) and state tax credits of \$1.5 million (which expire between 2020 and 2024). A full valuation allowance was recorded with respect to these carryforwards and credits net of the impact of the future reversal of existing taxable temporary differences because it is more likely than not that these assets will not be realized.



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

As of December 31, 2019, cxLoyalty Holdings and its subsidiaries have net operating loss carryforwards of \$267.6 million in foreign jurisdictions (which expire, depending on the jurisdiction, between 2020 and 2027, or may be carried forward indefinitely). cxLoyalty Holdings and its subsidiaries have concluded that a valuation allowance relating to \$266.8 million of these net operating losses is required due to the uncertainty of their realization.

The net operating losses for tax return purposes are different than the net operating losses for financial statement purposes, primarily due to book to tax differences associated with the §338 election and uncertain tax positions. The carrying value of cxLoyalty Holdings' valuation allowance against all of its deferred tax assets at December 31, 2019 and 2018 totaled \$315.0 million and \$311.9 million, respectively. The increase of \$3.1 million is attributable to an increase in the book to tax temporary differences that require a valuation allowance and an increase in the valuation allowance attributable to tax attributes (i.e., net operating losses).

As of December 31, 2018, cxLoyalty Holdings and its subsidiaries had federal net operating loss carryforwards available to offset future taxable income of \$530.2 million (which were to expire in 2026 through 2037).

As of December 31, 2018, cxLoyalty Holdings and its subsidiaries had state net operating loss carryforwards of \$591.4 million (which were to expire, depending on the jurisdiction, between 2019 and 2023) and state tax credits of \$1.6 million (which were to expire between 2019 and 2023). A full valuation allowance was recorded with respect to these carryforwards and credits net of the impact of the future reversal of existing taxable temporary differences because it is more likely than not that these assets will not be realized.

As of December 31, 2018, cxLoyalty Holdings and its subsidiaries had net operating loss carryforwards of \$238.4 million in foreign jurisdictions (which were to expire, depending on the jurisdiction, between 2019 and 2038, or may be carried forward indefinitely). cxLoyalty Holdings and its subsidiaries concluded that a valuation allowance relating to \$236.2 million of these net operating losses was required due to the uncertainty of their realization.

The net operating losses for tax return purposes are different than the net operating losses for financial statement purposes, primarily due to book to tax differences associated with the §338 election and uncertain tax positions. The carrying value of cxLoyalty Holdings' valuation allowance against all of its deferred tax assets at December 31, 2018 and 2017 totaled \$311.9 million and \$371.8 million, respectively. The decrease in valuation allowance of \$59.9 million is attributable to a decrease in the book to tax temporary differences that require a valuation allowance and a decrease in the valuation allowance attributable to tax attributes (i.e., net operating losses).

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 operations are entities disregarded for U.S. federal and state income tax purposes. The Company does not provide for deferred taxes on the excess of the amount for the tax over the financial reporting basis in its South African and Turkish subsidiaries because they are permanent in duration. A deferred tax asset is recognized in this circumstance only if it is apparent that the temporary difference will reverse in the foreseeable future. As of December 31, 2019, there is a \$17.6 million deficit in retained earnings of the Company's South African and Turkish subsidiaries.

A reconciliation of the effective income tax rate from the U.S. federal statutory rate is as follows:

	For the Year Ended December 31,		
	2019	2018	2017
Federal statutory rate	21.0%	21.0%	35.0%
State and local income taxes, net of federal expense	(1.9)	(2.3)	(10.4)
Change in valuation allowance and other	0.8	2.6	(25.1)
Taxes on foreign operations at rates different than U.S. federal rates	(0.3)	(2.6)	(4.7)
SAB 118 impact of TCJA	—	—	34.8
Impact of debt exchanges and subscription rights offering	(12.9)	—	5.7
U.S. tax on foreign operations	1.1	(2.6)	1.9
Prior year accrual and adjustments	(1.6)	0.2	0.1
Non-deductible expenses	(5.4)	(0.5)	(0.1)
	<u>0.8%</u>	<u>15.8%</u>	<u>37.2%</u>

The Company's effective tax rate has fluctuated significantly over the last three years. These fluctuations are primarily due to changes in valuation allowances driven by changes in the corresponding deferred tax balances, the impact associated with the debt exchanges and subscription rights offering and state and foreign taxes. The fluctuation for 2017 is primarily the result of the change on deferred tax balance requirements, including valuation allowances, estimated pursuant to SAB 118 in accordance with the TCJA enactment and the impact of the AGI Exchange Offer. These fluctuations are also driven by the changes in loss from continuing operations before income taxes to \$147.3 million for the year ended December 31, 2019 compared to \$171.5 million and \$73.1 million for the years ended December 31, 2018 and 2017, respectively.



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

The Company was granted a 50% tax holiday in the Swiss canton of Vaud in 2013. The tax holiday is valid for cantonal purposes from the 2012 start date until the end of the 2017 tax period. The Company is currently subject to Cantonal law.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. The Company recognized an increase (a decrease) in interest in income tax expense related to uncertain tax positions of less than \$0.1 million, \$(0.2) million and \$0.2 million for the years ended December 31, 2019, 2018 and 2017, respectively. Accrued interest and penalties related to uncertain tax positions totaled \$1.9 million as of December 31, 2019 and 2018 and is included in other long-term liabilities on the accompanying consolidated balance sheets. The Company's gross unrecognized tax benefits decreased \$3.2 million, increased \$2.1 million and decreased \$1.6 million for the years ended December 31, 2019, 2018 and 2017, respectively, as a result of tax positions for the applicable year.

A reconciliation of the beginning and ending amount of tax reserves for uncertain tax positions for the years ended December 31, 2019, 2018 and 2017 is as follows:

	For the Year Ended December 31,		
	2019	2018	2017
		(in millions)	
Unrecognized tax benefits, beginning of period	\$ 7.1	\$ 5.0	\$ 6.6
Gross increase – prior period tax positions	0.1	1.6	—
Gross decrease – prior period tax positions	(3.0)	(0.6)	(2.1)
Gross increase – current period tax positions	—	1.9	0.7
Gross decrease – current period tax positions	(0.3)	(0.8)	(0.2)
Unrecognized tax benefits, end of period	<u>\$ 3.9</u>	<u>\$ 7.1</u>	<u>\$ 5.0</u>

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 12 months.

#### 14. 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. The Company is also a party to lawsuits which were brought against it and its affiliates and which purport to be a class action in nature and allege that the Company violated certain federal or state consumer protection statutes (as described below). The Company intends to vigorously defend itself against such lawsuits.



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

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. The parties have now briefed the plaintiff's appeal, which relates to the Connecticut District Court's decisions with respect to his EFT and CUTPA claims. Oral argument took place on December 2, 2019 and we await a decision.

On June 7, 2012, a factually similar class action lawsuit was filed against Webloyalty in the U.S. District Court for the Southern District of California (the "District Court of S.C."). After filing several amended complaints, the plaintiff asserted a variety of claims, including claims under the EFT, the ECPA, California Business and Professional Code § 17200, et seq. (the "CBPC"), CUTPA, various privacy statutes, and common law. The plaintiff did so on behalf of a purported nationwide class of consumers whose credit or debit card information was obtained by Webloyalty via data pass, and had their credit or debit cards charged on or after October 1, 2008. On June 22, 2015, the District Court of S.C. entered judgment dismissing the plaintiff's federal claims with prejudice, and his state claims without prejudice. The plaintiff appealed that judgment to the United States Court of Appeals for the Ninth Circuit (the "Ninth Circuit"). On March 28, 2017, the Ninth Circuit affirmed the dismissal of the plaintiff's ECPA and privacy-based state law claims, but reversed and remanded the dismissal of other claims, including the plaintiff's claims under the EFT, CBPC, and CUTPA. On September 5, 2017, the plaintiff filed a third amended complaint, which asserted the claims that were remanded by the Ninth Circuit. Webloyalty answered the complaint and denied all liability. On June 29, 2018, the plaintiff moved for class certification on his claims for violation of the EFT on behalf of a nationwide class, and on his claims for conversion, and violation of CBPC on behalf of a California class. On March 15, 2019, the District Court of S.C. denied the plaintiff's motion for class certification. The case would proceed as an individual action, although the plaintiff had expressed an intention to seek reconsideration of his motion for class certification. The case has been settled for less than \$0.1 million and an Order of Dismissal was entered June 7, 2019.

On May 11, 2016, Kohl's Department Stores, Inc. ("Kohl's") filed a third-party complaint against Trilegiant Corporation ("Trilegiant") (a wholly owned subsidiary of cxLoyalty) in the United States District Court for the Eastern District of Pennsylvania, alleging claims for indemnification, contribution and breach of contract. The third-party complaint arises in a case filed in the same court on February 13, 2015, in which a putative class action had been brought against Kohl's and the issuer of Kohl's credit cards alleging breach of the covenant of good faith and fair dealing and unjust enrichment. Kohl's third-party complaint alleged that Trilegiant breached alleged obligations to Kohl's under a marketing agreement between Trilegiant and Kohl's through which a Trilegiant membership program was offered to Kohl's credit card customers, including Trilegiant's purported obligation under that agreement to indemnify Kohl's and participate in its defense of the class action. Kohl's third-party complaint sought damages from Trilegiant, including amounts for which Kohl's may be liable to the named plaintiffs or the putative class in the class action relating to their claims pertaining to Trilegiant's membership program and Kohl's costs, including attorney fees, of defending against such claims. On March 1, 2017, the parties entered into a settlement and release wherein Trilegiant agreed to make a payment to Kohl's of approximately \$0.3 million and to pay 30% of Kohl's on-going legal fees in the putative class action, capped at \$0.4 million (excluding Trilegiant's initial payment of approximately \$0.3 million), to resolve Kohl's indemnification, contribution and breach of contract claims against Trilegiant with respect to fees and expenses that Kohl's has incurred or will incur in connection with its defense of the putative class action. Kohl's reserved its right to seek indemnity from Trilegiant for any liability Kohl's may incur to the plaintiffs in the putative class action relating to Trilegiant's membership program. The third-party complaint was dismissed without prejudice by stipulation of the parties on March 10, 2017. In February 2019, Kohl's settled the class action for \$1.8 million (the "Kohl's Settlement"). On May 1, 2019, Kohl's filed a complaint in the State of Wisconsin Circuit Court for Waukesha County against Trilegiant and cxLoyalty Group, Inc. alleging breach of contract and indemnification obligations in connection with the Kohl's Settlement. The Company filed its answer and the parties agreed to stay discovery to pursue mediation. The matter was settled for \$1.0 million on December 19, 2019.



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

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 set to begin on May 12, 2020.

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-judgment 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.

#### ***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, 2019 we have accrued \$8.2 million for certain asserted claims, including claims for which no litigation has been 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.

During the year ended December 31, 2017, a charge of \$23.2 million was recorded relating to a cyber theft that occurred in 2017. During the year ended December 31, 2019, the Company received \$7.1 million in proceeds from insurance claims relating to this cyber theft. These amounts are included in operating costs on the accompanying consolidated statements of comprehensive income (loss) for the years ended December 31, 2017 and 2019, respectively.

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.

#### ***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, 2019, the Company provided guarantees for surety bonds totaling approximately \$6.4 million and issued letters of credit totaling \$5.8 million.



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

**15. SHARE-BASED COMPENSATION**

In connection with the closing of the Apollo Transactions on October 17, 2005, cxLoyalty Holdings adopted the 2005 Stock Incentive Plan (the "2005 Plan"). On November 9, 2015, in conjunction with the 2015 Exchange Offers, the 2015 Consent Solicitations and the 2015 Rights Offering, cxLoyalty Holdings effected the Reclassification (the "Reclassification" and, together with the 2015 Exchange Offers, the 2015 Consent Solicitations, the 2015 Rights Offering and the related transactions, the "2015 Transactions"), existing option awards under the 2005 Plan were adjusted in accordance with their terms. Existing options for cxLoyalty Holdings' then existing Class A Common Stock, \$0.01 par value per share, under the 2005 Plan were converted into options for shares of cxLoyalty Holdings' then existing Class C Common Stock, \$0.01 par value per share (the "Class C Common Stock"), and cxLoyalty Holdings' then existing Class D Common Stock, \$0.01 par value per share (the "Class D Common Stock" and, together with the Class C Common Stock, the "Class C/D Common Stock"), and both the exercise price and the number of shares of Class C Common Stock and Class D Common Stock underlying such options have been adjusted.

On November 9, 2015, the Company's Board of Directors (the "Board" or "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, restricted stock, RSUs and other equity-based awards. Under the 2015 Plan, 10% of the outstanding shares of Old Common Stock were reserved for issuance pursuant to awards.

On November 14, 2018, upon the recommendation of the Human Resources Committee, the Board adopted an amendment to the 2015 Plan (the "Plan Amendment") to amend the 2015 Plan to increase the aggregate cap on Common Stock that may be issued to employees and directors of the Company from ten percent (10%) of the Old Common Stock to fifteen percent (15%) of the Old Common Stock (on a fully diluted basis, but excluding vested and unvested Old Common Stock and options or other rights to acquire Old Common Stock issued under the 2015 Plan).

In connection with and just prior to the 2019 Recapitalization, all outstanding options under the 2005 Plan and 2015 Plan were cancelled for no consideration.

On November 29, 2019, the Board 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 of Directors 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 of Directors 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.

**Stock Options**

During the year ended December 31, 2016, the Human Resources Committee granted options to employees under the 2015 Plan to purchase 887,500 shares of cxLoyalty Holdings' Old Common Stock. The options had a contractual life of 10 years and vested ratably on each of the first four anniversaries of the grant date.

The fair value of each option award was estimated on the date of grant using the Black-Scholes option-pricing model based on the assumptions noted in the following table. Expected volatilities are based on historical volatilities of comparable companies.



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

A summary of option activity for options to acquire shares of Old Common Stock granted under the 2015 Plan for each of the three years ended December 31, 2019 is presented below (number of options in thousands):

Outstanding options at January 1, 2017	874
Forfeited or expired	(98)
Outstanding options at December 31, 2017	<u>776</u>
Forfeited or expired	(122)
Outstanding options at December 31, 2018	654
Forfeited or expired	(26)
Cancelled	<u>(628)</u>
Outstanding options at December 31, 2019	<u>—</u>
Vested or expected to vest at December 31, 2019	<u>—</u>
Exercisable options at December 31, 2019	<u>—</u>
Weighted average remaining contractual term (in years)	<u>—</u>
Weighted average grant date fair value per option granted in 2019	\$ <u>—</u>
Weighted average exercise price of exercisable options at December 31, 2019	\$ <u>—</u>
Weighted average exercise price of outstanding options at December 31, 2019	\$ <u>—</u>

Based on the estimated fair values of options granted, share-based compensation expense for the year ended December 31, 2019, 2018 and 2017 totaled \$0.3 million, \$1.7 million and \$1.7 million, respectively. As of December 31, 2019, there was no unrecognized compensation cost related to unvested stock options.

**Restricted Stock Units**

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.

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

	<u>Number of Restricted Stock Units</u>		<u>Weighted Average Grant Date Fair Value</u>
Outstanding restricted unvested awards at January 1, 2019	—		
Granted	120	\$	20.14
Vested	(11)		20.14
Outstanding restricted unvested awards at December 31, 2019	<u>109</u>		

A summary of RSU activity under the 2015 Plan for each of the three years ended December 31, 2019 is presented below (number of RSUs in thousands):

	<u>Number of Restricted Stock Units</u>		<u>Weighted Average Grant Date Fair Value</u>
Outstanding restricted unvested awards at January 1, 2017	—		
Granted	59	\$	7.14
Vested	(59)		7.14
Forfeited	—		
Outstanding restricted unvested awards at December 31, 2017, December 31, 2018 and December 31, 2019	<u>—</u>		

Based on the estimated fair values of RSUs granted, share-based compensation expense for each of the years ended December 31, 2019 and 2017 totaled \$0.3 million and \$0.4 million, respectively. There was no share-based compensation expense related to RSUs recognized for the year ended December 31, 2018. As of December 31, 2019, there was \$2.2 million of unrecognized compensation cost related to outstanding RSU awards.



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

*Phantom Awards*

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 of December 31, 2019, it is not probable that the performance condition underlying outstanding Phantom Awards will be achieved, and therefore, no compensation cost has been recorded.

**16. 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, 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. 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 \$5.3 million, \$5.8 million and \$5.5 million for the years ended December 31, 2019, 2018 and 2017, 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.

**17. 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.

*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 LLC 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 LLC 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.



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

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 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).

**18. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS**

As a matter of policy, the Company does not use derivatives for trading or speculative purposes.

***Foreign Currency Forward Contracts***

Through April 30, 2017, on a limited basis the Company has entered into 30 day foreign currency forward contracts, and upon expiration of the contracts, entered into successive 30 day foreign currency forward contracts. The contracts have been entered into to mitigate the Company’s foreign currency exposures related to intercompany loans which are not expected to be repaid within the next twelve months and that are denominated in Euros and British pounds. The Company has not entered into such contracts subsequent to April 2017.

No realized gain or loss was recognized for the year ended December 31, 2019 or 2018. During the year ended December 31, 2017, the Company recognized a realized loss of \$1.3 million on the forward contracts.

***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.

***Fair Value***

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, 2019 and 2018 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, 2019 and 2018, 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 \$9.2 million and \$10.9 million as of December 31, 2019 and 2018, respectively.

*Long-Term Debt*—The Company’s estimated fair value of its long-term debt at December 31, 2019 and 2018 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 \$1,050.8 million and \$1,434.4 million as of December 31, 2019 and 2018, respectively.



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

**19. 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 three 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 three 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 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,		
	2019	2018	2017
	(in millions)		
Global Loyalty	\$ 139.5	\$ 239.3	\$ 225.1
Global Customer Engagement:			
Revenue Enhancements	254.7	261.5	255.3
Engagement Solutions	85.0	99.6	104.0
Subtotal	479.2	600.4	584.4
Legacy Membership and Package	77.5	99.4	139.7
	<u>\$ 556.7</u>	<u>\$ 699.8</u>	<u>\$ 724.1</u>

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

*Segment EBITDA*

	For the Year Ended December 31,		
	2019	2018	2017
	(in millions)		
Global Loyalty	\$ 28.4	\$ 87.2	\$ 64.0
Global Customer Engagement	59.1	62.0	55.7
Subtotal	87.5	149.2	119.7
Legacy Membership and Package	20.0	34.9	40.1
Corporate	(49.5)	(76.4)	(48.2)
	<u>\$ 58.0</u>	<u>\$ 107.7</u>	<u>\$ 111.6</u>

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

	For the Year Ended December 31,		
	2019	2018	2017
	(in millions)		
Segment EBITDA	\$ 58.0	\$ 107.7	\$ 111.6
Depreciation and amortization	(48.9)	(48.2)	(45.3)
Income from continuing operations	<u>\$ 9.1</u>	<u>\$ 59.5</u>	<u>\$ 66.3</u>



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

**Depreciation and Amortization**

	For the Year Ended December 31,		
	2019	2018	2017
	(in millions)		
Global Loyalty	\$ 19.1	\$ 21.4	\$ 16.8
Global Customer Engagement	27.9	25.2	27.2
Subtotal	47.0	46.6	44.0
Legacy Membership and Package	0.9	1.6	1.3
Corporate	1.0	—	—
	<u>\$ 48.9</u>	<u>\$ 48.2</u>	<u>\$ 45.3</u>

**Segment Assets**

	December 31,	
	2019	2018
	(in millions)	
Global Loyalty	\$ 350.0	\$ 366.8
Global Customer Engagement	218.3	217.1
Subtotal	568.3	583.9
Legacy Membership and Package	17.4	16.6
Corporate	55.8	81.5
	<u>\$ 641.5</u>	<u>\$ 682.0</u>

**Capital Expenditures**

	For the Year Ended December 31,		
	2019	2018	2017
	(in millions)		
Global Loyalty	\$ 9.9	\$ 12.6	\$ 14.7
Global Customer Engagement	13.7	15.2	21.5
Subtotal	23.6	27.8	36.2
Legacy Membership and Package	—	—	—
Corporate	6.3	2.6	0.4
Subtotal	29.9	30.4	36.6
Discontinued Operations	—	1.7	1.5
	<u>\$ 29.9</u>	<u>\$ 32.1</u>	<u>\$ 38.1</u>

**Net Revenues**

	For the Year Ended December 31,		
	2019	2018	2017
	(in millions)		
U.S.	\$ 294.6	\$ 422.2	\$ 451.9
U.K.	113.1	115.6	115.2
Other	149.0	162.0	157.0
	<u>\$ 556.7</u>	<u>\$ 699.8</u>	<u>\$ 724.1</u>

**Total Assets**

	December 31,	
	2019	2018
	(in millions)	
U.S.	\$ 419.6	\$ 481.5
U.K.	102.5	106.9
Other	119.4	93.6
	<u>\$ 641.5</u>	<u>\$ 682.0</u>



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

**20. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)**

Provided below is unaudited selected quarterly financial data for 2019 and 2018:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(in millions)			
<b>2019</b>				
Net revenues	\$ 142.1	\$ 140.4	\$ 137.6	\$ 136.6
Marketing and commissions	\$ 34.8	\$ 33.2	\$ 36.0	\$ 38.2
Operating costs	\$ 74.0	\$ 64.3	\$ 72.4	\$ 67.2
General and administrative	\$ 21.3	\$ 21.9	\$ 19.7	\$ 15.7
Depreciation and amortization	\$ 13.5	\$ 12.7	\$ 12.2	\$ 10.5
Loss from continuing operations, net of tax	\$ (57.7)	\$ (40.1)	\$ (30.0)	\$ (18.4)
Income from discontinued operations, net of tax	\$ —	\$ 2.8	\$ 0.1	\$ —
Net loss	\$ (57.7)	\$ (37.3)	\$ (29.9)	\$ (18.4)
<b>2018</b>				
Net revenues	\$ 189.0	\$ 179.3	\$ 177.1	\$ 154.4
Marketing and commissions	\$ 34.7	\$ 31.8	\$ 36.8	\$ 39.5
Operating costs	\$ 84.0	\$ 83.1	\$ 82.3	\$ 81.9
General and administrative	\$ 26.9	\$ 35.0	\$ 26.2	\$ 25.6
Facility exit costs	\$ 0.7	\$ 0.1	\$ 1.0	\$ 2.5
Depreciation and amortization	\$ 11.8	\$ 11.7	\$ 12.7	\$ 12.0
Loss from continuing operations, net of tax	\$ (16.5)	\$ (30.7)	\$ (39.5)	\$ (57.8)
(Loss) income from discontinued operations, net of tax (1)	\$ (1.8)	\$ (3.1)	\$ 456.9	\$ (4.2)
Net (loss) income (1)	\$ (18.3)	\$ (33.8)	\$ 417.4	\$ (62.0)

(1) A gain on sale of business, net of tax of \$447.2 million was recorded in the third quarter of 2018 related to the ABG Sale.



**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, Inc., our wholly-owned subsidiary.

This annual report for the fiscal year ended December 31, 2019 (this "Report") is prepared by cxLoyalty Group Holdings, Inc. 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, 2019 and 2018, and for the years ended December 31, 2019, 2018 and 2017 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. There are also a number of important factors that could cause our actual results to differ materially from the results referred to in the forward-looking statements we make in, or incorporate by reference into, this Report. These risks, uncertainties and other important factors include, among others:

- general economic and business conditions and international and geopolitical events;
- a downturn in the credit card industry or changes in the marketing techniques of credit card issuers;
- the effects of a decline in travel due to political instability, adverse economic conditions or otherwise, on our travel fulfillment business;
- 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;
- our substantial leverage and restrictions in our debt agreements;
- 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;



**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)

- changes in accounting principles and/or business practices;
- 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, 2019 to 2018 and December 31, 2018 to 2017. 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, 2019, 2018 and 2017, and our financial condition as of December 31, 2019, as well as a discussion of our liquidity and capital resources as of December 31, 2019.
- *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:

- Loyalty solutions that help reward, motivate and retain consumers. We create and manage any and all aspects of our clients' points-based loyalty programs, including design, platform, analytics, points management and fulfillment. Our loyalty solutions offer relevant, best-in-class rewards (such as travel, gift cards and merchandise) to consumers enabling clients to motivate, retain and thank their best customers. For example, our platform and technology support points-based programs for financial services, automotive, gaming, travel and hospitality companies.
- 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.



**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)

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. The divestiture of the domestic insurance business marked an additional step in our strategic plan and ongoing transformation into a pure-play loyalty solutions company.

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

- **Fee for service:** we generate revenues from our clients through our loyalty business by designing (management, analytics and customer experience) and administering points-based loyalty programs on a platform licensing, fee-for-service basis. We also 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 a transaction fee from our clients based on volume for enabling or executing transactions such as fees generated from loyalty points related purchases and redemption. We also generate revenues based on a per-subscriber and/or a per-activity commission fee from our clients for our services.
- **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 three operating segments:

- **Global Loyalty.** This segment consists of all of our loyalty assets globally in which we are a provider of end-to-end loyalty solutions that help clients reward, enrich, motivate and retain customers, including program design, points management and administration, and broad-based fulfillment and redemption across multiple channels.

In this operating segment, we create and manage any and all aspects of our clients' loyalty programs including program design, program management, technology platform, data analytics, points administration and rewards fulfillment. We manage loyalty solutions for points-based loyalty programs for many large financial institutions and other significant businesses. We provide our clients with solutions that meet the most popular redemption options desired by their program points holders, including travel, gift cards and merchandise. Our loyalty programs are private-label, customizable, full-service rewards solutions that consist of a variety of configurations that are offered on a stand-alone and/or bundled basis depending on customer requirements.

We provide and manage reward products for loyalty programs through cxLoyalty, Inc., our wholly-owned subsidiary, which is a service provider for points-based loyalty programs. We typically charge a per-subscriber and/or a per-activity administrative fee to clients for our services. cxLoyalty, Inc. also provides clients with the ability to offer leisure travel as a subscriber benefit in a purchase environment, and a travel gift card which can be used on all travel components, including airfare, rental car, hotel stays and cruise vacations.

- **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.



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*Factors Affecting Results of Operations and Financial Condition*

*Competitive Environment*

We are a leading loyalty and customer engagement solutions company with value-added programs and services with a network of approximately 2,800 clients as of December 31, 2019, approximately 25.0 million subscribers and end-customers enrolled in our customer engagement programs worldwide and approximately 16.7 million customers who received credit or debit card enhancement services and loyalty points-based management and redemption services as of December 31, 2019. Our leadership position in the marketing and loyalty points program management industries 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, and that we are capable of providing the full range of administrative services for loyalty points programs. At December 31, 2019, we offered 13 core products and services with over 219 unique benefits and supported approximately 3,900 versions of products and services representing different combinations of pricing, benefit configurations and branding.

Our competitors include any company seeking direct and regular access to large groups of customers through any direct marketing channel, as well as any company capable of managing loyalty points programs or providing redemption options for those programs. 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, while competition in loyalty points program administration is somewhat more concentrated. 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.



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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 14—Commitments and Contingencies in the audited consolidated financial statements included elsewhere herein for additional information.

*Seasonality*

Historically, seasonality has not had a significant impact on our business. 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. More recently, in connection with the growth in our loyalty business, we have experienced increasing seasonality in the timing of our cash flows, particularly with respect to working capital. This has been due primarily to the consumer's increasing acceptance and use of certain categories for points redemptions, such as travel services and gift cards. These categories typically present a delay from the time we incur a cash outlay to provision the redemption until we are reimbursed by the client for the activity, and in certain instances, these delays may extend across multiple reporting periods. Redemptions for some categories, such as gift cards, have been weighted more heavily to the end of the year due to consumers' increasing usage of points in connection with seasonal gift giving.

**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 May 10, 2017, we consummated the 2017 Credit Agreement Refinancing and International Notes Redemption, each as defined and described under “—2017 Credit Agreement Refinancing” and the 2017 Exchange Offers, issuance of the 2017 Notes and 2017 Warrants pursuant to the 2017 Investor Purchase Agreement and redemption of cxLoyalty's 2010 senior notes, each as defined and described under “—2017 Exchange Offers, Issuance of the 2017 Notes and 2017 Warrants and Redemptions of Other Existing Notes.” On July 17, 2017, we consummated the issuance of the 2017 Notes and 2017 Warrants pursuant to the 2017 Investor Purchase Agreement and redemption of the outstanding 13.5% senior subordinated notes due 2018 (the “Investments senior subordinated notes”) and cxLoyalty Holdings' 2013 senior notes.

On July 3, 2018, cxLoyalty, cxLoyalty LLC, a Delaware limited liability company (the “Seller”) and indirect wholly-owned subsidiary of cxLoyalty, and Affinion Benefits Group, LLC, a Delaware limited liability company and wholly owned subsidiary of the Seller (“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, the Seller 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 11—Long-Term Debt and Note 12—Deficit in the audited consolidated financial statements included elsewhere herein.



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**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 ("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" and together, with the Consenting Noteholders and the Second Lien Commitment Parties, the "Consenting Stakeholders") 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 Old Common Stock (as defined below) the right to purchase an aggregate principal amount of \$300.0 million of cxLoyalty's new Senior PIK Notes due 2024 (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 (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 applicable, and the right to participate in its pro rata share of the 2019 Rights Offering.

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.

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, the Company 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) Common Stock 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). 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.

In connection with the consummation of the 2019 Recapitalization, on April 10, 2019, we entered into certain amendments to the 2017 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.



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In connection with the 2019 Exchange Offer, on February 28, 2019, the holders of 66-2/3% of the issued and outstanding 2017 Warrants to purchase common stock, par value \$0.01 per share, of cxLoyalty Holdings (the "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"), 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 (as defined below). 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 non-participating penny warrant (the "Limited Warrant") to purchase up to 462,266 shares of Old Common Stock effective immediately following the consummation of the 2019 Exchange Offer but immediately prior to the consummation of the Merger.

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 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 the exercise price equal of \$67.12 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.

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.

**2018 Financing Transactions and the Second Lien Commitment Letter**

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, each other Loan Party party thereto, including cxLoyalty Holdings, as guarantor.



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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 immediately used to 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 and (y) modify certain provisions in the 2017 Credit Agreement in order to permit the Second Lien Facility Financing (as defined below), which was secured on a second lien basis on the same collateral that secured 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, be accompanied by a prepayment premium equal to the greater of 3.00% 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 Second Lien Commitment Letter (as defined below). We refer to the entry into the Fourth Amendment, the receipt of the Second Lien Commitment Letter and the transactions contemplated thereby as the "2018 Financing Transactions."

On November 14, 2018, Metro SPV, Elliott, Emphyrean and Jefferies LLC ("Jefferies," and together with Metro SPV, Elliott and Emphyrean collectively, 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 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.

#### **2017 Credit Agreement Refinancing**

On May 10, 2017, cxLoyalty entered into a new credit facility (as amended, 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 not to exceed \$110.0 million outstanding, decreasing to \$80.0 million on May 10, 2018. The term loans provide 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 requires 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 proceeds of the term loans under the 2017 Credit Agreement were used by cxLoyalty to refinance its credit facility, which was amended and restated in May 2014, to redeem in full all of the then outstanding \$118.5 million aggregate principal amount of 7.5% Cash/PIK Senior Notes due 2018 (the "International Notes") on June 9, 2017 at a redemption price of 100% of the principal amount of the International Notes, plus accrued and unpaid interest to the redemption date, to pay transaction fees and expenses and for general corporate purposes.

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 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, pursuant to which cxLoyalty amended the 2017 Credit Agreement. 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 is 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.



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On July 16, 2018, cxLoyalty, as borrower, entered into the Third Amendment to the 2017 Credit Agreement, pursuant to which cxLoyalty amended the 2017 Credit Agreement. Pursuant to the Third Amendment, the parties revised the 2017 Credit Agreement in order to (i) allow the Total Secured Leverage Ratio, 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 at 103% (with any such proceeds remaining after 9 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 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 addition to quarterly amortization payments, the 2017 Credit Agreement required mandatory prepayments under certain conditions. First, a prepayment may be required based on excess cash flows as defined in the 2017 Credit Agreement. For this purpose, excess cash flow for any annual accounting period is defined as cxLoyalty's Adjusted EBITDA reduced by debt service, increases to working capital, capital expenditures and business acquisitions net of external funding and certain other uses of cash. Increases to excess cash flow include decreases to working capital and certain other receipts of cash. If the excess cash flow calculation for any annual accounting period is positive, a prepayment of the term loan facility in an amount equal to a percentage of the excess cash flow may be required. Such percentage is determined based upon the senior secured leverage ratio as of the end of the applicable annual accounting period. Second, a prepayment may be required with the net proceeds of certain asset sales. However, certain of such net proceeds will not be required to be applied to prepay the 2017 Credit Agreement if they are applied to acquire, maintain, develop, construct, improve or repair assets useful in our business or to make acquisitions or other permitted investments within 12 months.



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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 new warrants (the "2017 Warrants") to acquire shares of Old Common Stock 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. Under the terms of the AGI Exchange Offer, for each \$1,000 principal amount of cxLoyalty's 2010 senior notes accepted in the AGI Exchange Offer, holders could elect to receive (i)(A) \$1,000 principal amount of the 2017 Notes and 2017 Warrants to purchase 3.37 shares of Old Common Stock or (B) \$930 in cash. Under the terms of the Holdings Exchange Offer, for each \$1,000 principal amount of cxLoyalty Holdings' 2013 senior notes accepted in the Holdings Exchange Offer, holders could elect to receive (i)(A) \$1,000 principal amount of the 2017 Notes and 2017 Warrants to purchase 3.37 shares of Old Common Stock or (B) \$700 in cash. Under the terms of the Investments Exchange Offer, for each \$1,000 principal amount of the Investments senior subordinated notes accepted in the Investments Exchange Offer, holders could elect to receive (i)(A) \$1,000 principal amount of the 2017 Notes and 2017 Warrants to purchase 3.37 shares of Old Common Stock or (B) \$880 in cash. Pursuant to the AGI Exchange Offer, \$269.7 million of cxLoyalty's 2010 senior notes plus accrued and unpaid interest were exchanged for \$277.8 million of the 2017 Notes, 2017 Warrants to purchase 1,103,203 shares of Old Common Stock and \$0.4 million in cash, including \$238.0 million of cxLoyalty's 2010 senior notes plus accrued and unpaid interest exchanged by related parties in exchange for \$245.5 million of the 2017 Notes and 2017 Warrants to purchase 985,438 shares of Old Common Stock; pursuant to the Holdings Exchange Offer, \$4.6 million of cxLoyalty Holdings' 2013 senior notes plus accrued and unpaid interest were exchanged by a related party for \$4.7 million of the 2017 Notes and 2017 Warrants to purchase 18,539 shares of Old Common Stock; and pursuant to the Investments Exchange Offer, \$12.4 million of Investments senior subordinated notes plus accrued and unpaid interest were exchanged for \$12.8 million of the 2017 Notes, 2017 Warrants to purchase 51,005 shares of Old Common Stock and \$912 in cash, including \$12.2 million of Investments senior subordinated notes plus accrued and unpaid interest exchanged by related parties in exchange for \$12.6 million of the 2017 Notes and 2017 Warrants to purchase 49,894 shares of Old Common Stock. cxLoyalty used the proceeds of the 2017 Notes issued pursuant to the 2017 Investor Purchase Agreement to pay the cash tender consideration to participating holders in the 2017 Exchange Offers.

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 11—Long-Term Debt in the audited consolidated financial statements included elsewhere herein.



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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. As a result, on May 10, 2017, cxLoyalty (i) elected to redeem all of its outstanding \$205.3 million aggregate principal amount of cxLoyalty's 2010 senior notes on May 15, 2017 at a redemption price of 100% of the principal amount, plus accrued and unpaid interest to the redemption date, (ii) irrevocably deposited sufficient funds received from the Investors pursuant to the 2017 Investor Purchase Agreement to effect such redemption with the trustee under the indenture governing cxLoyalty's 2010 senior notes, and (iii) entered into a satisfaction and discharge agreement to discharge its obligations under the indenture governing cxLoyalty's 2010 senior notes. cxLoyalty's 2010 senior notes were originally issued by cxLoyalty on November 19, 2010 in an aggregate principal amount of \$475.0 million and bore interest at 7.875% per annum. The redemption of cxLoyalty's 2010 senior notes was consummated on May 15, 2017.

Accordingly, 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, of which (i) \$295.3 million in aggregate principal amount of the 2017 Notes and 2017 Warrants to purchase 1,172,747 shares of Old Common Stock were issued to participating holders (including the Investors) in the 2017 Exchange Offers, including \$262.8 million of the 2017 Notes and 2017 Warrants to purchase 1,053,871 shares of Old Common Stock issued to related parties, and (ii) \$237.3 million in aggregate principal amount of the 2017 Notes and 2017 Warrants to purchase 2,801,834 shares of Old Common Stock were issued, including all of the 2017 Notes and 2017 Warrants to purchase 2,791,475 shares of Old Common Stock issued to the Investors, all of whom are related parties, pursuant to the 2017 Investor Purchase Agreement to fund the cash consideration payable in the 2017 Exchange Offers and the cash redemption price for the balance of cxLoyalty's 2010 senior notes that were not exchanged or tendered in the AGI Exchange Offer and to pay the commitment premium and funding premium under the 2017 Investor Purchase Agreement. The 2017 Warrants received by the Investors on May 10, 2017, represented approximately 26.7% of the pro forma fully diluted ownership of cxLoyalty Holdings after giving effect to issuances pursuant to the 2017 Exchange Offers and the 2017 Investor Purchase Agreement, but without giving effect to options and restricted stock units granted under cxLoyalty Holdings' management compensation and incentive plans. The number of shares of Old Common Stock issuable upon the exercise of the 2017 Warrants, as described herein, reflects the application of the anti-dilution protections of the 2017 Warrants issued in the 2017 Exchange Offers and pursuant to the 2017 Investor Purchase Agreement (other than the 2017 Warrants issued as part of the funding premium) that are triggered by the issuance of 2017 Warrants as part of the funding premium.

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. cxLoyalty Holdings' 2013 senior notes were redeemed on July 17, 2017 at a redemption price of 103.4375% of the principal amount, plus accrued and unpaid interest to the redemption date and the Investments senior subordinated notes were redeemed on July 17, 2017 at a redemption price of 103.375% of the principal amount, plus accrued and unpaid interest to the redemption date. cxLoyalty Holdings' 2013 senior notes were originally issued by cxLoyalty Holdings on December 12, 2013 in an aggregate principal amount of \$292.8 million and bore interest at 13.75% per annum in cash, or at cxLoyalty Holdings' option, in payment-in-kind interest at 13.75% per annum plus 0.75%. The Investments senior subordinated notes were originally issued by cxLoyalty Investments on December 12, 2013 in an aggregate principal amount of \$360.0 million and bore interest at 13.50% per annum.

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.



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In connection with the 2017 Exchange Offers and the 2017 Investor Purchase Agreement, and in accordance with cxLoyalty Holdings' obligations under the Shareholders Agreement, dated as of November 9, 2015 (as amended, the "Shareholders Agreement"), due to the issuance of the 2017 Warrants in the 2017 Exchange Offers and pursuant to the 2017 Investor Purchase Agreement, cxLoyalty Holdings offered (the "2017 Pre-Emptive Rights Offer") to each holder of pre-emptive rights ("Pre-Emptive Rights Holder") the right to purchase with cash up to such Pre-Emptive Rights Holder's pro rata share (as determined in accordance with the Shareholders Agreement) of 2017 Warrants at an exercise price of \$0.01 per 2017 Warrant pursuant to the 2017 Pre-Emptive Rights Offer. On July 12, 2017, cxLoyalty Holdings issued 2017 Warrants to purchase 63,741 shares of Old Common Stock to participants in the 2017 Pre-Emptive Rights Offer.

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.

**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,		
	2019	2018	2019	2018	2017
<b>Global Loyalty</b>					
Gross Transactional Sales Volume (1)	\$ 487,421	\$ 537,561	\$ 1,832,312	\$ 3,251,168	\$ 3,216,680
Gross Transactional Sales Volume per Transaction (1)	\$ 141.17	\$ 142.14	\$ 175.83	\$ 241.37	\$ 230.16
Total Transactions	3,453	3,782	10,421	13,470	13,976
<b>Global Customer Engagement</b>					
Average Subscribers (2)	2,488	2,451	2,440	2,414	2,459
Annualized Net Revenue per Average Subscriber (3)	\$ 100.27	\$ 104.96	\$ 104.52	\$ 108.44	\$ 104.19
Engagement Solutions Platform Revenue	\$ 21,142	\$ 24,630	\$ 85,001	\$ 99,591	\$ 103,977
<b>Legacy Membership and Package</b>					
Average Legacy Members (2)	563	677	602	730	1,070
Annualized Net Revenue per Legacy Member (3)	\$ 103.11	\$ 103.81	\$ 102.49	\$ 104.72	\$ 107.12

- (1) Gross Transactional Sales Volume primarily includes the gross sales amount of travel bookings, gift cards and merchandise redeemed by customers of our clients' programs that we support and excludes cash redemptions and revenue generated from programming, platform, administration and other non-transactional services. Gross Transactional Sales Volume per Transaction is calculated by taking the Gross Transactional Sales Volume reported for the period and dividing it by the total transactions for the same period.
- (2) 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.
- (3) 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.



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**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.

**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	\$ 556.7	\$ 699.8	\$ (143.1)
Expenses:			
Cost of revenues, exclusive of depreciation and amortization shown separately below:			
Marketing and commissions	142.2	142.8	(0.6)
Operating costs	277.9	331.3	(53.4)
General and administrative	78.6	113.7	(35.1)
Facility exit costs	—	4.3	(4.3)
Depreciation and amortization	48.9	48.2	0.7
Total expenses	<u>547.6</u>	<u>640.3</u>	<u>(92.7)</u>
Income from operations	9.1	59.5	(50.4)
Interest income	0.2	0.2	—
Interest expense	(128.0)	(197.4)	69.4
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	<u>(147.3)</u>	<u>(171.5)</u>	24.2
Income tax benefit	1.1	27.0	(25.9)
Loss from continuing operations, net of tax	<u>(146.2)</u>	<u>(144.5)</u>	(1.7)
Income from discontinued operations, net of tax	<u>2.9</u>	<u>447.8</u>	<u>(444.9)</u>
Net (loss) income	<u>(143.3)</u>	<u>303.3</u>	<u>(446.6)</u>
Less: net income attributable to non-controlling interest	<u>(0.4)</u>	<u>(1.2)</u>	<u>0.8</u>
Net (loss) income attributable to cxLoyalty Group Holdings, Inc.	<u>\$ (143.7)</u>	<u>\$ 302.1</u>	<u>\$ (445.8)</u>



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**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.

Net revenues decreased \$143.1 million, or 20.4%, for the year ended December 31, 2019 as compared to the same period of the prior year primarily due to lower Global Loyalty revenues from the impact of a meaningful reduction in volume by a top five loyalty partner in the fourth quarter of 2018, lower Global Customer Engagement revenues from the unfavorable impact of foreign exchange and lower Legacy Membership and Package revenues from an expected decline in retail member volumes.

Segment EBITDA decreased \$49.7 million for the year ended December 31, 2019 as compared to the same period of the prior year as the impact of lower net revenues was partially offset by lower operating costs and general and administrative expenses.

**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 \$556.7 million, a decrease of \$143.1 million, or 20.4%, as compared to net revenues of \$699.8 million in the same period of the prior year. Global Loyalty net revenues decreased \$99.8 million primarily due to the impact of a meaningful reduction in volume by a top five loyalty partner in the fourth quarter of 2018, partially offset by growth with new partners. Net revenues decreased \$21.4 million in Global Customer Engagement primarily from the unfavorable impact of foreign exchange. Net revenues in Legacy Membership and Package decreased \$21.9 million primarily due to the expected attrition of legacy members due to the cessation of marketing campaigns and terminated programs.

**Marketing and Commissions Expense.** Marketing and commissions expense decreased \$0.6 million, or 0.4%, to \$142.2 million for the year ended December 31, 2019 from \$142.8 million for the year ended December 31, 2018.

**Operating Costs.** Operating costs decreased \$53.4 million, or 16.1%, to \$277.9 million for the year ended December 31, 2019 from \$331.3 million for the year ended December 31, 2018. Costs decreased \$35.3 million in Global Loyalty primarily due to lower servicing costs from the impact of a meaningful reduction in volume by a top five loyalty partner in the fourth quarter of 2018 and from a \$7.1 million insurance recovery related to a 2017 cyber theft, partially offset by increased servicing costs from growth with new partners. Costs decreased \$11.7 million in Global Customer Engagement primarily from the favorable impact of foreign exchange and lower employee-related costs. Costs decreased \$5.9 million in Legacy Membership and Package primarily due to lower member volumes.

**General and Administrative Expense.** General and administrative expense decreased \$35.1 million, or 30.9% to \$78.6 million for the year ended December 31, 2019 from \$113.7 million for the year ended December 31, 2018, primarily due to lower corporate costs of \$25.5 million principally from lower employee-related costs and professional fees and a \$9.0 million decrease in costs in Global Customer Engagement primarily from lower employee-related costs and professional fees.

**Depreciation and Amortization Expense.** Depreciation and amortization expense increased \$0.7 million for the year ended December 31, 2019 to \$48.9 million from \$48.2 million for the year ended December 31, 2018, primarily due to an increase in depreciation expense of \$2.1 million primarily attributable to the reduction of estimated useful lives of certain assets driven by planned technology infrastructure enhancements, partially offset by a decrease in amortization expense of \$1.4 million primarily attributable to certain assets becoming fully amortized during 2018.

**Interest Expense.** Interest expense decreased \$69.4 million, or 35.2% to \$128.0 million for the year ended December 31, 2019 as compared to \$197.4 million for the year ended December 31, 2018 primarily due to lower average outstanding term loan and notes balances and to amortization of the carrying value adjustment on the New Notes following the 2019 Recapitalization, partially offset by the amount of interest expense allocated to discontinued operations for the year ended December 31, 2018.

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



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*Other Expense, Net.* Other expense, net increased \$26.7 million to \$28.5 million for the year ended December 31, 2019 as compared to \$1.8 million for the year ended December 31, 2018 primarily due to transaction costs incurred in connection with the 2019 Recapitalization.

*Income Tax Benefit.* Income tax benefit from continuing operations decreased \$25.9 million for the year ended December 31, 2019 as compared to the year ended December 31, 2018, primarily due to a decrease in the income tax benefit from net operating loss carryforwards realized from the ABG Sale during the year ended December 31, 2018, partially offset by a decrease in the foreign tax provision for the year ended December 31, 2019.

The Company's effective income tax rates for the year ended December 31, 2019 and 2018 were 0.8% and 15.8%, 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 \$171.5 million for the year ended December 31, 2018 to \$147.3 million for the year ended December 31, 2019 and the decrease in the income tax benefit on continuing operations from \$27.0 million for the year ended December 31, 2018 to \$1.1 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. 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.* For the year ended December 31, 2019, we recorded a gain on sale, net of tax of \$2.9 million from the finalization of the working capital adjustment and the resolution of certain outstanding liabilities related to direct costs to sell in connection with the ABG Sale. For the year ended December 31, 2018, we recorded a gain on sale, net of tax of \$443.0 million upon completion of the ABG Sale and \$4.8 million of income from discontinued operations, net of tax.

**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 Loyalty	\$ 139.5	\$ 239.3	\$ (99.8)	\$ 28.4	\$ 87.2	\$ (58.8)	\$ 22.2	\$ 88.3	\$ (66.1)
Global Customer Engagement	339.7	361.1	(21.4)	59.1	62.0	(2.9)	63.0	70.8	(7.8)
Subtotal	479.2	600.4	(121.2)	87.5	149.2	(61.7)	85.2	159.1	(73.9)
Legacy Membership and Package Corporate	77.5	99.4	(21.9)	20.0	34.9	(14.9)	24.1	37.5	(13.4)
Total - Continuing operations	<u>\$ 556.7</u>	<u>\$ 699.8</u>	<u>\$ (143.1)</u>	58.0	107.7	(49.7)	68.3	147.8	(79.5)
Business optimization expenses and restructuring charges or expenses							(6.7)	(12.1)	5.4
Extraordinary or nonrecurring or unusual losses, expenses or charges							2.7	(17.1)	19.8
Other, net							(6.3)	(10.9)	4.6
Depreciation and amortization				(48.9)	(48.2)	(0.7)	(48.9)	(48.2)	(0.7)
Income from continuing operations				<u>\$ 9.1</u>	<u>\$ 59.5</u>	<u>\$ (50.4)</u>	<u>\$ 9.1</u>	<u>\$ 59.5</u>	<u>\$ (50.4)</u>



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	Year Ended December 31, 2019				
	Global Loyalty	Global Customer Engagement	Legacy Membership and Package (in millions)	Corporate	Total
Business optimization expenses and restructuring charges or expenses	\$ 0.9	\$ 2.8	\$ (0.1)	\$ 3.1	\$ 6.7
Extraordinary or nonrecurring or unusual losses, expenses or charges	(7.1)	—	4.2	0.2	(2.7)
Other, net	—	1.1	—	5.2	6.3
Total	<u>\$ (6.2)</u>	<u>\$ 3.9</u>	<u>\$ 4.1</u>	<u>\$ 8.5</u>	<u>\$ 10.3</u>

	Year Ended December 31, 2018				
	Global Loyalty	Global Customer Engagement	Legacy Membership and Package (in millions)	Corporate	Total
Business optimization expenses and restructuring charges or expenses	\$ 1.8	\$ 4.4	\$ 0.6	\$ 5.3	\$ 12.1
Extraordinary or nonrecurring or unusual losses, expenses or charges	(0.7)	3.9	2.0	11.9	17.1
Other, net	—	0.5	—	10.4	10.9
Total	<u>\$ 1.1</u>	<u>\$ 8.8</u>	<u>\$ 2.6</u>	<u>\$ 27.6</u>	<u>\$ 40.1</u>

(1) See “ – Financial Condition, Liquidity and Capital Resources – Reconciliation of Non-GAAP Financial Measures to GAAP Financial Measures” below and Note 19—Segment Information in the audited consolidated financial statements included elsewhere herein for a discussion on Segment EBITDA.

*Global Loyalty.* Net revenues from Global Loyalty decreased \$99.8 million, or 41.7%, for the year ended December 31, 2019 to \$139.5 million as compared to \$239.3 million for the year ended December 31, 2018, primarily due to the impact of a meaningful reduction in volume by a top five loyalty partner in the fourth quarter of 2018, partially offset by growth with new partners.

Segment EBITDA decreased \$58.8 million, or 67.4%, for the year ended December 31, 2019 as compared to the year ended December 31, 2018, primarily due to lower net revenues and increased servicing costs from growth with new partners, partially offset by lower servicing costs from the impact of a meaningful reduction in volume by a top five loyalty partner in the fourth quarter of 2018 and a \$7.1 million insurance recovery related to a 2017 cyber theft.

*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 \$2.9 million, or 4.7%, 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 \$21.9 million, or 21.9%, to \$77.5 million for the year ended December 31, 2019 as compared to \$99.4 million for the year ended December 31, 2018. Net revenues decreased primarily from the expected attrition of legacy members due to the cessation of marketing campaigns and terminated programs.

Segment EBITDA decreased \$14.9 million, or 42.7%, 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 the decline in the member base.



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*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 \$26.9 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.

**Year Ended December 31, 2018 Compared to Year Ended December 31, 2017**

The following table summarizes our consolidated results of operations for the years ended December 31, 2018 and 2017:

	Year Ended December 31, 2018	Year Ended December 31, 2017	Increase (Decrease)
Net revenues	\$ 699.8	\$ 724.1	\$ (24.3)
Expenses:		(in millions)	
Cost of revenues, exclusive of depreciation and amortization shown separately below:			
Marketing and commissions	142.8	173.5	(30.7)
Operating costs	331.3	352.3	(21.0)
General and administrative	113.7	85.8	27.9
Facility exit costs	4.3	0.9	3.4
Depreciation and amortization	48.2	45.3	2.9
Total expenses	<u>640.3</u>	<u>657.8</u>	<u>(17.5)</u>
Income from operations	59.5	66.3	(6.8)
Interest income	0.2	0.3	(0.1)
Interest expense	(197.4)	(142.8)	(54.6)
(Loss) gain on extinguishment of debt	(32.0)	3.5	(35.5)
Other expense, net	(1.8)	(0.4)	(1.4)
Loss from continuing operations before income taxes	(171.5)	(73.1)	(98.4)
Income tax benefit	27.0	27.2	(0.2)
Loss from continuing operations, net of tax	(144.5)	(45.9)	(98.6)
Income from discontinued operations, net of tax	447.8	21.5	426.3
Net income (loss)	303.3	(24.4)	327.7
Less: net income attributable to non-controlling interest	(1.2)	(0.8)	(0.4)
Net income (loss) attributable to cxLoyalty Group Holdings, Inc.	<u>\$ 302.1</u>	<u>\$ (25.2)</u>	<u>\$ 327.3</u>

**Summary of Operating Results for the Year Ended December 31, 2018**

The following is a summary of changes affecting our operating results for the year ended December 31, 2018.

Net revenues decreased \$24.3 million, or 3.4%, for the year ended December 31, 2018 as compared to the same period of the prior year primarily from lower retail revenues from a decline in retail member volumes in Legacy Membership and Package. Increased growth with existing clients and launches with new clients in Global Loyalty was partially offset by the impact of a meaningful reduction in volume by a top five loyalty partner in the fourth quarter of 2018.

Segment EBITDA decreased \$3.9 million for the year ended December 31, 2018 as compared to the same period of the prior year as the impact of lower net revenues and higher general and administrative expense was partially offset by lower marketing and commissions expense and lower operating costs.

**Year Ended December 31, 2018 Compared to Year Ended December 31, 2017**

The following section provides an overview of our consolidated results of operations for the year ended December 31, 2018 as compared to the year ended December 31, 2017.



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*Net Revenues.* During the year ended December 31, 2018, we reported net revenues of \$699.8 million, a decrease of \$24.3 million, or 3.4%, as compared to net revenues of \$724.1 million in the same period of the prior year. Global Loyalty net revenues increased \$14.2 million primarily due to increased growth with existing clients and launches with new clients, partially offset by the impact of a meaningful reduction in volume by a top five loyalty partner in the fourth quarter of 2018. Net revenues increased \$1.8 million in Global Customer Engagement primarily from the favorable impact of foreign exchange. Net revenues in Legacy Membership and Package decreased \$40.3 million primarily due to the expected attrition of legacy members due to the cessation of marketing campaigns and terminated programs and from lower package revenue primarily due to lower average package members.

*Marketing and Commissions Expense.* Marketing and commissions expense decreased \$30.7 million, or 17.7%, to \$142.8 million for the year ended December 31, 2018 from \$173.5 million for the year ended December 31, 2017. Marketing and commissions expense in Legacy Membership and Package decreased \$16.9 million primarily due to lower commissions principally due to the decline in the member base. Marketing and commissions expense in Global Customer Engagement decreased \$10.5 million primarily due to lower employee-related costs.

*Operating Costs.* Operating costs decreased \$21.0 million, or 6.0%, to \$331.3 million for the year ended December 31, 2018 from \$352.3 million for the year ended December 31, 2017. Operating costs in Legacy Membership and Package decreased \$12.2 million primarily from lower product and servicing costs associated with the lower retail member volumes. Operating costs in Global Loyalty decreased \$9.6 million primarily from a charge of \$23.2 million recorded related to a 2017 cyber theft, partially offset by higher servicing costs related to the higher net revenues and additional investments, including the opening of a new call center.

*General and Administrative Expense.* General and administrative expense increased \$27.9 million, or 32.5% to \$113.7 million for the year ended December 31, 2018 from \$85.8 million for the year ended December 31, 2017. Corporate costs increased \$24.4 million primarily due to higher employee-related costs, principally severance.

*Depreciation and Amortization Expense.* Depreciation and amortization expense increased \$2.9 million to \$48.2 million for the year ended December 31, 2018 from \$45.3 million for the year ended December 31, 2017 primarily from an increase in amortization expense of \$1.7 million, principally the result of intangible assets acquired in 2018 as well as from an increase in depreciation expense of \$1.2 million, principally the result of an increase in capitalized software put into service.

*Interest Expense.* Interest expense increased \$54.6 million for the year ended December 31, 2018 as compared to the year ended December 31, 2017 as a result of the 2017 Credit Agreement Refinancing and International Notes Redemption, as well as the 2017 Exchange Offers. The Existing Term Loans and 2017 Notes collectively had larger outstanding principal amounts and carried higher interest rates than the prior credit facility, 2010 senior notes, 2013 senior notes and Investments senior subordinated notes.

*Gain (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 \$0.2 million for the year ended December 31, 2018 as compared to the year ended December 31, 2017, primarily due to a decrease in the state and foreign deferred tax provisions, partially offset by an increase in the state and foreign current tax provisions and an increase in the federal deferred tax provision for the same period.

The Company's effective income tax rates for the year ended December 31, 2018 and 2017 were 15.8% and 37.2%, respectively. The difference in the effective tax rates for the year ended December 31, 2018 and 2017 is primarily a result of the change in the U.S. corporate income tax rate from 35% to 21% under the Tax Cuts and Jobs Act (the "TCJA"), coupled with the increase in the loss from continuing operations before income taxes from \$73.1 million for the year ended December 31, 2017 to \$171.5 million for the year ended December 31, 2018 and a decrease in the income tax benefit from \$27.2 million for the year ended December 31, 2017 to \$27.0 million for the year ended December 31, 2018. 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.

*Income from Discontinued Operations, net of tax.* Income from discontinued operations, net of tax increased \$426.3 million to \$447.8 million for the year ended December 31, 2018 as compared to \$21.5 million for the year ended December 31, 2017, primarily due to a gain on sale, net of tax of \$443.0 million recorded upon completion of the ABG Sale, partially offset by a decrease in income from discontinued operations, net of tax of \$16.7 million due to the timing of the closing of the ABG Sale.



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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		
	2018	2017	Increase (Decrease)	2018	2017	Increase (Decrease)	2018	2017	Increase (Decrease)
	(in millions)								
Global Loyalty	\$ 239.3	\$ 225.1	\$ 14.2	\$ 87.2	\$ 64.0	\$ 23.2	\$ 88.3	\$ 87.0	\$ 1.3
Global Customer Engagement	361.1	359.3	1.8	62.0	55.7	6.3	70.8	64.9	5.9
Subtotal	600.4	584.4	16.0	149.2	119.7	29.5	159.1	151.9	7.2
Legacy Membership and Package Corporate	99.4	139.7	(40.3)	34.9	40.1	(5.2)	37.5	46.7	(9.2)
Total - Continuing operations	<u>\$ 699.8</u>	<u>\$ 724.1</u>	<u>\$ (24.3)</u>	<u>107.7</u>	<u>111.6</u>	<u>(3.9)</u>	<u>147.8</u>	<u>156.4</u>	<u>(8.6)</u>
Business optimization expenses and restructuring charges or expenses							(12.1)	(14.2)	2.1
Extraordinary or nonrecurring or unusual losses, expenses or charges							(17.1)	(27.8)	10.7
Other, net							(10.9)	(2.8)	(8.1)
Depreciation and amortization				(48.2)	(45.3)	(2.9)	(48.2)	(45.3)	(2.9)
Income from continuing operations				<u>\$ 59.5</u>	<u>\$ 66.3</u>	<u>\$ (6.8)</u>	<u>\$ 59.5</u>	<u>\$ 66.3</u>	<u>\$ (6.8)</u>

	Year Ended December 31, 2018				
	Global Loyalty	Global Customer Engagement	Legacy Membership and Package	Corporate	Total
	(in millions)				
Business optimization expenses and restructuring charges or expenses	\$ 1.8	\$ 4.4	\$ 0.6	\$ 5.3	\$ 12.1
Extraordinary or nonrecurring or unusual losses, expenses or charges	(0.7)	3.9	2.0	11.9	17.1
Other, net	—	0.5	—	10.4	10.9
Total	<u>\$ 1.1</u>	<u>\$ 8.8</u>	<u>\$ 2.6</u>	<u>\$ 27.6</u>	<u>\$ 40.1</u>

	Year Ended December 31, 2017				
	Global Loyalty	Global Customer Engagement	Legacy Membership and Package	Corporate	Total
	(in millions)				
Business optimization expenses and restructuring charges or expenses	\$ (0.3)	\$ 9.4	\$ 2.5	\$ 2.6	\$ 14.2
Extraordinary or nonrecurring or unusual losses, expenses or charges	23.2	(0.3)	4.0	0.9	27.8
Other, net	0.1	0.1	0.1	2.5	2.8
Total	<u>\$ 23.0</u>	<u>\$ 9.2</u>	<u>\$ 6.6</u>	<u>\$ 6.0</u>	<u>\$ 44.8</u>

(1) See “ – Financial Condition, Liquidity and Capital Resources – Reconciliation of Non-GAAP Financial Measures to GAAP Financial Measures” below and Note 19—Segment Information in the audited consolidated financial statements included elsewhere herein for a discussion on Segment EBITDA.

*Global Loyalty.* Net revenues from Global Loyalty increased \$14.2 million, or 6.3%, for the year ended December 31, 2018 to \$239.3 million as compared to \$225.1 million for the year ended December 31, 2017 primarily due to increased growth with existing clients and launches with new clients, partially offset by the impact of the loss of a top 5 loyalty partner in the fourth quarter.



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Segment EBITDA increased \$23.2 million, or 36.3%, for the year ended December 31, 2018 as compared to the year ended December 31, 2017, primarily as a result of a charge of \$23.2 million recorded in relation to the cyber theft that occurred in the first quarter of 2017. The impact of higher net revenues principally driven by growth with existing clients and launches with new clients was offset by the impact of the loss of a top 5 loyalty partner in the fourth quarter as well as by higher servicing costs.

*Global Customer Engagement.* Global Customer Engagement net revenues increased \$1.8 million, or 0.5%, to \$361.1 million for the year ended December 31, 2018 as compared to \$359.3 million for the year ended December 31, 2017. Net revenues increased \$5.0 million from the favorable impact of foreign exchange. On a currency consistent basis, net revenues decreased \$3.2 million.

Segment EBITDA increased \$6.3 million, or 11.3%, for the year ended December 31, 2018 as compared to the year ended December 31, 2017, primarily as a result of an increase in net revenues of \$1.8 million and a decrease in operating expenses of \$4.3 million, principally due to lower employee-related costs.

*Legacy Membership and Package.* Legacy Membership and Package net revenues decreased \$40.3 million, or 28.8%, to \$99.4 million for the year ended December 31, 2018 as compared to \$139.7 million for the year ended December 31, 2017. Net revenues decreased primarily from the expected attrition of legacy members, including those from our large financial institution partners, principally due to the cessation of new marketing campaigns and terminated programs with those partners as a result of the regulatory issues that have negatively impacted such partners. We expect this downward trend in net revenues related to our financial institution partners to continue for the foreseeable future. Net revenues further decreased from lower package revenue primarily the result of lower average package members.

Segment EBITDA decreased \$5.2 million, or 13.0%, for the year ended December 31, 2018 as compared to the year ended December 31, 2017. Segment EBITDA decreased as the impact from the lower net revenues of \$40.3 million was partially offset by lower marketing and commissions expense of \$16.9 million, lower operating costs of \$12.2 million and lower general and administrative expense of \$6.2 million. The decrease in marketing and commissions expense was primarily due to lower commissions principally due to the decline in the member base. The decrease in operating costs was the result of lower product and servicing costs related to the decrease in net revenues. The decrease in general and administrative expense was primarily due to cost saving initiatives and lower fees related to certain legal matters.

*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 \$28.2 million for the year ended December 31, 2018 as compared to the year ended December 31, 2017, primarily due to higher employee-related costs, principally severance.

**Financial Condition, Liquidity and Capital Resources**

*Financial Condition – December 31, 2019 and December 31, 2018*

	December 31, 2019	December 31, 2018 (in millions)	Increase (Decrease)
Total assets	\$ 641.5	\$ 682.0	\$ (40.5)
Total liabilities	1,812.9	1,939.4	(126.5)
Total deficit	(1,171.4)	(1,257.4)	86.0

Total assets decreased \$40.5 million, primarily due to (a) a decrease in cash and cash equivalents and restricted cash of \$37.7 million driven by (i) a net loss of \$143.3 million, (ii) principal payments on borrowings of \$122.4 million, (iii) net repayments under our revolving credit facility of \$100.0 million, (iv) decreases in operating liabilities of \$69.0 million and (v) capital expenditures of \$29.9 million, partially offset by (i) proceeds from the issuance of the New Notes of \$300.0 million and (ii) non-cash expenses, net of \$137.8 million, (b) a decrease in other current assets of \$16.8 million driven by seasonal changes in prepaid credit card charges and gift card inventory, (c) a decrease in other non-current assets of \$15.8 million driven by the realization of prepaid commissions and (d) a decrease in other intangibles, net of \$8.6 million driven by amortization. These decreases were partially offset by \$36.3 million of operating lease right-of-use assets recorded in connection with the adoption of the new lease accounting standard as of January 1, 2019, net of amortization.



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Total liabilities decreased \$126.5 million, primarily due to (a) a decrease in the current and non-current portions of long-term debt of \$85.2 million principally due to (i) the exchange of \$654.2 million of 2017 Notes in connection with the 2019 Recapitalization, (ii) principal payments on borrowings of \$122.4 million, (iii) net repayments under a revolving credit facility of \$100.0 million and (iv) \$21.9 million of net amortization of the carrying value adjustment, debt discounts and financing costs, partially offset by (i) the issuance of \$357.0 million of New Notes, (ii) the carrying value adjustment of \$412.2 million as a result of the 2019 Recapitalization and (iii) \$42.8 million of paid-in-kind interest, (b) a decrease in accounts payable and accrued expenses of \$54.8 million principally due to (i) lower employee-related accrued expenses, (ii) lower accounts payable and other accrued expenses driven by reduced gift card deposits and (iii) lower accrued interest driven by the timing of cash interest payments, and (c) a decrease in other long-term liabilities of \$20.7 million principally due to the adoption of the new lease accounting standard as of January 1, 2019. These decreases were partially offset by the recognition of long-term operating lease liabilities of \$38.4 million associated with the adoption of the new lease accounting standard as of January 1, 2019, net of payments.

Total deficit decreased \$86.0 million, primarily due to the issuance of New Penny Warrants of \$211.9 million and Common Stock of \$14.6 million in connection with the 2019 Recapitalization, partially offset by a net loss of \$143.3 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 to service our indebtedness and 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. Commissions correspond directly with revenue generated and have been decreasing as a percentage of revenue over the last several years.

On April 10, 2019, we consummated the 2019 Recapitalization which resulted in, among other effects, (i) the reduction of interest rates on 2019 Term Loans under the Amended Credit Agreement as compared to those on Non-Extended Term Loans, (ii) the elimination of principal amortization payments due on 2019 Term Loans through December 31, 2021 and (iii) the repayment of the outstanding balance on the revolving credit facility and an extension of the maturity of the Revolving Facility Commitments under the Amended Credit Agreement. These effects of the 2019 Recapitalization, combined with the effect of payments on borrowings in connection with the ABG Sale, were the primary drivers of the \$55.9 million decrease in cash interest payments for the year ended December 31, 2019 as compared to the year ended December 31, 2018. As of December 31, 2019, cxLoyalty had \$79.8 million available under the revolving credit facility, after giving effect to the issuance of \$5.2 million of letters of credit.

cxLoyalty Holdings is a holding company, with no direct operations and no significant assets other than the ownership of 100% of the stock of cxLoyalty. Because we conduct our operations through our subsidiaries, our cash flows and our ability to service our indebtedness is dependent upon cash dividends and distributions or other transfers from our subsidiaries. Payments to us by our subsidiaries are contingent upon our subsidiaries' earnings, and are limited by the Amended Credit Agreement and the New Notes Indenture.

Although we historically have had a working capital deficit, we anticipate that in future periods the reduction in cash interest payments as a result of the 2019 Recapitalization, compared to those under our prior financing arrangements, will favorably impact our operating cash flows and offset the working capital deficit that will continue for the foreseeable future. We believe, based on our current operations, coupled with the 2019 Recapitalization and our flexibility in the amount and timing of marketing expenditures, that our cash on hand and borrowing availability under the Amended Credit Agreement will be sufficient to meet our liquidity needs for the next twelve months and in the foreseeable future.



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*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 (used in) provided by:			
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	<u>\$ (37.7)</u>	<u>\$ 34.5</u>	<u>\$ (72.2)</u>

*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 non-cash income, net of \$283.6 million for the year ended December 31, 2018 to non-cash 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.

*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 the acquisition of Tavisca 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.



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*Cash Flows – Years Ended December 31, 2018 and 2017*

At December 31, 2018, we had \$99.1 million of cash and cash equivalents and restricted cash on hand, an increase of \$34.5 million from \$64.6 million at December 31, 2017. 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,		
	2018	2017	Change
	(in millions)		
Cash provided by (used in):			
Operating activities	\$ 21.0	\$ 5.6	\$ 15.4
Investing activities	479.5	(38.5)	518.0
Financing activities	(463.3)	30.4	(493.7)
Effect of exchange rate changes	(2.7)	3.3	(6.0)
Net change in cash, cash equivalents and restricted cash	<u>\$ 34.5</u>	<u>\$ 0.8</u>	<u>\$ 33.7</u>

*Operating Activities*

During the year ended December 31, 2018, we generated \$15.4 million more cash from operating activities than during the year ended December 31, 2017. A net \$29.6 million decrease in receivables, driven primarily by the loss of a key loyalty client in the fourth quarter of 2017 and a net \$12.3 million increase in accounts payable, driven primarily by larger commissions payable in the insurance solutions business prior to the ABG Sale were partially offset by a net \$15.4 million increase in other current assets, driven primarily by larger prepaid credit card charges from growth with new global loyalty clients and an \$8.7 million increase in cash interest payments.

*Investing Activities*

We generated \$479.5 million of cash from investing activities during the year ended December 31, 2018 as compared to a use of \$38.5 million of cash during the year ended December 31, 2017. During the year ended December 31, 2018, proceeds from the ABG Sale, net of cash transferred was \$517.3 million, which was partially offset by \$32.1 million for capital expenditures and \$5.7 million of acquisition-related payments, net of cash acquired. During the year ended December 31, 2017, we used \$38.1 million for capital expenditures and made acquisition-related payments, net of cash acquired, of \$0.4 million.

*Financing Activities*

We used \$463.3 million of cash from financing activities during the year ended December 31, 2018 as compared to \$30.4 million of cash generated from financing activities during the year ended December 31, 2017. During the year ended December 31, 2018, we made payments on borrowings of \$507.1 million, including \$14.4 million in repayment premiums and we had net borrowings under our revolving credit facility of \$45.0 million. During the year ended December 31, 2017, we made payments on our first-lien and second-lien term loans of \$753.8 million and \$425.0 million, respectively, redeemed the International senior subordinated notes for \$118.5 million, redeemed cxLoyalty's 2010 senior notes, cxLoyalty Holdings' 2013 senior notes and the Investments senior subordinated notes for \$227.4 million and made payments on our term loan under the 2017 Credit Agreement of \$10.0 million. We also issued 2017 Notes for \$235.9 million, received \$1,303.7 million and \$55.0 million of term loans and revolving credit facility under the 2017 Credit Agreement and incurred \$29.3 million of financing costs related to the 2017 Notes and 2017 Credit Agreement.

**Credit Facilities and Long-Term Debt**

*General*

We are a highly leveraged company. As of December 31, 2019, we had \$1.1 billion principal amount of outstanding indebtedness on a consolidated basis, consisting of (1) \$724.0 million outstanding term loans under the Amended Credit Agreement (with a carrying value of \$714.6 million), (2) \$389.1 million principal outstanding under the New Notes (with a carrying value of \$772.2 million), (3) \$12.4 million principal amount outstanding under the 2017 Notes (with a carrying value of \$12.2 million) and (4) \$2.3 million of outstanding finance lease obligations. In addition, cxLoyalty had \$79.8 million available under the revolving credit facility, after giving effect to the issuance of \$5.2 million of letters of credit.

As of December 31, 2019, cxLoyalty was in compliance with all applicable covenants under cxLoyalty's debt agreements.



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**(Unless otherwise noted, all dollar amounts are in millions, except per share amounts)**

*The Amended Credit Agreement*

cxLoyalty Holdings, cxLoyalty, as the borrower, the lenders from time to time party thereto (the "Lenders"), certain subsidiaries of cxLoyalty and HPS Investment Partners, LLC, as the administrative agent and collateral agent, are parties to that certain Credit Agreement, dated as of May 10, 2017 (as amended and/or amended and restated by that First Amendment to Credit Agreement, dated as of November 30, 2017, that Second Amendment to Credit Agreement, dated as of May 4, 2018, that Third Amendment to Credit Agreement, dated as of July 16, 2018 and that Fourth Amendment to Credit Agreement, dated as of November 14, 2018, the "2017 Credit Agreement"), pursuant to which the Lenders have made certain loans and provided certain commitments (subject to the terms and conditions thereof) to cxLoyalty.

In connection with the consummation of the 2019 Recapitalization on April 10, 2019 (the "Closing Date"), cxLoyalty entered into certain amendments to the 2017 Credit Agreement (as 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 are the following:

The Amended Credit Agreement provides for quarterly amortization payments of the 2019 Term Loans totaling (i) for the first 3 years following 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 mature on April 10, 2024. The Revolving Facility Commitments under the Amended Credit Agreement mature on April 10, 2023. The Non-Extended Term Loans continue to be subject to an amortization schedule consistent with that set forth in the 2017 Credit Agreement.

In addition, the Amended Credit Agreement requires 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.

The terms of the Amended Credit Agreement allow 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 may not be reduced below the aggregate outstanding amount of revolving loans and letters of credit. In addition, cxLoyalty will be able to terminate the Amended Credit Agreement upon prior written notice, and, in some cases, be able to revoke such notice. Upon termination, cxLoyalty will be 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 will be 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 will continue to be subject to the premiums set forth in the 2017 Credit Agreement.



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The interest rates are 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 will continue to be the same as those set forth in the 2017 Credit Agreement.

Additionally, if any amount payable under the Amended Credit Agreement is not paid when due, (i) all overdue amounts owing under the Amended Credit Agreement will bear 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 is otherwise applicable thereto and (ii) all other principal amounts outstanding under the Amended Credit Agreement will bear interest at a rate per annum equal to the rate otherwise applicable thereto plus an additional 2.0%.

cxLoyalty has 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 will be payable in arrears at the end of each applicable interest period, but in any event at least every three (3) months. With respect to ABR loans, interest will be payable on the last business day of each fiscal quarter. In each case, calculations of interest are 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 is to use a 365 or 366 day year) and actual days elapsed.

cxLoyalty's obligations under the Amended Credit Agreement continue 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 continues to be secured to the extent legally permissible by substantially all the assets of (i) cxLoyalty Holdings, which continue to consist of a perfected first-priority pledge of all of 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 contains financial, affirmative and negative covenants that we believe are usual and customary for a senior secured credit agreement. The negative covenants in the Amended Credit Agreement include, among other things, limitations (all of which are 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;
- 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



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- enter into transactions with cxLoyalty's affiliates.

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

The events of default under the Amended Credit Agreement include, 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 shall also 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 are unsecured senior obligations of cxLoyalty, as issuer, and each of cxLoyalty Holdings' and cxLoyalty's restricted subsidiaries that guarantee the Amended Credit Agreement (collectively, the "Guarantors"), as guarantors; provided that the obligations of any Guarantor that is organized in any jurisdiction other than the United States or the United Kingdom with respect to its guarantee is 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 will 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 accrues at a rate per annum of 18.00%. Interest on the New Notes will be payable semi-annually in arrears on April 10 and October 10, commencing on October 10, 2019. cxLoyalty will 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 will accrue interest from the most recent date to which interest has been paid or, if no interest has been paid, from and including October 10, 2024, and will be computed on the basis of a 360-day year comprised of twelve 30-day months. Interest will be 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 will bear interest on such increased principal amount from and after the interest payment date in respect of which such PIK Payment was made.

cxLoyalty may redeem 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 have 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).

The New Indenture contains certain covenants that limit 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 restrict cxLoyalty Holdings' ability to engage in certain businesses or business activities. cxLoyalty is also required to deliver financial statements of cxLoyalty and its restricted subsidiaries.



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The New Indenture also provides that if the Consolidated Net Leverage Ratio of cxLoyalty on the maturity date of the New Notes is 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 may, with the consent of the Company elect 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).

As of December 31, 2019, the New Notes ranked effectively junior to \$724.0 million principal amount outstanding of cxLoyalty's secured indebtedness, all of which consisted of borrowings under the Amended Credit Agreement.

*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 non-cash and unusual items and other adjustments permitted in cxLoyalty's debt agreements to test the permissibility of certain types of transactions, including debt incurrence. 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, 2019 to Adjusted EBITDA.

	For the Twelve Months Ended December 31, 2019
	(in millions)
Net loss attributable to cxLoyalty Group Holdings, Inc.	\$ (143.7)
Less: gain on sale of business, net of tax	(2.9)
Loss from continuing operations attributable to cxLoyalty Group Holdings, Inc.	(146.6)
Interest expense, net	127.8
Income tax benefit	(1.1)
Net income attributable to non-controlling interest	0.4
Other expense, net	28.5
Loss on extinguishment of debt	0.1
Depreciation and amortization	48.9
Business optimization expenses and restructuring charges or expenses (a)	6.7
Extraordinary or nonrecurring or unusual losses, expenses or charges (b)	(2.7)
Other, net (c)	6.3
Adjusted EBITDA, excluding pro forma adjustments (d)	68.3
Effect of pro forma adjustments (e)	6.6
Adjusted EBITDA, including pro forma adjustments (f)	\$ 74.9

- (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, 2019 in calculating the Adjusted EBITDA under the Amended Credit Agreement, subject to certain limitations.



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- (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, 2019.
- (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, 2019, 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 and availability under our revolving credit facility.

	2020	2021	2022	2023	2024	2025 and thereafter	Total
	(in millions)						
Term loan due 2022 (1)	\$ 0.7	\$ 1.5	\$ 18.9	\$ —	\$ —	\$ —	\$ 21.1
Term loan due 2024 (1)	—	—	5.2	14.8	682.9	—	702.9
Senior cash 12.5%/ PIK step-up to 15.5% notes due 2022 (1)	—	—	12.4	—	—	—	12.4
Senior 18.0% PIK notes due 2024 (1)	—	—	—	—	389.1	—	389.1
Interest payments (2)	45.9	46.6	55.6	50.4	590.9	—	789.4
Other commitments (3)	8.9	7.0	1.0	0.1	—	—	17.0
Operating lease commitments	16.1	15.9	14.3	10.7	3.6	3.1	63.7
Other liabilities (4)	5.0	0.6	0.5	0.4	—	—	6.5
<b>Total firm commitments and outstanding debt</b>	<b>\$ 76.6</b>	<b>\$ 71.6</b>	<b>\$ 107.9</b>	<b>\$ 76.4</b>	<b>\$ 1,666.5</b>	<b>\$ 3.1</b>	<b>\$ 2,002.1</b>

- (1) Long-term debt is reflected at principal amount outstanding.
- (2) Interest on variable rate debt is based on December 31, 2019 interest rates and PIK interest is paid at maturity.
- (3) Represents commitments under purchase agreements for marketing and membership program support services.
- (4) Includes finance lease obligations and liabilities for uncertain tax positions.

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 14—Commitments and Contingencies in the audited consolidated financial statements included elsewhere herein for a discussion of these contingent obligations.

**Debt Repurchases**

We or our affiliates have, in the past, and may, from time to time in the future, purchase portions of cxLoyalty's indebtedness. Any such future purchases may be made through open market or privately negotiated transactions with third parties or pursuant to one or more tender or exchange offers or otherwise, upon such terms and at such prices as we or any such affiliates may determine.

**Off-Balance Sheet Arrangements**

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



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*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, valuation of goodwill and intangible assets and valuation of tax assets and liabilities 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 income tax valuation allowances, litigation accruals, the fair values of reporting units, 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*

Effective January 1, 2018, the Company adopted Accounting Standards Codification Topic 606, Revenue from Contracts with Customers ("ASC 606"). The adoption of ASC 606 affected the Company's Global Loyalty, Global Customer Engagement and Legacy Membership and Package segments. Within the Global Loyalty segment, the Company has contracts with certain clients that have annual revenue-sharing and tiered pricing components (variable consideration arrangements) based on transaction volumes. Under prior guidance, revenue was recognized as the Company achieved those contractual tiers. Under ASC 606, revenue derived from these revenue-sharing and tiered pricing contracts is recognized based upon an estimate of the Company's ability to achieve those contractual tiers during each annual measurement period. Based on the Company's estimates of reaching different contractual tiers, a portion of the estimated annual revenue is deferred to a future period within the annual measurement period as these contract features provide a material right to the Company's clients. Within the Company's Global Customer Engagement segment, payments made by our customers for the provision of services were amortized over the length of the contract under prior guidance. Under ASC 606, the Company has reduced its amortization period to include only 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. Lastly, within the Legacy Membership and Package segment, certain members are entitled to a full membership refund throughout their entire membership term, regardless of when they cancel. Under ASC 606, revenue is 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 assess goodwill for such impairment by comparing the carrying value of the 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 2019, the Company performed its annual goodwill impairment test for those reporting units that had goodwill recorded. 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 reporting unit that has goodwill exceeded its respective carrying amount by more than 25%.

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, 2019, 2018 and 2017. As of December 31, 2019, intangible assets consist of assets with finite useful lives initially recorded at their respective fair values.



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*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, 2019 and 2018, the Company has recorded a full valuation allowance for its U.S. federal net deferred tax assets. As of December 31, 2019 and 2018, 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.

On December 22, 2017, the TCJA was enacted into law. The TCJA significantly revises the U.S. corporate income tax laws by, among other things, lowering the corporate income tax rate to 21%, implementing a modified territorial tax system and imposing a one-time repatriation tax on deemed repatriated earnings and profits of U.S.-owned foreign subsidiaries (the "transition tax"). The U.S. federal income tax rate reduction was effective as of January 1, 2018. The Company has elected to account for global intangible low-taxed income as a period cost if and when incurred. The Company recorded provisional amounts related to the TCJA for the remeasurement of deferred taxes and the transition tax for the year ended December 31, 2017. During 2018 and prior to December 22, 2018, the Company finalized and completed its accounting associated with the TCJA, and no subsequent adjustments to provisional amounts were recorded.



**PART III**

**SUPPLEMENTAL FINANCIAL INFORMATION**

The following supplemental consolidating financial information presents, in separate columns, the unaudited consolidating balance sheets as of December 31, 2019 and 2018, and the related unaudited consolidating statements of comprehensive income (loss) and cash flows for the years ended December 31, 2019, 2018 and 2017 for (i) cxLoyalty Holdings on a standalone basis, with its investment in subsidiaries recorded under the equity method, (ii) cxLoyalty and its restricted subsidiaries on a standalone consolidated basis and (iii) the Company on a consolidated basis.

The supplemental financial information has been presented in lieu of separate financial statements of cxLoyalty as such separate financial statements are not considered meaningful.



UNAUDITED CONSOLIDATING BALANCE SHEET  
AS OF DECEMBER 31, 2019  
(In millions)

	cxLoyalty Holdings	cxLoyalty and Restricted Subsidiaries	Eliminations	Consolidated
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ —	\$ 55.4	\$ —	\$ 55.4
Restricted cash	—	6.0	—	6.0
Receivables, net	—	111.2	—	111.2
Prepaid commissions	—	45.8	—	45.8
Other current assets	—	74.8	—	74.8
Total current assets	—	293.2	—	293.2
Property and equipment, net	—	84.9	—	84.9
Operating lease right-of-use assets	—	36.3	—	36.3
Goodwill	—	173.6	—	173.6
Other intangibles, net	—	20.0	—	20.0
Intercompany receivables	262.9	—	(262.9)	—
Other non-current assets	—	33.5	—	33.5
<b>Total assets</b>	<b>\$ 262.9</b>	<b>\$ 641.5</b>	<b>\$ (262.9)</b>	<b>\$ 641.5</b>
<b>Liabilities and Deficit</b>				
Current liabilities:				
Current portion of long-term debt	\$ —	\$ 1.8	\$ —	\$ 1.8
Accounts payable and accrued expenses	1.6	234.9	—	236.5
Deferred revenue	—	27.9	—	27.9
Income taxes payable	—	1.3	—	1.3
Total current liabilities	1.6	265.9	—	267.5
Long-term debt	—	1,486.0	—	1,486.0
Deferred income taxes	—	1.8	—	1.8
Deferred revenue	—	2.9	—	2.9
Long-term operating lease liabilities	—	38.4	—	38.4
Intercompany payables	—	262.9	(262.9)	—
Other long-term liabilities	—	16.3	—	16.3
Negative carrying amount of subsidiaries, net	1,433.7	—	(1,433.7)	—
Total liabilities	1,435.3	2,074.2	(1,696.6)	1,812.9
<b>Total cxLoyalty Group Holdings, Inc. deficit</b>	<b>(1,172.4)</b>	<b>(1,433.7)</b>	<b>1,433.7</b>	<b>(1,172.4)</b>
Non-controlling interest in subsidiary	—	1.0	—	1.0
<b>Total deficit</b>	<b>(1,172.4)</b>	<b>(1,432.7)</b>	<b>1,433.7</b>	<b>(1,171.4)</b>
<b>Total liabilities and deficit</b>	<b>\$ 262.9</b>	<b>\$ 641.5</b>	<b>\$ (262.9)</b>	<b>\$ 641.5</b>



UNAUDITED CONSOLIDATING BALANCE SHEET  
AS OF DECEMBER 31, 2018  
(In millions)

	cxLoyalty Holdings	cxLoyalty and Restricted Subsidiaries	Eliminations	Consolidated
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ —	\$ 84.7	\$ —	\$ 84.7
Restricted cash	—	14.4	—	14.4
Receivables, net	—	109.5	—	109.5
Prepaid commissions	—	38.6	—	38.6
Other current assets	—	91.6	—	91.6
Total current assets	—	338.8	—	338.8
Property and equipment, net	—	91.9	—	91.9
Goodwill	—	173.4	—	173.4
Other intangibles, net	—	28.6	—	28.6
Intercompany loan receivable	—	28.9	(28.9)	—
Intercompany receivables	35.4	—	(35.4)	—
Other non-current assets	—	49.3	—	49.3
<b>Total assets</b>	<b>\$ 35.4</b>	<b>\$ 710.9</b>	<b>\$ (64.3)</b>	<b>\$ 682.0</b>
<b>Liabilities and Deficit</b>				
Current liabilities:				
Current portion of long-term debt	\$ —	\$ 13.8	\$ —	\$ 13.8
Accounts payable and accrued expenses	4.7	286.6	—	291.3
Deferred revenue	—	29.7	—	29.7
Income taxes payable	—	2.3	—	2.3
Total current liabilities	4.7	332.4	—	337.1
Long-term debt	—	1,559.2	—	1,559.2
Deferred income taxes	—	2.9	—	2.9
Deferred revenue	—	3.2	—	3.2
Intercompany loans payable	28.9	—	(28.9)	—
Intercompany payables	—	35.4	(35.4)	—
Other long-term liabilities	—	37.0	—	37.0
Negative carrying amount of subsidiaries, net	1,260.4	—	(1,260.4)	—
Total liabilities	1,294.0	1,970.1	(1,324.7)	1,939.4
<b>Total cxLoyalty Group Holdings, Inc. deficit</b>	<b>(1,258.6)</b>	<b>(1,260.4)</b>	<b>1,260.4</b>	<b>(1,258.6)</b>
Non-controlling interest in subsidiary	—	1.2	—	1.2
<b>Total deficit</b>	<b>(1,258.6)</b>	<b>(1,259.2)</b>	<b>1,260.4</b>	<b>(1,257.4)</b>
<b>Total liabilities and deficit</b>	<b>\$ 35.4</b>	<b>\$ 710.9</b>	<b>\$ (64.3)</b>	<b>\$ 682.0</b>



UNAUDITED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)  
FOR THE YEAR ENDED DECEMBER 31, 2019  
(In millions)

	cxLoyalty Holdings	cxLoyalty and Restricted Subsidiaries	Eliminations	Consolidated
<b>Net revenues</b>	\$ —	\$ 556.7	\$ —	\$ 556.7
<b>Expenses:</b>				
Cost of revenues, exclusive of depreciation and amortization shown separately below:				
Marketing and commissions	—	142.2	—	142.2
Operating costs	—	277.9	—	277.9
General and administrative	0.3	78.3	—	78.6
Depreciation and amortization	—	48.9	—	48.9
Total expenses	0.3	547.3	—	547.6
<b>(Loss) income from continuing operations</b>	(0.3)	9.4	—	9.1
Interest income	—	0.2	—	0.2
Interest expense	—	(128.0)	—	(128.0)
Interest (expense) income - intercompany	(0.6)	0.6	—	—
Loss on extinguishment of debt	—	(0.1)	—	(0.1)
Gain (loss) on extinguishment of debt - intercompany	33.4	(33.4)	—	—
Other expense, net	—	(28.5)	—	(28.5)
<b>Income (loss) from continuing operations before income taxes</b>	32.5	(179.8)	—	(147.3)
Income tax benefit	—	1.1	—	1.1
<b>Income (loss) from continuing operations, net of tax</b>	32.5	(178.7)	—	(146.2)
<b>Income from discontinued operations, net of tax</b>	—	2.9	—	2.9
Equity in loss of subsidiaries	(176.2)	—	176.2	—
<b>Net loss</b>	(143.7)	(175.8)	176.2	(143.3)
Less: net income attributable to non-controlling interest	—	(0.4)	—	(0.4)
<b>Net loss attributable to cxLoyalty Group Holdings, Inc.</b>	\$ (143.7)	\$ (176.2)	\$ 176.2	\$ (143.7)
<b>Net loss</b>	\$ (143.7)	\$ (175.8)	\$ 176.2	\$ (143.3)
Currency translation adjustment, net of tax	(2.8)	(2.9)	2.8	(2.9)
<b>Comprehensive loss</b>	(146.5)	(178.7)	179.0	(146.2)
Less: comprehensive income attributable to non-controlling interest	—	(0.5)	—	(0.5)
<b>Comprehensive loss attributable to cxLoyalty Group Holdings, Inc.</b>	\$ (146.5)	\$ (179.2)	\$ 179.0	\$ (146.7)



**UNAUDITED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)  
FOR THE YEAR ENDED DECEMBER 31, 2018  
(In millions)**

	cxLoyalty Holdings	cxLoyalty and Restricted Subsidiaries	Eliminations	Consolidated
<b>Net revenues</b>	\$ —	\$ 699.8	\$ —	\$ 699.8
<b>Expenses:</b>				
Cost of revenues, exclusive of depreciation and amortization shown separately below:				
Marketing and commissions	—	142.8	—	142.8
Operating costs	—	331.3	—	331.3
General and administrative	0.2	113.5	—	113.7
Facility exit costs	—	4.3	—	4.3
Depreciation and amortization	—	48.2	—	48.2
Total expenses	0.2	640.1	—	640.3
<b>(Loss) income from continuing operations</b>	(0.2)	59.7	—	59.5
Interest income	—	0.2	—	0.2
Interest expense	—	(197.4)	—	(197.4)
Interest (expense) income - intercompany	(0.9)	0.9	—	—
Gain on extinguishment of debt	—	(32.0)	—	(32.0)
Other expense, net	—	(1.8)	—	(1.8)
<b>Loss from continuing operations before income taxes</b>	(1.1)	(170.4)	—	(171.5)
Income tax benefit	—	27.0	—	27.0
<b>Loss from continuing operations, net of tax</b>	(1.1)	(143.4)	—	(144.5)
<b>Income from discontinued operations, net of tax</b>	—	447.8	—	447.8
Equity in income of subsidiaries	303.2	—	(303.2)	—
<b>Net income</b>	302.1	304.4	(303.2)	303.3
Less: net income attributable to non-controlling interest	—	(1.2)	—	(1.2)
<b>Net income attributable to cxLoyalty Group Holdings, Inc.</b>	<u>\$ 302.1</u>	<u>\$ 303.2</u>	<u>\$ (303.2)</u>	<u>\$ 302.1</u>
<b>Net income</b>	\$ 302.1	\$ 304.4	\$ (303.2)	\$ 303.3
Currency translation adjustment, net of tax	(5.4)	(5.5)	5.4	(5.5)
<b>Comprehensive income</b>	296.7	298.9	(297.8)	297.8
Less: comprehensive income attributable to non-controlling interest	—	(1.1)	—	(1.1)
<b>Comprehensive income attributable to cxLoyalty Group Holdings, Inc.</b>	<u>\$ 296.7</u>	<u>\$ 297.8</u>	<u>\$ (297.8)</u>	<u>\$ 296.7</u>



UNAUDITED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)  
FOR THE YEAR ENDED DECEMBER 31, 2017  
(In millions)

	cxLoyalty Holdings	cxLoyalty and Restricted Subsidiaries	Eliminations	Consolidated
<b>Net revenues</b>	\$ —	\$ 724.1	\$ —	\$ 724.1
<b>Expenses:</b>				
Cost of revenues, exclusive of depreciation and amortization shown separately below:				
Marketing and commissions	—	173.5	—	173.5
Operating costs	—	352.3	—	352.3
General and administrative	0.2	85.6	—	85.8
Facility exit costs	—	0.9	—	0.9
Depreciation and amortization	—	45.3	—	45.3
Total expenses	<u>0.2</u>	<u>657.6</u>	<u>—</u>	<u>657.8</u>
<b>(Loss) income from continuing operations</b>	(0.2)	66.5	—	66.3
Interest income	—	0.3	—	0.3
Interest expense	(1.1)	(141.7)	—	(142.8)
Interest (expense) income - intercompany	(0.7)	0.7	—	—
Gain on extinguishment of debt	—	3.5	—	3.5
Other expense, net	—	(0.4)	—	(0.4)
<b>Loss from continuing operations before income taxes</b>	(2.0)	(71.1)	—	(73.1)
Income tax benefit	—	27.2	—	27.2
<b>Loss from continuing operations, net of tax</b>	(2.0)	(43.9)	—	(45.9)
<b>Income from discontinued operations, net of tax</b>	—	21.5	—	21.5
Equity in loss of subsidiaries	(23.2)	—	23.2	—
<b>Net loss</b>	(25.2)	(22.4)	23.2	(24.4)
Less: net income attributable to non-controlling interest	—	(0.8)	—	(0.8)
<b>Net loss attributable to cxLoyalty Group Holdings, Inc.</b>	<u>\$ (25.2)</u>	<u>\$ (23.2)</u>	<u>\$ 23.2</u>	<u>\$ (25.2)</u>
<b>Net loss</b>	\$ (25.2)	\$ (22.4)	\$ 23.2	\$ (24.4)
Currency translation adjustment, net of tax	6.2	6.3	(6.2)	6.3
<b>Comprehensive loss</b>	(19.0)	(16.1)	17.0	(18.1)
Less: comprehensive income attributable to non-controlling interest	—	(0.9)	—	(0.9)
<b>Comprehensive loss attributable to cxLoyalty Group Holdings, Inc.</b>	<u>\$ (19.0)</u>	<u>\$ (17.0)</u>	<u>\$ 17.0</u>	<u>\$ (19.0)</u>



**UNAUDITED CONSOLIDATING STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2019  
(In millions)**

	cxLoyalty Holdings	cxLoyalty and Restricted Subsidiaries	Eliminations	Consolidated
<b>Operating Activities</b>				
Net loss	\$ (143.7)	\$ (175.8)	\$ 176.2	\$ (143.3)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	—	48.9	—	48.9
Payment-in-kind interest	—	85.8	—	85.8
Amortization of debt discount, financing costs and carrying value adjustment, net	—	(21.9)	—	(21.9)
Provision for accounts receivable loss	—	1.1	—	1.1
Loss on extinguishment of debt	—	0.1	—	0.1
(Gain) loss on extinguishment of debt - intercompany	(33.4)	33.4	—	—
Gain on sale of business	—	(3.7)	—	(3.7)
Share-based compensation	—	0.6	—	0.6
Deferred income taxes	—	(0.1)	—	(0.1)
Equity in loss of subsidiaries	176.2	—	(176.2)	—
Net change in assets and liabilities:				
Receivables	—	8.4	—	8.4
Prepaid commissions	—	(6.9)	—	(6.9)
Other current assets	—	16.7	—	16.7
Other non-current assets	—	5.6	—	5.6
Accounts payable and accrued expenses	(3.2)	(50.4)	—	(53.6)
Deferred revenue	—	(1.9)	—	(1.9)
Income taxes receivable and payable	—	(0.9)	—	(0.9)
Other long-term liabilities	—	(12.6)	—	(12.6)
Other, net	—	1.7	—	1.7
<b>Net cash used in operating activities</b>	<u>(4.1)</u>	<u>(71.9)</u>	<u>—</u>	<u>(76.0)</u>
<b>Investing Activities</b>				
Capital expenditures	—	(29.9)	—	(29.9)
Acquisition related payments, net of cash acquired	—	(1.9)	—	(1.9)
Proceeds from sale of business, net of cash transferred	—	(3.0)	—	(3.0)
Intercompany receivables and payables	—	(176.1)	176.1	—
<b>Net cash used in investing activities</b>	<u>—</u>	<u>(210.9)</u>	<u>176.1</u>	<u>(34.8)</u>
<b>Financing Activities</b>				
Proceeds from borrowings	—	300.0	—	300.0
Repayments under revolving credit facility, net	—	(100.0)	—	(100.0)
Principal payments on borrowings	—	(122.4)	—	(122.4)
Principal payments on finance leases	—	(1.0)	—	(1.0)
Payments to settle contingent consideration liabilities	—	(3.0)	—	(3.0)
Dividend paid to non-controlling interest	—	(0.7)	—	(0.7)
Intercompany receivables and payables	4.1	172.0	(176.1)	—
<b>Net cash provided by financing activities</b>	<u>4.1</u>	<u>244.9</u>	<u>(176.1)</u>	<u>72.9</u>
Effect of changes in exchange rates on cash, cash equivalents and restricted cash	—	0.2	—	0.2
Net decrease in cash, cash equivalents and restricted cash	—	(37.7)	—	(37.7)
Cash, cash equivalents and restricted cash, beginning of period	—	99.1	—	99.1
<b>Cash, cash equivalents and restricted cash, end of period</b>	<u>\$ —</u>	<u>\$ 61.4</u>	<u>\$ —</u>	<u>\$ 61.4</u>



UNAUDITED CONSOLIDATING STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2018  
(In millions)

	cxLoyalty Holdings	cxLoyalty and Restricted Subsidiaries	Eliminations	Consolidated
<b>Operating Activities</b>				
Net income	\$ 302.1	\$ 304.4	\$ (303.2)	\$ 303.3
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	—	48.9	—	48.9
Payment-in-kind interest	—	88.7	—	88.7
Amortization of debt discount, financing costs and carrying value adjustment	—	16.0	—	16.0
Provision for accounts receivable loss	—	0.9	—	0.9
Loss on extinguishment of debt	—	32.0	—	32.0
Gain on sale of business	—	(473.1)	—	(473.1)
Facility exit costs	—	4.3	—	4.3
Share-based compensation	—	1.7	—	1.7
Deferred income taxes	—	(3.0)	—	(3.0)
Equity in income of subsidiaries	(303.2)	—	303.2	—
Net change in assets and liabilities:				
Receivables	—	29.6	—	29.6
Prepaid commissions	—	(5.6)	—	(5.6)
Other current assets	—	(15.4)	—	(15.4)
Other non-current assets	—	(23.2)	—	(23.2)
Accounts payable and accrued expenses	1.1	11.2	—	12.3
Deferred revenue	—	2.8	—	2.8
Income taxes receivable and payable	—	(1.1)	—	(1.1)
Other long-term liabilities	—	(1.0)	—	(1.0)
Other, net	—	2.9	—	2.9
<b>Net cash provided by operating activities</b>	—	21.0	—	21.0
<b>Investing Activities</b>				
Capital expenditures	—	(32.1)	—	(32.1)
Acquisition related payments, net of cash acquired	—	(5.7)	—	(5.7)
Proceeds from sale of business, net of cash transferred	—	517.3	—	517.3
Intercompany receivables and payables	—	(304.7)	304.7	—
<b>Net cash provided by investing activities</b>	—	174.8	304.7	479.5
<b>Financing Activities</b>				
Borrowings under revolving credit facility, net	—	45.0	—	45.0
Principal payments on borrowings	—	(507.1)	—	(507.1)
Financing costs	—	(0.3)	—	(0.3)
Dividend paid to non-controlling interest	—	(0.9)	—	(0.9)
Intercompany receivables and payables	—	304.7	(304.7)	—
<b>Net cash used in financing activities</b>	—	(158.6)	(304.7)	(463.3)
Effect of changes in exchange rates on cash, cash equivalents and restricted cash	—	(2.7)	—	(2.7)
Net increase in cash, cash equivalents and restricted cash	—	34.5	—	34.5
Cash, cash equivalents and restricted cash, beginning of period	—	64.6	—	64.6
<b>Cash, cash equivalents and restricted cash, end of period</b>	<u>\$ —</u>	<u>\$ 99.1</u>	<u>\$ —</u>	<u>\$ 99.1</u>



**UNAUDITED CONSOLIDATING STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2017  
(In millions)**

	cxLoyalty Holdings	cxLoyalty and Restricted Subsidiaries	Eliminations	Consolidated
<b>Operating Activities</b>				
Net loss	\$ (25.2)	\$ (22.4)	\$ 23.2	\$ (24.4)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:				
Depreciation and amortization	—	46.8	—	46.8
Payment-in-kind interest	—	41.7	—	41.7
Amortization of debt discount, financing costs and carrying value adjustment	—	(0.1)	—	(0.1)
Provision for accounts receivable loss	—	4.8	—	4.8
Gain on extinguishment of debt	—	(3.5)	—	(3.5)
Facility exit costs	—	1.4	—	1.4
Share-based compensation	—	2.5	—	2.5
Deferred income taxes	—	(22.0)	—	(22.0)
Equity in loss of subsidiaries	23.2	—	(23.2)	—
Net change in assets and liabilities:				
Receivables	—	(20.9)	—	(20.9)
Prepaid commissions	—	(5.8)	—	(5.8)
Other current assets	—	0.8	—	0.8
Other non-current assets	—	3.9	—	3.9
Accounts payable and accrued expenses	—	(10.8)	—	(10.8)
Deferred revenue	—	(5.4)	—	(5.4)
Income taxes receivable and payable	—	(0.2)	—	(0.2)
Other long-term liabilities	—	0.2	—	0.2
Other, net	—	(3.4)	—	(3.4)
<b>Net cash (used in) provided by operating activities</b>	<u>(2.0)</u>	<u>7.6</u>	<u>—</u>	<u>5.6</u>
<b>Investing Activities</b>				
Capital expenditures	—	(38.1)	—	(38.1)
Acquisition related payments, net of cash acquired	—	(0.4)	—	(0.4)
Intercompany receivables and payables	—	(333.6)	333.6	—
<b>Net cash used in investing activities</b>	<u>—</u>	<u>(372.1)</u>	<u>333.6</u>	<u>(38.5)</u>
<b>Financing Activities</b>				
Proceeds from borrowings	—	1,539.6	—	1,539.6
Borrowings under revolving credit facility, net	—	55.0	—	55.0
Principal payments on borrowings	(11.6)	(1,523.1)	—	(1,534.7)
Financing costs	—	(29.3)	—	(29.3)
Dividend paid to non-controlling interest	—	(0.7)	—	(0.7)
Intercompany receivables and payables	11.6	322.0	(333.6)	—
Proceeds from issuance of warrants	0.5	—	—	0.5
<b>Net cash provided by financing activities</b>	<u>0.5</u>	<u>363.5</u>	<u>(333.6)</u>	<u>30.4</u>
Effect of changes in exchange rates on cash, cash equivalents and restricted cash	—	3.3	—	3.3
Net (decrease) increase in cash, cash equivalents and restricted cash	(1.5)	2.3	—	0.8
Cash, cash equivalents and restricted cash, beginning of period	1.5	62.3	—	63.8
Cash, cash equivalents and restricted cash, end of period	—	64.6	—	64.6
Less: cash, cash equivalents and restricted cash of discontinued operations, end of period	—	(15.2)	—	(15.2)
<b>Cash, cash equivalents and restricted cash, end of period</b>	<u>\$ —</u>	<u>\$ 49.4</u>	<u>\$ —</u>	<u>\$ 49.4</u>



**Skattedirektoratet**

Saksbehandler Inger Helene Iversen	Deres dato 09.07.2013	Vår dato 14.08.2013
Telefon 61236772	Deres referanse Dagfinn Haldorsen	Vår referanse 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 Postboks 9200 Grønland 0134 Oslo For elektronisk henvendelse se <a href="http://www.skatteetaten.no">www.skatteetaten.no</a>	Besøksadresse: Se <a href="http://www.skatteetaten.no">www.skatteetaten.no</a> Org.nr. 996250318	Sentralbord 800 80 000 Telefaks 22 17 08 60
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To the General Meeting of CxLoyalty International AS

## *Independent Auditor's Report*

### *Report on the Audit of the Financial Statements*

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#### *Opinion*

We have audited the financial statements of CxLoyalty International AS, which comprise the balance sheet as at 31 December 2019, the revenue statement and cash flow statement 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 law and regulations and give a true and fair view of the financial position of the Company as at 31 December 2019, and 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.

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#### *Basis for Opinion*

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including 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.

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#### *Other information*

Management is responsible for the other information. The other information comprises information in the annual report, except 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.

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.

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*PricewaterhouseCoopers AS, Dronning Eufemias gate 71, Postboks 748 Sentrum, NO-0106 Oslo  
T: 02316, org. no.: 987 009 713 VAT, www.pwc.no  
State authorised public accountants, members of The Norwegian Institute of Public Accountants, and authorised accounting firm*



Independent Auditor's Report - CxLoyalty International AS

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*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 in accordance with law and regulations, including 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. The financial statements use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations.

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*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 laws, regulations, and auditing standards and practices generally accepted in Norway, including 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

For further description of Auditor's Responsibilities for the Audit of the Financial Statements reference is made to <https://revisorforeningen.no/revisjonsberetninger>

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*Report on Other Legal and Regulatory Requirements*

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*Opinion on the Board of Directors' report*

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report concerning the financial statements and the going concern assumption is consistent with the financial statements and complies with the law and regulations.

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*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.

(2)



Independent Auditor's Report - CxLoyalty International AS

Oslo, 1 July 2020  
**PricewaterhouseCoopers AS**

Stig Lund  
State Authorised Public Accountant  
(This document is signed electronically)

(3)



 Securely signed with Brevio

Revisjonsberetning

**Signers:**

<i>Name</i>	<i>Method</i>	<i>Date</i>
Lund, Stig Arild	BANKID_MOBILE	2020-07-01 10:05

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of the document.



## Annual Report 2019

for

### CxLoyalty International AS

#### **Nature of the business**

CxLoyalty International AS primary business area is to deliver customer engagement programmes and value added service 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 focus on the financial sector and other service sectors with large membership bases

The company is located in Bærum municipality. CxLoyalty International AS is part of the CxLoyalty Group, a global group headquartered in the United States.

#### **True overview of development and results**

Compared to 2018, there is a reduction in operating income of NOK 6.3 million, mainly due to a Bank terminating a loyalty program. Gross profit improved compared to 2018 by 1.2 million due to significant reductions in personnel costs of NOK 10 million. However, there was an increase in Cost of Goods expenses of 2.4m.

Profit before tax for 2019 was NOK 521,921, which is significantly different when compared to 2018 which saw a profit of NOK 11,849,094. In 2019, profit has been significantly impacted as there were no dividends received from one of its subsidiary company, CxLoyalty International AB, which in 2018 was 9,427,549 NOK.

The company works continuously to improve earnings while at the same time working on introducing cost-reducing measures to adjust the cost level. We constantly seek solutions to customize our organization to maximize our results.

Although the level of liquidity at year-end has reduced compared to 2018, it is considered satisfactory. The reduction in cash flow is a reflection of a lower performance in sales during the year. However, analysis also shows increased investment in operational equipment to improve client and marketing platforms, as well as a significant improvement in the management of Trade Receivable and Payable cashflow. Therefore, the risk that the company will not be able to fulfill its obligations at maturity is considered low. The management continuously funds the liquidity and actively manages the liquidity situation to ensure that the company has sufficient cash reserves at all times to meet known cash flows. 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.

Credit risk for counterparties lacking financial ability to fulfill their obligations is considered low. Historically, there has been little loss on receivables. The company's accounts receivable are exposed to concentration risk. However, the risk of the largest customers defaulting on a claim is not considered to be present.

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 2019 the company is mainly financed by equity and loans from group companies.

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. 31.12.2019 is satisfactory. It is expected that the company will be able to increase earnings while keeping costs down, this will mean 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. This leads to increased unemployment and economic downturn. To date our business in Norway is proceeding according to initial plans, both with regards to the commercial aspects and also financial. Our operation in Norway is performing well given the external circumstances and we have taken necessary preventive actions such as "Work From Home" for the majority of the employees and introduced some cost reduction initiatives. As the COVID-19 situation has stabilized in Norway and the impact is decreasing the government are lifting sanctions and we expect a gradual normalization in the months to come.

However, as our clients are facing uncertainty and economic downturn, increased cost focus might lead to margin pressure and more difficulties in securing new client contracts during the pandemic period.

### **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, in the opinion of the Board, are 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, although 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 in order to be better equipped for the future. Demand for loyalty-creating products and services is increasing, 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, 1 Juli 2020

Michele Conforti

Chairman

Rikard Af Sandeberg

General Manager

Berit Solhjem

Board Member



**Cxloyalty International AS**

Revenue statement

<b>Operating income and expenses</b>	<b>NOTE</b>	<b>2019</b>	<b>2018</b>
Sales		29 187 533	35 618 531
Other revenue	<b>10</b>	38 651 724	38 530 000
<b>Total operating income</b>		<b>67 839 257</b>	<b>74 148 531</b>
Cost of materials		4 350 734	1 963 145
Personnel expenses	<b>2</b>	44 397 022	54 402 962
Depreciations	<b>3, 4</b>	1 833 389	1 130 583
Other operating expenses	<b>2</b>	14 295 914	14 862 223
<b>Total operating expenses</b>		<b>64 877 059</b>	<b>72 358 913</b>
<b>Operating profit</b>		<b>2 962 197</b>	<b>1 789 618</b>
<b>Financial income and expenses</b>			
Income from subsidiaries	<b>10</b>	0	9 427 549
Other financial income		68 699	868 181
Other interest expenses		-73 680	-93 973
Other financial expenses		-2 435 295	-142 281
<b>Net financials</b>		<b>-2 440 276</b>	<b>10 059 476</b>
<b>Ordinary results before tax</b>		<b>521 921</b>	<b>11 849 094</b>
Tax on ordinary result	<b>9</b>	0	0
<b>Ordinary result after tax</b>		<b>521 921</b>	<b>11 849 094</b>
<b>Net income</b>		<b>521 921</b>	<b>11 849 094</b>
<b>Allocation</b>			
Net income attributable to equity	<b>7</b>	521 921	11 849 094
<b>Net brought forward</b>		<b>521 921</b>	<b>11 849 094</b>



## Cxloyalty International AS

Balance sheet pr. 31. desember

<b>ASSETS</b>	<b>Note</b>	<b>2019</b>	<b>2018</b>
<b>Fixed assets</b>			
<b>Intangible assets</b>			
Acquired intangible assets	<b>3</b>	2 749 223	2 394 644
<b>Total intangible assets</b>		<b>2 749 223</b>	<b>2 394 644</b>
<b>Tangible assets</b>			
Property, plant and equipment, net	<b>4</b>	690 545	352 196
<b>Total tangible assets</b>		<b>690 545</b>	<b>352 196</b>
<b>Financial fixed assets</b>			
Investments in subsidiaries	<b>5</b>	31 445 357	31 445 357
<b>Total financial fixed assets</b>		<b>31 445 357</b>	<b>31 445 357</b>
<b>Total fixed assets</b>		<b>34 885 125</b>	<b>34 192 197</b>
<b>Current assets</b>			
<b>Debtors</b>			
Intercompany receivables	<b>10</b>	131 526 271	93 097 736
Accounts receivables		3 336 086	4 135 409
Other short-term receivables		4 475 184	4 716 570
<b>Total receivables</b>		<b>139 337 540</b>	<b>101 949 715</b>
<b>Cash and bank deposits</b>	<b>11</b>	<b>4 051 291</b>	<b>6 937 090</b>
<b>Total current assets</b>		<b>143 388 832</b>	<b>108 886 805</b>
<b>Total assets</b>		<b>178 273 957</b>	<b>143 079 002</b>



## Cxloyalty International AS

Balance sheet pr. 31. desember

Liabilities and shareholders equity	Note	2019	2018
<b>Equity</b>			
<b>Paid-up equity</b>			
Share capital	6, 7	5 067 090	5 067 090
Share premium reserve	7	7 716 546	7 716 546
<b>Total paid-up equity</b>		<b>12 783 636</b>	<b>12 783 636</b>
<b>Retained earnings</b>			
Other equity	7	14 769 236	14 350 452
<b>Total retained earnings</b>		<b>14 769 236</b>	<b>14 350 452</b>
<b>Total equity</b>		<b>27 552 872</b>	<b>27 134 088</b>
<b>Liabilities</b>			
<b>Long-term liabilities</b>			
Pension liabilities	8	0	344 882
<b>Total of other long term liabilities</b>		<b>0</b>	<b>344 882</b>
<b>Current debt</b>			
Intercompany debt	10	140 949 525	99 137 127
Trade creditors		102 402	167 918
Liabilities to public authorities		3 553 429	3 650 819
Other current debt		6 115 729	12 644 168
<b>Total current debt</b>		<b>150 721 085</b>	<b>115 600 032</b>
<b>Total liabilities</b>		<b>150 721 085</b>	<b>115 944 914</b>
<b>Total liabilities and equity</b>		<b>178 273 957</b>	<b>143 079 002</b>

Oslo, 01.07.2020

The board of Cxloyalty International AS

Michele Conforti  
Chairman of the board

Berit Solhjem  
Member of the board

Rikard David Holm Af Sandeberg  
General Manager



**CxLoyalty International AS**  
**CASH FLOW STATEMENT**

	<b>2019</b>	<b>2018</b>
<b>Cash flow from operating activities</b>		
Profit before tax	521 921	11 849 094
Tax paid	-	-
Depreciations	1 833 389	1 130 583
Changes in receivables	1 040 709	-2 026 570
Changes in account payables	-65 516	-920 449
Net benefit plan scheme payments	-448 019	-619 296
Changes in other accruals	-3 241 966	-7 068 451
<b>Net cash flow from operating activities</b>	<b>-359 483</b>	<b>2 344 911</b>
<b>Cash flow from Investing activities</b>		
Purchase of equipment	-2 526 317	-1 911 149
<b>Net cash flow from Investing activities</b>	<b>-2 526 317</b>	<b>-1 911 149</b>
<b>Cash low from financing activities</b>		
<b>Net cash low from financing activities</b>	<b>-</b>	<b>-</b>
Net increase (decrease) in cash and cash equivalents	-2 885 800	433 762
Cash and cash equivalents, start of period	6 937 090	6 503 328
<b>Cash and cash equivalents, end of period</b>	<b>4 051 291</b>	<b>6 937 090</b>



## CxLoyalty International AS

Notes to the accounts for 2019

### 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.



## CxLoyalty International AS

Notes to the accounts for 2019

### 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.

### 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. A defined benefit scheme covering one ex-employee was closed on 31 October 2019.

#### *Defined contribution plan*

With a defined contribution plan the company pays contributions to an insurance company. After the contribution has been made the company has no further commitment to pay. The contribution is recognised as payroll expenses. Prepaid contributions are reflected as an asset (pension fund) to the degree the contribution can be refunded or will reduce future payments.

The early retirement pension scheme (AFP) is an unsecured defined benefit multi-enterprise scheme. Such a scheme is *de facto* a defined benefit plan, but is for accounting purposes treated as a defined contribution plan as the result of the administrator of the scheme not providing sufficient information to calculate the liability in a reliable manner.



## CxLoyalty International AS

Notes to the accounts for 2019

### 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.



## CxLoyalty International AS

Notes to the accounts for 2019

### Note 2 Payroll expenses, number of employees, remunerations, loans to employees, etc.

Payroll expenses	2019	2018
Salaries/wages	36 697 717	44 551 362
Social security fees	5 336 715	6 449 395
Pension expenses	1 885 908	2 445 050
Other remuneration	476 683	957 155
<b>Total</b>	<b>44 397 022</b>	<b>54 402 962</b>

The number of employees in the accounting year has been 69.

Remuneration to executives	General manager
Salaries	1 693 194
Pension expenses	128 949
Other remuneration	96 000

Neither the chairman of the Board, nor the general manager, has any bonus agreement or any severance pay agreement.

Audit fees	2019	2018
Statutory audit (incl. technical assistance with financial statements)	427 453	261 775
Other assurance services	50 000	32 000
Tax advisory fee (incl. technical assistance with tax return)	31 250	30 000
<b>Total audit fees</b>	<b>508 703</b>	<b>323 775</b>

### Note 3 Intangible assets

Intangible assets	Franchise	Software	Total
Purchase cost pr. 01.01.	562 615	13 105 131	13 667 746
Additions	-	1 978 586	1 978 586
Disposals	-	-	0
Purchase cost pr. 31.12.	562 615	15 083 717	15 646 332
Accumulated depreciation 31.12.	515 535	12 381 574	12 897 109
<b>Net book value pr. 31.12.</b>	<b>47 080</b>	<b>2 702 144</b>	<b>2 749 223</b>
Depreciation in the year	187 149	1 436 858	1 624 007
Estimated useful life	3 Years	3 Years	
Depreciation plan	Straight line	Straight line	



## CxLoyalty International AS

Notes to the accounts for 2019

### Note 4 Fixed assets

Fixed assets	Movables	Total fixed assets
Purchase cost 01.01.	4 786 680	4 786 680
Additions	547 731	547 731
Disposals	0	0
Purchase cost 31.12.	5 334 411	5 334 411
Accumulated depreciation 31.12.	4 643 866	4 643 866
<b>Net book value 31.12.</b>	<b>690 545</b>	<b>690 545</b>
Depreciation in the year	209 382	209 382
Expected useful life	3-5 years	
Depreciation plan	Straight line	

### Note 5 Subsidiaries, associated companies, and joint ventures

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

Subsidiaries	Acquisition year	Location	Ownership	Voting right
Affinion International Aps, Danmark	1986	København	100 %	100 %
Affinion International AB, Sverige	1986	Stockholm	100 %	100 %
Affinion OY AB, Finland	1993	Helsingfors	100 %	100 %

Subsidiaries	Equity last year		Result last year (100%)	Balance sheet value
	Costs	(100%)		
Affinion International Aps, Danmark	15 551 547	DKK 22 262 571	DKK 2 779 823	15 551 547
Affinion International AB, Sverige	15 790 580	SEK 35 497 898	SEK 2 518 858	15 790 580
Affinion OY AB, Finland	212 800	EUR 11 938	EUR 8	103 229
<b>Balance sheet value 31.12.</b>				<b>31 445 356</b>

### Note 6 Share capital and shareholder information

The parent company CxLoyalty Group 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 %
<b>Total number of shares</b>	<b>168 903</b>	<b>100 %</b>



## CxLoyalty International AS

Notes to the accounts for 2019

### Note 7

#### Shareholders' equity

Equity changes in the year	Share capital	Share premium	Other equity	Total
Equity 01.01.	5 067 090	7 716 546	14 350 452	27 134 088
Profit for the year			521 921	521 921
Actuarial loss			-103 137	-103 137
<b>Equity 31.12.</b>	<b>5 067 090</b>	<b>7 716 546</b>	<b>14 769 236</b>	<b>27 552 872</b>

### Note 8

#### Pensions

As at 31 December 2019 the company has a defined-contribution scheme covering all of its employees. A defined benefit scheme covering one ex-employee was closed on 31 October 2019. Upon the employee exiting CxLoyalty and the pension scheme, the pension fund and all its related liabilities was transferred to the Insurance company as part of its portfolio of paid up policies.

	2019	2018
Net liability (assets) recognised in the Balance Sheet at boy	344 882	400 586
Net Periodic Pension Cost	9 187	115 207
Employer contributions	-659 071	-734 503
Employer benefits paid	0	0
Remeasurements loss (gain)	103 137	563 592
<b>Premium fund transferred to DC-plan</b>	<b>201 865</b>	<b>0</b>
<b>Net liability (assets) recognised in the Balance Sheet at eoy</b>	<b>0</b>	<b>344 882</b>

#### Assumptions

	31.10.2019	31.12.2018
Discount rate	2,60 %	2,60 %
Interest rate on assets	2,60 %	2,60 %
Rate of compensation increase	2,75 %	2,75 %
Rate of pension increase	0,80 %	0,80 %
Increase of social security base amount (G)	2,75 %	2,75 %
Payroll tax / social security tax	14,10 %	14,10 %
Mortality table	K2013BE	K2013BE
Disability table	KU	KU



## CxLoyalty International AS

Notes to the accounts for 2019

### Note 9

### Taxes

#### Calculation of deferred tax/deferred tax benefit

	2019	2018
<b>Temporary differences</b>		
Fixed assets	-405 100	-646 847
Other temporary differences	-501 446	-629 117
Net temporary differences	-906 546	-1 275 964
Tax losses carried forward	-99 498 247	-99 573 401
<b>Basis for deferred tax</b>	<b>-100 404 793</b>	<b>-100 849 365</b>
Deferred tax	-22 089 054	-22 186 860
Deferred tax benefit not shown in the balance sheet	22 089 054	22 186 860
<b>Deferred tax in the balance sheet</b>	<b>0</b>	<b>0</b>

The reason deferred tax benefit are not reflected in the balance sheet is that historical results create doubt that future taxable profits will be sufficient to utilise the tax benefit.

#### Basis for income tax expense, changes in deferred tax and tax payable

Result before taxes	521 921	11 849 094
Permanent differences	-77 347	-6 288 566
Basis for the tax expense for the year	<b>444 575</b>	<b>5 560 528</b>
Change in temporary differences	-444 575	-5 560 528
<b>Basis for payable taxes in the income statement</b>	<b>0</b>	<b>0</b>
+/- Group contributions received/given	0	0
<b>Taxable income (basis for payable taxes in the balance sheet)</b>	<b>0</b>	<b>0</b>

#### Components of the income tax expense

Payable tax on this year's result	0	0
Adjustment in respect of priors	0	0
<b>Total payable tax</b>	<b>0</b>	<b>0</b>
Change in deferred tax based on original tax rate	0	0
Change in deferred tax due to change in tax rate	0	0
<b>Tax expense</b>	<b>0</b>	<b>0</b>

#### Reconciliation of the tax expense

Result before taxes	521 921	11 849 094
Calculated tax	114 823	2 725 292
Tax expense	-	0
Difference	-114 823	-2 725 292

The difference consist of:

Tax of permanent differences	-17 016	-1 446 370
Change in deferred tax not recognized	-97 806	-1 278 921
<b>Sum explained differences</b>	<b>-114 823</b>	<b>-2 725 292</b>

#### Payable taxes in the balance sheet

Payable tax in the tax charge	0	0
<b>Payable tax in the balance sheet</b>	<b>0</b>	<b>0</b>



## CxLoyalty International AS

Notes to the accounts for 2019

### Note 10 Balance with group companies, etc.

Transaction/transaction group	2019	2018
Intercompany revenue	36 851 724	38 530 000
Dividends received	0	9 427 549
Intercompany interest	0	0
Intercompany costs	0	0
<b>Total</b>	<b>36 851 724</b>	<b>47 957 549</b>

Balances	Short term liabilities		Other receivables	
	2019	2018	2019	2018
	140 949 525	99 137 127	131 526 271	93 097 736
<b>Total</b>	<b>140 949 525</b>	<b>99 137 127</b>	<b>131 526 271</b>	<b>93 097 736</b>

### Note 11 Restricted bank deposits, overdraft facilities

Restricted bank deposits	2019	2018
Withheld employee taxes	1 896 804	1 783 349
<b>Overdraft facilities granted</b>	<b>2019</b>	<b>2018</b>
Unused bank overdraft	50 000	50 000

### Note 12 Subsequent events

The COVID-19 outbreak affects the Norwegian public & private sector and the population in general. This leads to increased unemployment and economic downturn. To date our business in Norway is proceeding according to initial plans, both with regards to the commercial aspects and also financial. Our operation in Norway is performing well given the external circumstances. However, as our clients are facing uncertainty and economic downturn, increased cost focus might lead to margin pressure and more difficulties in securing new client contracts.