

Årsredovisning för
Forsta Worldwide AB
556637-9904

Räkenskapsåret
2022-01-01 - 2022-12-31

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Förvaltningsberättelse

Styrelsen och verkställande direktören för Forsta Worldwide AB, 556637-9904, med säte i Norrköping, får härmed avge årsredovisning för räkenskapsåret 2022-01-01 - 2022-12-31.

Allmänt om verksamheten

Forsta Worldwide AB utvecklar den molnbaserade IT plattformen Forsta Visualizations. Forsta Visualizations är en mjukvara för visualisering av marknadsundersökningsdata. Kunder återfinns inom segmentet marknadsundersökningsföretag samt professionella marknadsundersökningsavdelningar hos slutkundsföretag. Bolaget har kunder på flertalet marknader, med en tyngdpunkt inom Europa, Nordamerika och Australien.

Forsta AS, Norge, org nr 976886240, äger 100% av aktierna. Forsta Bidco AS äger 100% i Forsta AS.

Väsentliga händelser under räkenskapsåret

I april 2022 sålde ägarna hela Forstagruppen till Press Ganey i USA (huvudägare Azalea Holdings, LP US)

Flerårsöversikt

	2022	2021	2020	2019	2018
Nettoomsättning	43 557	45 937	40 581	44 288	36 100
Resultat efter finansiella poster	2 407	5 708	60 139	-7 608	-8 137
Balansomslutning	117 621	92 035	90 328	42 405	37 154
Soliditet, %	66	82	85	28	35

Eget kapital

	Aktie- kapital	Reservfond	Överkursfond	Bal res inkl årets resultat	Totalt
Vid årets början	8 968	20	33 177	33 310	75 475
Årets resultat				2 407	2 407
Vid årets utgång	8 968	20	33 177	35 717	77 882

Förslag till disposition av företagets vinst eller förlust

	Belopp i kr
Balanserat resultat	66 487 723
Årets resultat	2 406 892
Totalt	68 894 615
Balanseras i ny räkning	68 894 615
Summa	68 894 615

Vad beträffar resultat och ställning i övrigt hänvisas till efterföljande resultat- och balansräkning med tillhörande noter

Resultaträkning

Belopp i Tkr	Not	2022-01-01- 2022-12-31	2021-01-01- 2021-12-31
Nettoomsättning		43 557	45 937
Övriga rörelseintäkter	2	-	19 744
		<u>43 557</u>	<u>65 681</u>
Rörelsens kostnader			
Råvaror och förnödenheter		-8 715	-9 515
Övriga externa kostnader		-8 815	-27 319
Personalkostnader	3	-27 264	-25 025
Av- och nedskrivningar av materiella och immateriella anläggningstillgångar		-108	-30
Rörelseresultat		<u>-1 345</u>	<u>3 792</u>
Resultat från finansiella poster			
Ränteintäkter och liknande resultatposter	4	4 262	6 050
Räntekostnader och liknande resultatposter	5	-510	-4 134
Resultat efter finansiella poster		<u>2 407</u>	<u>5 708</u>
Resultat före skatt		<u>2 407</u>	<u>5 708</u>
Årets resultat		<u>2 407</u>	<u>5 708</u>

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Balansräkning

Belopp i Tkr	Not	2022-12-31	2021-12-31
TILLGÅNGAR			
Anläggningstillgångar			
Materiella anläggningstillgångar			
Inventarier, verktyg och installationer	6	378	220
		<u>378</u>	<u>220</u>
Finansiella anläggningstillgångar			
Andelar i koncernföretag	7	5	5
Fordringar hos koncernföretag	8	46 585	45 341
		<u>46 590</u>	<u>45 346</u>
Summa anläggningstillgångar		<u>46 968</u>	<u>45 566</u>
Omsättningstillgångar			
Kortfristiga fordringar			
Kundfordringar		9 131	7 441
Fordringar hos koncernföretag		57 551	37 123
Aktuell skattefordran		834	269
Övriga fordringar		-	77
Förutbetalda kostnader och upplupna intäkter		1 765	731
		<u>69 281</u>	<u>45 641</u>
Kassa och bank		<u>1 372</u>	<u>669</u>
Summa omsättningstillgångar		<u>70 653</u>	<u>46 310</u>
SUMMA TILLGÅNGAR		<u>117 621</u>	<u>91 876</u>

Balansräkning

<i>Belopp i Tkr</i>	<i>Not</i>	<i>2022-12-31</i>	<i>2021-12-31</i>
EGET KAPITAL OCH SKULDER			
<i>Eget kapital</i>			
<i>Bundet eget kapital</i>			
Aktiekapital		8 968	8 968
Reservfond		20	20
		<u>8 988</u>	<u>8 988</u>
<i>Fritt eget kapital</i>			
Överkursfond		33 177	33 177
Balanserad vinst eller förlust		33 310	27 602
Årets resultat		2 407	5 708
		<u>68 894</u>	<u>66 487</u>
Summa eget kapital		<u>77 882</u>	<u>75 475</u>
<i>Långfristiga skulder</i>			
Skulder till koncernföretag	9	24 117	1 069
		<u>24 117</u>	<u>1 069</u>
<i>Kortfristiga skulder</i>			
Leverantörsskulder		517	113
Skulder till koncernföretag		2 980	1 573
Övriga kortfristiga skulder		2 565	3 546
Upplupna kostnader och förutbetalda intäkter		9 560	10 100
		<u>15 622</u>	<u>15 332</u>
SUMMA EGET KAPITAL OCH SKULDER		<u>117 621</u>	<u>91 876</u>

Noter

Not 1 Redovisningsprinciper

Belopp i Tkr om inget annat anges

Allmänna redovisningsprinciper

Årsredovisningen har upprättats i enlighet med årsredovisningslagen och Bokföringsnämndens allmänna råd BFNAR 2012:1 Årsredovisning och koncernredovisning (K3).

Koncernredovisning upprättas ej med hänvisning till ÅRL 7:2. Koncernredovisning upprättas av överordnat moderbolag, Conconfirm AS, Norge, org nr 976886240.

Värderingsprinciper m m

Tillgångar, avsättningar och skulder har värderats utifrån anskaffningsvärden om inget annat anges nedan.

Utländsk valuta

Transaktioner i utländsk valuta omräknas till den funktionella valutan till den valutakurs som föreligger på transaktionsdagen. Monetära tillgångar och skulder i utländska valuta räknas om till den funktionella valutan till den valutakurs som föreligger på balansdagen. Valutakursdifferenser som uppstår vid omräkningarna redovisas i resultaträkningen.

Tillgångar och skulder i utländska dotterbolag omräknas till den valutakurs som gäller på balansdagen. Intäkter och kostnader omräknas till svenska kronor till en genomsnittskurs som utgör en approximation av kurserna vid respektive transaktionskurs. Omräkningsdifferenser som uppstår vid valutaomräkning av utlandsverksamheter redovisas direkt mot eget kapital.

Intäkter

Det inflöde av ekonomiska fördelar som företaget erhållit eller kommer att erhålla för egen räkning redovisas som intäkt. Bolagets intäkter värderas till verkliga värdet av det som erhållits eller kommer att erhållas, med avdrag för rabatter.

Licensintäkter

Licensavtal för standardprogramvara intäktsförts när samtliga följande krav är uppfyllda:

- licensavtal, utan avbrottsklausuler, är påskrivet
- leverans har skett och/eller risken därmed har överförts till kunden
- pris och betalningsplan är fastställda och inga andra åtaganden föreligger utöver licensleveransen
- betalning är sannolik och förfaller inom 12 månader

I de fall avtal tecknas som sträcker sig över flera år, sker leverans av licensnyckel för ett år framåt, varför licensintäkten intäktsförts ett år i taget. Intäkten för kommande år tas när ny uppdaterad licens har levererats.

Supportintäkter

Supportintäkterna består av timbaserade tjänster relaterade till de programvaror som koncernen levererar. Supportintäkter redovisas i takt med att kunden utnyttjar tjänsten.

Tjänsteuppdrag

Konsulttjänster och utbildning intäktsförts i takt med att tjänsterna levereras.

Leasingavtal

Samtliga leasingavtal redovisas som operationella leasingavtal. Bolaget har inga väsentliga finansiella leasingavtal.

Leasingavgifterna enligt operationella leasingavtal, inklusive förhöjd förstagångshyra men exklusive utgifter för tjänster som försäkring och underhåll, redovisas som kostnad linjärt över leasingperioden.

Skatt

Skatt på årets resultat i resultaträkningen består av aktuell skatt och uppskjuten skatt. Aktuell skatt är inkomstskatt för innevarande räkenskapsår som avser årets skattepliktiga resultat och den del av tidigare räkenskapsårs inkomstskatt som ännu inte har redovisats.

Uppskjutna skattefordringar har värderats till högst det belopp som sannolikt kommer att återvinnas baserat på innevarande och framtida skattepliktiga resultat. Värderingen omprövas varje balansdag. Av försiktighetsskäl har bolaget inte aktiverat uppskjuten skattefordran på upparbetade underskott.

Materiella anläggningstillgångar

Materiella anläggningstillgångar redovisas till anskaffningsvärde minskat med ackumulerade avskrivningar och nedskrivningar. I anskaffningsvärdet ingår förutom inköpspriset även utgifter som är direkt hänförliga till förvärvet.

Tillkommande utgifter som uppfyller tillgångskriteriet räknas in i tillgångens redovisade värde. Utgifter för löpande underhåll och reparationer redovisas som kostnader när de uppkommer.

Avskrivningar

Avskrivning sker linjärt över tillgångens beräknade nyttjandeperiod eftersom det återspeglar den förväntade förbrukningen av tillgångens framtida ekonomiska fördelar. Avskrivningen redovisas som kostnad i resultaträkningen.

Följande avskrivningstider tillämpas:

<i>Materiella anläggningstillgångar</i>	År
Inventarier, verktyg och installationer	5

Finansiella instrument

Finansiella instrument som redovisas i balansräkningen inkluderar långfristiga fordringar, kundfordringar och övriga fordringar, leverantörsskulder, och låneskulder. Instrumenten redovisas i balansräkningen när bolaget blir part i instrumentets avtalsmässiga villkor. Finansiella tillgångar tas bort från balansräkningen när rätten att erhålla kassaflöden från instrumentet har löpt ut eller överförs och koncernen har överfört i stort sett alla risker och förmåner som är förknippade med äganderätten. Finansiella skulder tas bort från balansräkningen när förpliktelserna har reglerats eller på annat sätt upphört.

Kundfordringar och övriga fordringar

Fordringar redovisas som omsättningstillgångar med undantag för poster med förfallodag mer än 12 månader efter balansdagen, vilka klassificeras som anläggningstillgångar. Fordringar tas upp till det belopp som förväntas bli inbetalt efter avdrag för individuellt bedömda osäkra fordringar. Fordringar som är räntefria eller som löper med ränta som avviker från marknadsräntan och har en löptid överstigande 12 månader redovisas till ett diskonterat nuvärde och tidsvärdeförändringen redovisas som ränteintäkt i resultaträkningen.

Låneskulder och leverantörsskulder

Låneskulder och leverantörsskulder redovisas initialt till anskaffningsvärde efter avdrag för transaktionskostnader.

Kvittning av finansiell fordran och finansiell skuld

En finansiell tillgång och en finansiell skuld kvittas och redovisas med ett nettobelopp i

balansräkningen endast då legal kvittningsrätt föreligger samt då en reglering med ett nettobelopp avses ske eller då en samtida avyttring av tillgången och reglering av skulden avses ske.

Nedskrivningsprövning av finansiella anläggningstillgångar

Vid varje balansdag bedömer bolaget om det finns någon indikation på nedskrivningsbehov i någon utav de finansiella anläggningstillgångarna. Nedskrivning sker om värdenedgången bedöms vara bestående.

Andelar i dotterföretag

Aktier och andelar i dotterföretag redovisas till anskaffningsvärde efter avdrag för eventuella nedskrivningar. I anskaffningsvärdet ingår köpeskillingen som erlagts för aktierna samt förvärvskostnader.

Nyckeltalsdefinitioner

Soliditet

Eget kapital och obeskickade reserver (med avdrag för uppskjuten skatt) i förhållande till balansomslutningen.

Not 2 Övriga rörelseintäkter

	2022-01-01- 2022-12-31	2021-01-01- 2021-12-31
Kursvinster på fordringar/skulder av rörelsekaraktär		156
Vidarefakturerade kostnader koncernen		19 588
Summa		19 744

Not 3 Anställda och personalkostnader

Medelantalet anställda

	2022-01-01- 2022-12-31	Varav män	2021-01-01- 2021-12-31	Varav män
Sverige	18	14	19	13
Totalt	18	14	19	13

Not 4 Ränteintäkter och liknande resultatposter

	2022-01-01- 2022-12-31	2021-01-01- 2021-12-31
Ränteintäkter, koncernföretag	811	1 414
Valutakursvinst	3 451	4 636
Summa	4 262	6 050

Not 5 Räntekostnader och liknande resultatposter

	2022-01-01- 2022-12-31	2021-01-01- 2021-12-31
Räntekostnader, koncernföretag	-408	-957
Räntekostnader, övriga	-102	-1
Valutakursförlust		-3 145
Övriga finansiella kostnader		-31
Summa	-510	-4 134

Not 6 Inventarier, verktyg och installationer

	2022-12-31	2021-12-31
<i>Akkumulerade anskaffningsvärden</i>		
-Vid årets början	250	
-Nyanskaffningar	267	250
	<u>517</u>	<u>250</u>
<i>Akkumulerade avskrivningar</i>		
-Vid årets början	-30	
-Årets avskrivning	-109	-30
	<u>-139</u>	<u>-30</u>
Redovisat värde vid årets slut	378	220

Not 7 Andelar i koncernföretag

	2022-12-31	2021-12-31
<i>Akkumulerade anskaffningsvärden:</i>		
-Vid årets början	5	5
Redovisat värde vid årets slut	5	5

Not 8 Fordringar hos koncernföretag

	2022-12-31	2021-12-31
-Vid årets början	45 341	60 050
-Tillkommande fordringar	1 244	
-Reglerade fordringar		-14 550
Redovisat värde vid årets slut	46 585	45 500

Not 9 Långfristiga skulder

Inga skulder förfaller till betalning senare än 5 år.

Underskrifter

Årsredovisningen är avgiven enligt datum för digital signering.

Torbjörn Andersson
Verkställande direktör

Vår revisionsberättelse har lämnats den dag som framgår av vår digitala underskrift.

Emma Westholm
Auktoriserad revisor

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TORBJÖRN ANDERSSON

Verkställande direktör

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2023-06-05 08:24:20 UTC



EMMA WESTHOLM

Auktoriserad revisor

Serienummer: 19750328xxxx

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Revisionsberättelse

Till bolagsstämman i Forsta Worldwide AB, org.nr 556637-9904

Rapport om årsredovisningen

Uttalanden

Jag har utfört en revision av årsredovisningen för Forsta Worldwide AB för år räkenskapsåret 2022-01-01- 2022-12-31.

Enligt min uppfattning har årsredovisningen upprättats i enlighet med årsredovisningslagen och ger en i alla väsentliga avseenden rättvisande bild av Forsta Worldwide ABs finansiella ställning per den 31 december i 2022 och av dess finansiella resultat för året enligt årsredovisningslagen. Förvaltningsberättelsen är förenlig med årsredovisningens övriga delar.

Jag tillstyrker därför att bolagsstämman fastställer resultaträkningen och balansräkningen.

Grund för uttalanden

Jag har utfört revisionen enligt International Standards on Auditing (ISA) och god revisionsred i Sverige. Mitt ansvar enligt dessa standarder beskrivs närmare i avsnittet *Revisorns ansvar*. Jag är oberoende i förhållande till Forsta Worldwide AB enligt god revisorsred i Sverige och har i övrigt fullgjort mitt yrkesetiska ansvar enligt dessa krav.

Jag anser att de revisionsbevis jag har inhämtat är tillräckliga och ändamålsenliga som grund för mina uttalanden.

Styrelsens ansvar

Det är styrelsen som har ansvaret för att årsredovisningen upprättas och att den ger en rättvisande bild enligt årsredovisningslagen. Styrelsen ansvarar även för den interna kontroll som de bedömer är nödvändig för att upprätta en årsredovisning som inte innehåller några väsentliga felaktigheter, vare sig dessa beror på oegentligheter eller misstag.

Vid upprättandet av årsredovisningen ansvarar styrelsen för bedömningen av bolagets förmåga att fortsätta verksamheten. De upplyser, när så är tillämpligt, om förhållanden som kan påverka förmågan att fortsätta verksamheten och att använda antagandet om fortsatt drift. Antagandet om fortsatt drift tillämpas dock inte om beslut har fattats om att avveckla verksamheten.

Revisorns ansvar

Mina mål är att uppnå en rimlig grad av säkerhet om huruvida årsredovisningen som helhet inte innehåller några väsentliga felaktigheter, vare sig dessa beror på oegentligheter eller misstag, och att lämna en revisionsberättelse som innehåller mina uttalanden. Rimlig säkerhet är en hög grad av säkerhet, men är ingen garanti för att en revision som utförs enligt ISA och god revisionsred i Sverige alltid kommer att upptäcka en väsentlig felaktighet om en sådan finns. Felaktigheter kan uppstå på grund av oegentligheter eller misstag och anses vara väsentliga om de enskilt eller tillsammans rimligen kan förväntas påverka de ekonomiska beslut som användare fattar med grund i årsredovisningen.

En ytterligare beskrivning av mitt ansvar för revisionen av årsredovisningen finns på Revisorsinspektionens webbplats: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. Denna beskrivning är en del av revisionsberättelsen.

Rapport om andra krav enligt lagar och andra författningar

Uttalanden

Utöver min revision av årsredovisningen har jag även utfört en revision av styrelsens förvaltning för Forsta Worldwide AB för år räkenskapsåret 2022-01-01- 2022-12-31 samt av förslaget till dispositioner beträffande bolagets vinst eller förlust.

Jag tillstyrker att bolagsstämman disponerar vinsten enligt förslaget i förvaltningsberättelsen och beviljar styrelsens ledamot ansvarsfrihet för räkenskapsåret.

Grund för uttalanden

Jag har utfört revisionen enligt god revisionsred i Sverige. Mitt ansvar enligt denna beskrivs närmare i avsnittet *Revisorns ansvar*. Jag är oberoende i förhållande till Forsta Worldwide AB enligt god revisorsred i Sverige och har i övrigt fullgjort mitt yrkesetiska ansvar enligt dessa krav.

Jag anser att de revisionsbevis jag har inhämtat är tillräckliga och ändamålsenliga som grund för mina uttalanden.

Styrelsens ansvar

Det är styrelsen som har ansvaret för förslaget till dispositioner beträffande bolagets vinst eller förlust. Vid förslag till utdelning innefattar detta bland annat en bedömning av om utdelningen är försvarlig med hänsyn till de krav som bolagets verksamhetsart, omfattning och risker ställer på storleken av bolagets egna kapital, konsolideringsbehov, likviditet och ställning i övrigt.

Styrelsen ansvarar för bolagets organisation och förvaltningen av bolagets angelägenheter. Detta innefattar bland annat att fortlöpande bedöma bolagets ekonomiska situation och att tillse att bolagets organisation är utformad så att bokföringen, medelsförvaltningen och bolagets ekonomiska angelägenheter i övrigt kontrolleras på ett betryggande sätt.

Revisorns ansvar

Mitt mål beträffande revisionen av förvaltningen, och därmed mitt uttalande om ansvarsfrihet, är att inhämta revisionsbevis för att med en rimlig grad av säkerhet kunna bedöma om någon styrelseledamot i något väsentligt avseende företagit någon åtgärd eller gjort sig skyldig till någon försummelse som kan föranleda ersättningsskyldighet mot bolaget, eller på något annat sätt handlat i strid med aktiebolagslagen, årsredovisningslagen eller bolagsordningen.

Mitt mål beträffande revisionen av förslaget till dispositioner av bolagets vinst eller förlust, och därmed mitt uttalande om detta, är att med rimlig grad av säkerhet bedöma om förslaget är förenligt med aktiebolagslagen.

Rimlig säkerhet är en hög grad av säkerhet, men ingen garanti för att en revision som utförs enligt god revisionsred i Sverige alltid kommer att upptäcka åtgärder eller försummelser som kan föranleda ersättningsskyldighet mot bolaget, eller att ett förslag till dispositioner av bolagets vinst eller förlust inte är förenligt med aktiebolagslagen.

En ytterligare beskrivning av mitt ansvar för revisionen av förvaltningen finns på Revisorsinspektionens webbplats: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. Denna beskrivning är en del av revisionsberättelsen.

Linköping den dag som framgår av min elektroniska underskrift

Emma Westholm

Auktoriserad revisor

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EMMA WESTHOLM

Auktoriserad revisor

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Fastställelseintyg

Undertecknad styrelseledamot i Forsta Worldwide AB intygar härmed dels att denna kopia av årsredovisningen samt revisionsberättelsen överensstämmer med originalet, dels att resultat- och balansräkningen fastställts på årsstämma 2023-06-15. Stämman beslutade också att godkänna styrelsens förslag till resultatdisposition.

Norrköping 2023-06-15


Torbjörn Andersson

AZALEA TOPCO, INC.

2022 and 2021 Consolidated Financial Statements
With Report of Independent Auditor

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Report of Independent Auditors

The Board of Directors and Shareholder of Azalea TopCo, Inc.

Opinion

We have audited the consolidated financial statements of Azalea TopCo, Inc. (the Company), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of comprehensive loss, shareholder's equity and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

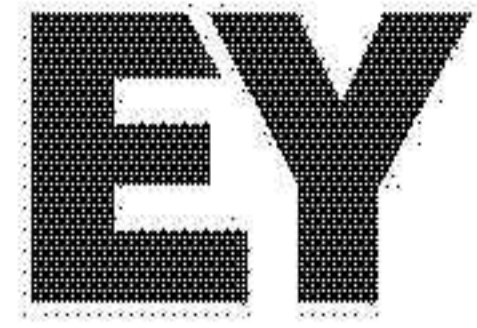
Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.



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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 of 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 absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Ernst + Young LLP

April 28, 2023

Azalea TopCo, Inc.
Consolidated Balance Sheets
(Thousands of dollars, except share and per share amounts)

	<u>December 31,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 40,175	\$ 34,214
Accounts receivable, net of allowance for doubtful accounts of \$1,911 and \$1,211 at December 31, 2022 and 2021	141,217	97,807
Unbilled revenue	12,802	5,939
Prepaid expenses and other assets	35,142	23,873
Income taxes receivable	6,205	7,364
Derivative assets	20,142	-
Total current assets	<u>255,683</u>	<u>169,197</u>
Property and equipment, net	128,346	129,163
Other non-current assets	43,669	15,345
Intangible assets, net	2,349,420	2,150,974
Goodwill	3,279,171	2,788,945
Total assets	<u>\$ 6,056,289</u>	<u>\$ 5,253,624</u>
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Current portion of long-term debt	\$ 23,787	\$ 16,100
Current portion of capital lease obligations	-	1,760
Accounts payable	36,479	18,472
Accrued payroll and related liabilities	24,143	18,241
Accrued interest payable	485	10,767
Current portion of contingent consideration payable	31,450	18,526
Accrued expenses and other liabilities	11,197	6,740
Current portion of derivative liabilities	-	6,960
Deferred revenue	78,801	46,252
Total current liabilities	<u>206,342</u>	<u>143,818</u>
Long-term debt	2,550,747	2,003,659
Capital lease obligations	-	2,413
Derivative liabilities	-	918
Contingent consideration payable	-	14,319
Build-to-suit lease liability	-	11,900
Other non-current liabilities	28,596	3,982
Deferred income taxes	488,429	477,778
Total liabilities	<u>3,274,114</u>	<u>2,658,787</u>
Shareholder's equity		
Common stock, 1,000 shares authorized at \$0.01 par value with 1 share issued and outstanding as of December 31, 2022 and 2021, respectively	-	-
Additional paid-in capital	3,195,297	2,897,804
Accumulated deficit	(414,298)	(296,950)
Accumulated other comprehensive income (loss)	1,176	(6,017)
Total shareholder's equity	<u>2,782,175</u>	<u>2,594,837</u>
Total liabilities and shareholder's equity	<u>\$ 6,056,289</u>	<u>\$ 5,253,624</u>

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

Azalea TopCo, Inc.
Consolidated Statements of Comprehensive Loss
(Thousands of dollars)

	<u>Year Ended</u> <u>December 31, 2022</u>	<u>Year Ended</u> <u>December 31, 2021</u>
Revenue	\$ 703,707	\$ 539,900
Cost of revenue (exclusive of Depreciation and amortization)	287,594	233,180
Operating expenses:		
Selling, general and administrative	220,560	130,340
Depreciation and amortization	254,101	221,417
Other operating expenses (income)	(34,764)	72
Total operating expenses	<u>439,897</u>	<u>351,829</u>
Loss from operations	(23,784)	(45,109)
Other expense:		
Interest expense, net	(165,665)	(124,657)
Other income (loss)	(38)	(1,364)
Total other expense	<u>(165,703)</u>	<u>(126,021)</u>
Loss before income taxes	(189,487)	(171,130)
Income tax benefit	(72,877)	(29,011)
Net loss	<u>(116,610)</u>	<u>(142,119)</u>
Other comprehensive income (loss), net of tax:		
Unrealized gain on cash flow hedge, net of tax of \$6,972 and \$4,436 for the year ended December 31, 2022 and 2021, respectively	21,049	12,759
Foreign currency translation, net of tax of \$- for the year ended December 31, 2022	(13,856)	—
Total other comprehensive income, net of tax	<u>7,193</u>	<u>12,759</u>
Comprehensive loss	<u>\$ (109,417)</u>	<u>\$ (129,360)</u>

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

Azalea TopCo, Inc.
Consolidated Statement of Shareholder's Equity
(Thousands of dollars, except share amounts)

	Common stock	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total Shareholder's Equity
Balance, January 1, 2021	\$ —	\$ 2,669,789	\$ (154,831)	\$ (18,776)	\$ 2,496,182
Net loss	—	—	(142,119)	—	(142,119)
Equity-based compensation	—	8,183	—	—	8,183
Equity contributions	—	219,832	—	—	219,832
Unrealized loss on cash flow hedge, net of tax	—	—	—	12,759	12,759
Balance, December 31, 2021	—	2,897,804	(296,950)	(6,017)	2,594,837
Impact due to adoption of ASU Topic 842	—	—	(738)	—	(738)
Net loss	—	—	(116,610)	—	(116,610)
Foreign currency translation	—	—	—	(13,856)	(13,856)
Equity-based compensation	—	7,668	—	—	7,668
Equity repurchases	—	(1,208)	—	—	(1,208)
Equity contributions	—	291,033	—	—	291,033
Unrealized gain on cash flow hedge, net of tax	—	—	—	21,049	21,049
Balance, December 31, 2022	<u>\$ —</u>	<u>\$ 3,195,297</u>	<u>\$ (414,298)</u>	<u>\$ 1,176</u>	<u>\$ 2,782,175</u>

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

Azalea TopCo, Inc.
Consolidated Statements of Cash Flows
(Thousands of dollars)

	<u>Year Ended</u> <u>December 31, 2022</u>	<u>Year Ended</u> <u>December 31, 2021</u>
Operating activities:		
Net loss	\$ (116,610)	\$ (142,119)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	254,101	221,417
Amortization of deferred financing fees and debt discount	12,159	10,152
Change in fair value of contingent consideration	(30,090)	1,980
Non-cash lease expense	—	99
Equity-based compensation	7,668	8,183
Loss on disposal of property and equipment	1,941	72
Loss on extinguishment of debt	—	1,364
Deferred income taxes	(76,376)	(29,613)
Changes in operating assets and liabilities:		
Accounts receivable, net	(14,775)	(6,116)
Unbilled revenue	(6,427)	3,463
Prepaid expenses and other assets	838	(11,724)
Accounts payable	10,418	1,653
Accrued payroll and related liabilities	5,902	(5,642)
Accrued expenses and other liabilities	(36,781)	(1,569)
Deferred revenue	(1,024)	10,811
Income taxes receivable	(952)	(1,421)
Net cash provided by operating activities	<u>9,992</u>	<u>60,990</u>
Investing activities:		
Acquisition of businesses, net of cash acquired	(441,541)	(338,906)
Capital expenditures	(51,441)	(36,439)
Net cash used in investing activities	<u>(492,982)</u>	<u>(375,345)</u>
Financing activities:		
Proceeds from the issuance of long-term debt, net	388,577	175,449
Payments on long-term debt	(19,096)	(14,747)
Proceeds from the revolving credit facility	140,000	—
Payments on capital lease obligations	—	(3,188)
Payments on build-to-suit lease liability	—	(928)
Payments on finance lease obligations	(3,668)	—
Proceeds from equity contributions	—	169,832
Equity repurchases	(1,208)	—
Contingent consideration payments	(15,116)	(4,500)
Net cash provided by financing activities	<u>489,489</u>	<u>321,918</u>
Effect of exchange rate changes on cash	<u>(538)</u>	<u>—</u>
Net increase in cash	5,961	7,563
Cash and cash equivalents at beginning of period	34,214	26,651
Cash and cash equivalents at end of period	<u>\$ 40,175</u>	<u>\$ 34,214</u>
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest	\$ (156,050)	\$ (110,717)
Income taxes	(1,648)	(2,433)
Non-cash activities		
Capital expenditures in accounts payable	1,992	2,709
Rollover of equity interests in connection with acquisition of business	291,033	50,000
Right-of-use assets obtained in exchange for new operating lease obligations	158	—
Right-of-use assets obtained in exchange for new finance lease obligations	10,850	—

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

Azalea TopCo, Inc.
Notes to Consolidated Financial Statements
(All tables in thousands, except share and per share amounts)

1. Nature of operations

Azalea TopCo, Inc. (“the Company”), formerly known as Emerald TopCo, Inc., through its wholly owned subsidiary, Press Ganey Associates LLC (“Associates”), is a leading provider of health care performance improvement solutions and consulting services, offering an integrated suite of solutions that enable enterprise transformation by addressing safety, clinical excellence, patient experience, healthcare consumerism and workforce engagement. In April 2022, the Company acquired Compass Midco Limited (“Forsta”), a leading global provider of market research, customer experience and employee experience technology. The Forsta acquisition allows the Company to expand into new geographies and industries, with highly complementary market research and technology that will coordinate seamlessly with the Company’s existing healthcare solutions.

The immediate parent of the Company is Azalea Intermediate Corp. (the “Immediate Parent”). Azalea Intermediate Corp. is a subsidiary of Azalea Parent Corp. (the “Parent”), which is a subsidiary of Azalea Parent Holdings LP (the “Ultimate Parent”), a Delaware Limited Partnership with Azalea GP LLC as its General Partner.

2. Significant accounting policies

Basis of consolidation and presentation

The consolidated financial statements include the financial statements of Azalea TopCo, Inc. and its wholly owned subsidiaries. All intercompany balances and transactions are eliminated in consolidation. Unless otherwise indicated, all financial data presented in these consolidated financial statements are expressed in US dollars.

Use of estimates

The preparation of consolidated financial statements in conformity with US generally accepted accounting principles (“US GAAP”) requires management to make estimates and assumptions affecting amounts reported and disclosed in the financial statements and accompanying notes. Actual results could differ materially from those estimates.

Cash and cash equivalents

Cash and cash equivalents include cash in readily available checking and money market funds. We consider all highly liquid investments purchased with a maturity of three months or less on the date of purchase to be cash equivalents. Cash equivalents are carried at cost which approximates fair value.

Accounts receivable, net and allowance for doubtful accounts

Accounts receivable are carried at gross value net of an allowance for doubtful accounts. The allowance for doubtful accounts reflects the Company’s current estimate of credit losses expected to be incurred over the life of the accounts receivable. Collectability of accounts receivable is assessed on an ongoing basis and determined based on a combination of specific customer circumstances, credit conditions and the history of write-offs and collections. The Company evaluates items on an individual basis when determining accounts receivable write-offs. In general, the Company’s policy is not to charge interest on accounts receivable after the invoice becomes past due. A receivable is considered past due if payment has not been received within the agreed upon invoice terms. Account balances are charged off against the allowance after all normal means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit exposure related to its customers, and collateral is generally not required.

Property and equipment

Property and equipment are carried at historical cost, net of accumulated depreciation and amortization. Plant and equipment under capital leases are carried at the present value of their minimum lease payments.

Depreciation is recorded on a straight-line basis over the estimated useful lives of each asset. Amortization of leasehold improvements is recorded on a straight-line basis over the shorter of the lease term or estimated useful life of the asset and is classified as depreciation expense. The estimated useful life of each asset is as follows:

Computer equipment and software	2-7 years
Furniture and fixtures	5-7 years
Leasehold improvements	Lesser of lease term or useful life
Office equipment	3-5 years

The Company evaluates the useful life and carrying value of property and equipment for impairment if an event occurs or circumstances change that would indicate the carrying value may not be recoverable. If the carrying amount of the asset group is not recoverable on an undiscounted cash flow basis, an impairment loss is recognized to the extent that the asset group's carrying amount exceeds its estimated fair value.

Computer software development costs that are incurred in the preliminary project stage are expensed as incurred. During the development stage, direct consulting expenses, payroll and payroll related expenses for employees that are directly associated with each project are capitalized and amortized over the estimated useful life of the software once placed into operation. Replacements and major improvements are capitalized while maintenance and repairs are expensed as incurred. Computer software development costs are amortized on a straight-line basis over its estimated useful life of 36 months. The Company recognized expenses of \$54.0 million and \$52.3 million related to capitalized internal-use software for the years ended December 31, 2022 and 2021, respectively, within Depreciation and amortization.

Goodwill and intangible assets

Goodwill represents the excess of the aggregate purchase price over the fair value of the net assets acquired in a business combination. Identifiable intangible assets are recognized separately from goodwill and include trade names, customer contracts, customer relationships, proprietary technology, databases and other specifically identifiable assets. Certain trade names are deemed to have an indefinite-life. Goodwill and indefinite-lived assets are not amortized, but are subject to impairment testing.

The goodwill impairment test is performed at the reporting unit level. The Company's reporting unit is the entity-level. The Company performs the annual impairment assessment for goodwill and indefinite-lived intangible assets on the first day of the fourth fiscal quarter, or between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount.

The Company has the option to perform either the qualitative or the quantitative test. In the event a reporting unit fails the qualitative test, it is required to perform the quantitative test. If the fair value of the reporting unit is less than its carrying value, the reporting unit will recognize an impairment for the lesser of either the amount by which the reporting unit's carrying amount exceeds the fair value of the reporting unit or the reporting unit's goodwill carrying value.

Definite-lived intangible assets are tested for impairment if an event occurs or circumstances change that indicate the carrying value may not be recoverable.

Leases

The Company adopted ASU 2016-02, *Leases (Topic 842)* as of January 1, 2022. After the adoption of this standard, the Company determines if an arrangement contains a lease at inception based on whether there is an identified

asset and whether the Company controls the use of the identified asset throughout the period of use. The Company classifies leases as either operating or financing. The Company has operating and finance leases for office space and other equipment. Right-of-use ("ROU") assets are recognized at the lease commencement date and represent the Company's right to use an underlying asset for the lease term. Lease liabilities represent the Company's obligation to make lease payments arising from the lease. Lease liabilities are recognized at the lease commencement date based on the present value of future lease payments over the remaining lease term. Present value of lease payments is discounted based on the Company's incremental borrowing rate, when the interest rate implicit in the Company's lease is not readily determinable.

The Company's operating lease ROU assets are measured based on the corresponding operating lease liability adjusted for (i) payments made to the lessor at or before the commencement date, (ii) initial direct costs incurred and (iii) lease incentives under the lease. Options to renew or terminate the lease are recognized as part of our ROU assets and lease liabilities when it is reasonably certain the options will be exercised. ROU assets are also assessed for impairments consistent with the Company's long-lived asset policy.

The Company does not allocate consideration between lease and non-lease components, such as maintenance costs, as the Company has elected to not separate lease and non-lease components for any leases within its existing classes of assets. Operating lease expense for fixed lease payments is recognized on a straight-line basis over the lease term. Variable lease payments for volume-based fees are not included in the measurement of the ROU assets or lease liabilities and are expensed as incurred.

Business Combinations

The Company accounts for acquired businesses using the acquisition method of accounting under ASC 805, *Business Combinations* (ASC 805), which requires that assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. The fair value of the consideration paid, including contingent consideration, is assigned to the underlying net assets of the acquired business based on their respective fair values. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill.

Significant judgments are used in determining the estimated fair values assigned to the assets acquired and liabilities assumed and in determining estimates of useful lives of long-lived assets. Fair value determinations and useful life estimates are based on, among other factors, estimates of expected future cash flows, estimates of appropriate discount rates used to present value expected future net cash flows, and other factors. These judgments can materially impact the estimates used to determine the acquisition date fair values to assets acquired and liabilities assumed and the resulting timing and amounts charged to, or recognized in current and future operating results.

Any changes in the fair value of contingent consideration resulting from a change in the underlying inputs is recognized in other operating expenses (income) until the contingent consideration arrangement is settled. Changes in the fair value of contingent consideration resulting from the passage of time are recorded within interest expense until the contingent consideration is settled.

If the acquired net assets do not constitute a business under the acquisition method of accounting, the transaction is accounted for as an asset acquisition and no goodwill is recognized.

Revenue recognition

Revenue is measured as the amount of consideration the Company expects to receive in exchange for providing a service. Services provided by the Company include health care performance improvement solutions, including patient experience, member experience and caregiver engagement surveys, marketing automation and reputation management services (consumerism), as well as strategic advisory and consulting solutions. The Company also provides access to its technology (subscription revenue) and provides web-based market research streaming services. Sales and other taxes collected from customers to be remitted to government authorities are excluded from revenue. The Company accounts for contracts with customers by applying the requirements of Financial Accounting Standards Board (FASB) Accounting

Standards Codification (ASC) Topic 606 – *Revenue from Contracts with Customers* (Topic 606), which includes the following steps:

- Identification of the contract, or contracts, with a customer
- Identification of the performance obligation(s) in a contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligation(s) in the contract
- Recognition of revenue when, or as, performance obligation(s) are satisfied

Classes of Revenue

The Company derives revenue primarily from five service lines:

Health care performance improvement solutions, including patient experience, member experience and caregiver engagement surveys

The Company generates revenue primarily from sales of health care performance improvement solutions. The Company assists its customers in gathering data, primarily through surveys, and aggregate, analyze and summarize the information. The Company helps its customers interpret the results as well as submit results to regulatory authorities, if applicable.

The Company's contracts generally have multi-year annual contractual terms. The Company generally invoices monthly in arrears but may also invoice on a quarterly or annual basis, with net 30 payment terms. The Company's agreements are generally non-cancelable.

Marketing automation and reputation management services (consumerism)

The Company generates revenue from the sales of marketing automation and reputation management services. The Company assists its customers in creating a better customer experience by managing physician directories and facility locations information as well as collect, review and analyze customer feedback.

Professional services, including strategic advisory and consulting solutions

The Company provides strategic advisory and consulting services. These services are distinct from survey revenue services.

Subscription revenue

The Company generates revenue from contracts with customers who purchase subscriptions to access the Company's hosted market research platform. The subscription includes support, training, and onboarding services. Customers do not have the right to take possession of the Company's software at any time. Instead, customers are granted access to the Company's platform over the contractual period.

Market research streaming services

The Company generates revenue from web-based streaming services.

Identification of Performance Obligations

The Company's revenue arrangements with customers may include a combination of more than one performance obligation. For contracts that contain more than one separately identified performance obligation, the total transaction price is allocated to the identified performance obligations based on the relative stand-alone selling prices of the performance obligations.

Determination of Transaction Price

Prices are fixed at contract inception; therefore, the Company's contracts do not contain a significant amount of variable consideration.

Allocation of transaction price

The transaction price is allocated to the separate performance obligations on a relative stand-alone selling price basis.

Judgment is required when estimating standalone selling prices. The Company reviews the standalone selling prices periodically or whenever facts and circumstances change to ensure the most objective input parameters available are used.

Recognition of Revenue

Health care performance improvement solutions represent a series of distinct services as the Company continually provides access to and fulfills its obligation to the end customer over the contract term. The series of distinct services represents a single performance obligation that is satisfied over time. Accordingly, the fixed consideration related to health care performance improvement solutions is generally recognized as revenue on a straight-line basis over the contract term, beginning on the date that the service is made available to the customer.

Marketing automation and reputation management services represent a series of distinct services as the Company continually provides access to and fulfills its obligation to the end customer over the contract term. The series of distinct services represents a single performance obligation that is satisfied over time. Accordingly, the fixed consideration related to marketing automation and reputation management services is generally recognized as revenue over a straight-line basis over the contract term, beginning on the date that the service is made available to the customer.

Revenue from professional services related to strategic advisory and consulting services is recognized as the services are performed and contract milestones are satisfied, as the customer consumes the benefit as the services are provided.

Revenues from subscription services are recognized on a ratable basis over the contract term beginning on the date that the Company's service is made available to the customer, which the Company believes best reflects the manner in which the Company's customers utilize the Company's subscription offerings. Arrangements with customers do not provide the customer with the right to take possession of the software supporting the Company's solutions at any time and, as a result, are accounted for as a service contract.

Revenue from web-based streaming services is recognized once the service has been performed and the customer has consumed the benefit, at the end of the project.

Judgment is required to determine whether revenue is to be recognized at a point in time or over time. All judgments and estimates mentioned above can significantly impact the timing and amount of revenue to be recognized.

Contract Balances

The Company generally invoices the customer in advance. In addition, the Company also enters into non-cancelable multi-year contracts with its customers which include price escalations each year. The Company recognizes revenue on a straight-line basis over the non-cancelable term and accounts for the difference between straight-line revenue and annual invoice amounts as a contract asset. Contract assets are classified as unbilled revenue on the consolidated balance sheets. The Company classifies contract liabilities as deferred revenue. Deferred revenue primarily relates to the advance consideration received from the customer prior to the related performance obligation being fulfilled.

Disaggregation of Revenue

The following table represents revenue by region based on the address of customers:

	Year Ended December 31,	
	2022	2021
United States	\$ 663,498	\$ 536,571
United Kingdom	10,188	-
International	30,021	3,329
Total revenue	<u>\$ 703,707</u>	<u>\$ 539,900</u>

No single country outside of the United States accounted for 10% or more of revenue during the year ended December 31, 2022 and 2021.

Deferred contract costs

The Company defers commissions and incentives, including payroll taxes, if they are incremental and recoverable costs of obtaining a customer contract. Deferred contract costs are amortized over the estimated contract term. An impairment of deferred contract costs is recognized when the unamortized balance of deferred contract costs exceeds the remaining amount of consideration the Company expects to receive less than the expected future costs directly related to providing those services. Deferred contract costs are included in prepaid expenses and other assets and other non-current assets on the consolidated balance sheet. As of December 31, 2022, the current and non-current portion of the deferred contract costs were \$9.4 million and \$2.6 million, respectively. As of December 31, 2021, the current and non-current portion of the deferred contract costs were \$4.2 million and \$2.1 million, respectively.

Derivatives

The Company uses derivative financial instruments to manage risks associated with interest rate fluctuations. The Company records all derivatives on the consolidated balance sheet at fair value. The fair value of interest rate swaps is determined by estimating the net present value of amounts to be paid under the agreement offset by the net present value of the expected cash inflows based on market rates and associated yield curves. For derivative contracts with the same counterparty where the Company has a master netting arrangement with the counterparty, the fair value of the asset/liability is presented on a net basis within the consolidated balance sheets.

The Company has entered into derivative financial instruments designated as cash flow hedges to manage the risk of future cash payments associated with its variable-rate debt. The effective portion of changes in fair value of cash flow hedges are recorded in accumulated other comprehensive income (loss) within the consolidated balance sheets and are subsequently reclassified into earnings in the period for which the hedged forecasted transaction affects earnings. The ineffective portion of the changes in fair value of the derivatives is recognized directly into earnings.

Equity-based compensation

Equity awards

The Company measures the total amount of employee equity-based compensation expense based on the grant date fair value of each award. The fair value of the award with service based vesting conditions that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's consolidated statements of comprehensive loss using the straight-line method. For awards with performance and market based vesting conditions, the fair value of the award that is ultimately expected to vest is recognized as expense if the performance based vesting conditions are deemed probable.

The Company recognizes forfeitures when incurred. Units forfeited are available to be reissued by the Company.

Phantom equity awards

The Company measures and recognizes compensation expense for phantom equity-based awards based on the fair value of the awards each year until settlement. The fair value of such awards with service based vesting conditions that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's consolidated statement of comprehensive loss using the straight-line method. For awards with performance and market based vesting conditions, the fair value of the award that is ultimately expected to vest is recognized as expense if the performance based vesting conditions are deemed probable. All awards are paid out in cash upon vesting at the discretion of the Ultimate Parent in accordance with the grant agreement. The fair value of the phantom equity awards is recognized as a liability on the balance sheet with changes to fair value each year being recognized in the statement of comprehensive loss. The liability as of and the change in fair value of the phantom equity awards during the year-ended December 31, 2022 were immaterial.

Foreign currency translation

Assets and liabilities of foreign subsidiaries are translated into US dollars at period-end exchange rates. Income and expense accounts of foreign subsidiaries are translated into US dollars at the average exchange rates for the period. The net exchange gains and losses arising from the translation are reflected as a component of currency translation within Other comprehensive income (loss). The cumulative foreign currency translation was \$13.9 million and \$- as of December 31, 2022 and 2021, respectively.

Foreign exchange transaction gains and losses associated with the revaluation of balance sheet amounts denominated in a foreign currency are included in other income (loss) in the consolidated statement of comprehensive loss and were immaterial for the years ended December 31, 2022 and 2021.

Income Taxes

The Company accounts for income taxes using the asset and liability approach. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that are expected to be in effect when the differences reverse. Deferred tax assets are also recognized for the estimated future effects of tax loss carryforwards. The effect on deferred taxes of changes in tax rates is recognized in the period in which the revised tax rate is enacted.

The Company recognizes interest and penalties related to unrecognized tax benefits within selling, general and administrative expense in the consolidated statement of comprehensive loss. Accrued interest and penalties are included in accrued expenses and other liabilities and other non-current liabilities in the consolidated balance sheets.

Fair value

Certain assets and liabilities are required to be recorded at fair value. The estimated fair values of those assets and liabilities have been determined using market information and valuation techniques. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. There are three levels of inputs that may be used to measure fair value:

- Level 1 Quoted prices for identical instruments in active markets
- Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuation in which all significant inputs and significant value drivers are observed in active markets
- Level 3 Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable

Accounting pronouncements issued not yet adopted

In June 2016, the FASB issued ASU 2016-13 “Financial Instruments – Credit Losses (Topic 326): Measurements of Credit Losses on Financial Instruments”, along with amendments issued in 2018. The standard requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. The Company will adopt this guidance effective January 1, 2023 and does not expect it to have a material impact on its consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12 “Income Taxes” (Topic 740) – “Simplifying the Accounting for Income Taxes.” The ASU clarifies and simplifies the accounting for income taxes by eliminating certain exceptions for intra-period tax allocation principles, updating the methodology for calculating income tax rates in an interim period and aligning the recognition of deferred taxes for outside basis differences in an investment, among other updates. The Company will adopt this guidance effective January 1, 2023 and does not expect it to have a material impact on its consolidated financial statements.

In December 2022, the FASB issued ASU 2022-06 “Reference Rate Reform” (Topic 848) “Deferral of the Sunset Date of Topic 848”, which deferred the sunset date of Topic 848 from December 31, 2022 to December 31, 2024. Topic 848 provides optional practical expedients and elections when accounting for contracts, hedging relationships and other transactions affected by the discontinuation of reference rates such as LIBOR, if certain criteria are met. The standard was effective upon issuance and the Company may apply the optional practical expedients and elections in Topic 848 prospectively through December 31, 2024.

Recently issued and adopted accounting pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This standard requires the recognition of a right-of-use asset and lease liability on the balance sheet for substantially all leases. The standard retained a dual model for lease classification, requiring leases to be classified as finance or operating lease to determine recognition in the statement of operations and cash flows. Additionally, in July 2018, the FASB issued ASU 2018-11, *Leases, Targeted Improvements*, which provided entities with a transition method option to not restate comparative periods presented, but to recognize a cumulative effect adjustment to beginning retained earnings in the period of adoption. The Company elected the modified retrospective transition method and did not restate prior comparative periods. The standards also provide additional transition relief, of which the Company has elected to (1) not reassess whether any expired or existing contracts are or contain leases, (2) retain the classification of leases (e.g., operating or finance lease) existing as of the date of adoption, (3) not reassess initial direct costs for any existing leases, and (4) not utilize hindsight when assessing lease term and ROU asset impairment. The guidance is effective for nonpublic companies for fiscal years beginning after December 15, 2021. The Company adopted this standard as of January 1, 2022. See Note 9.

3. Property and Equipment

Property and equipment, net consisted of the following:

	December 31,	
	2022	2021
Furniture, fixtures, and leasehold improvements	\$ 11,985	\$ 9,304
Office equipment	29,323	10,495
Office equipment held under capital lease	-	10,053
Computer equipment and software	239,804	187,700
Building	22,858	15,478
Subtotal	303,970	233,030
Less: Accumulated depreciation	(175,955)	(114,076)
Less: Accumulated amortization of office equipment held under capital leases	-	(6,697)
Subtotal	\$ 128,015	\$ 112,257
Software development and construction in progress	331	16,906
Property and equipment, net	\$ 128,346	\$ 129,163

The Company recorded depreciation and amortization expense of \$62.5 million for the year ended December 31, 2022. The Company also recorded a loss of \$1.9 million for the year ended December 31, 2022 related to abandoned software projects.

The Company recorded depreciation and amortization expense (including amortization of office equipment held under capital lease) of \$59.7 million for the year ended December 31, 2021.

The Company capitalizes internal development costs related to software hosting arrangements that are service contracts. Such capitalized costs are recorded within prepaid expenses and other assets on the consolidated balance sheets. At December 31, 2022 and 2021, the Company had capitalized implementation costs of hosting arrangements that are service contracts as follows:

	December 31,	
	2022	2021
Capitalized internal development costs	\$ 28,464	\$ 23,374
Less: Accumulated amortization	(24,229)	(17,293)
Capitalized internal development costs, net	<u>\$ 4,235</u>	<u>\$ 6,081</u>

4. Contingent consideration payable

The Company classifies its financial instruments according to the fair value hierarchy described in “Note 2: Summary of significant accounting policies.”

The following is a reconciliation of the fair valuation measurements that use significant unobservable inputs (Level 3), which consist of contingent consideration liabilities related to the Compass Midco Limited (Forsta), NextPlane Solutions LLC, Strategic Management Decisions, LLC, Health Performance Group (Doctor.com) and Healthgrades acquisitions:

Balance at January 1, 2021	\$	35,365
Additions		—
Fair value adjustments		1,980
Payments		(4,500)
Balance at December 31, 2021		<u>32,845</u>
Additions		43,811
Fair value adjustments		(30,090)
Payments		(15,116)
Balance at December 31, 2022		<u>31,450</u>
Less: current portion		31,450
Total contingent consideration payable, excluding current portion	<u>\$</u>	<u>—</u>

The fair value of the contingent consideration is based on a real option approach, which takes into account management’s best estimate of the acquired business performance, as well as achievement risk. The Company assesses the projected results for each of the acquisitions in comparison to the earnout targets and adjusts the liability accordingly.

During the year ended December 31, 2022, the increase in contingent consideration payable was associated with the acquisition of Compass Midco Limited (“Forsta”); Refer to Note 5 for additional information. The performance assumptions associated with the Compass Midco Limited (“Forsta”), Health Performance Group (Doctor.com), Healthgrades and Next Plane Solutions LLC acquisitions were revised, resulting in \$23.1 million, \$10.5 million, \$1.8 million and \$1.3 million fair value adjustments, respectively. Fair value adjustments are recorded within Other operating expenses (income) on the consolidated statement of comprehensive loss.

5. Business Combinations

Compass Midco Limited

On April 26, 2022, Press Ganey Associates LLC and Azalea Parent Holdings LP completed an acquisition of 100% of the equity interest of Compass Midco Limited (“Forsta”). Forsta is a leading global provider of market research, customer experience and employee experience technology. The acquisition allows the Company to expand into new geographies and industries with highly complementary market research and technology that will coordinate seamlessly with the Company’s existing healthcare solutions.

The total purchase price of the acquisition was \$809.5 million. The purchase price was settled through a cash payment of \$472.3 million, issuance of equity interest in the Ultimate Parent valued at \$291.0 million as of the acquisition date, future issuance of equity interest in the Ultimate Parent valued at \$43.8 million as of the acquisition date (“the earnout” or “contingent consideration”) and settlement of a pre-existing relationship of \$2.4 million. The earnout arrangement requires the Company to pay up to \$50.0 million of additional consideration, payable subject to revenue targets for the year ending December 31, 2022. We estimated the fair value of the contingent consideration using a real option approach. The fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement as defined by ASC 820. Refer to Note 4 for changes made to the contingent consideration liability throughout the year.

The cash portion of the purchase price and acquisition related costs were funded using the proceeds from the issuance of new debt and additional withdrawals on our revolving credit facility. Refer to “Note 7: Long term debt” for more information.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the acquisition date. The inputs for determining fair value of the intangible assets are largely based on management’s judgements and are not generally observable in active markets, the Company considers such inputs to be Level 3 measurements in the fair value hierarchy. The initial accounting for this acquisition is considered preliminary and is subject to adjustments on receipt of additional information relevant to push down the purchase price allocation to the legal entities acquired and complete the opening balances for the income tax accounts.

Cash	\$	35,442
Accounts receivable		28,544
Unbilled revenue		436
Prepaid expenses		8,058
Property and equipment		1,872
Other assets		7,718
Intangible assets		390,617
Total identifiable assets acquired		472,687
Accounts payable		(6,373)
Accrued expenses		(33,753)
Deferred revenue		(33,296)
Other liabilities		(5,898)
Income taxes payable		(2,111)
Deferred tax liabilities		(80,252)
Total identifiable liabilities assumed		(161,683)
Net identifiable assets acquired		311,004
Goodwill		498,488
Net assets acquired	\$	809,492

The Company recorded \$498.5 million of goodwill. The goodwill is primarily attributed to expected synergies from combining operations. The Company expects approximately \$5.7 million of goodwill to be deductible for income tax purposes.

The identified intangible assets were related to trade name, Decipher technology, Horizons technology, Qualitative technology and customer relationships, which have amortization periods of 9 years, 9 years, 13 years, 12 years and 13 years, respectively, and a total weighted average amortization period of 12.3 years.

Transaction expenses of \$9.5 million relating to the purchase are included in selling, general and administrative expenses for the year ended December 31, 2022.

Idea Holdings, LLC

On July 15, 2022, Press Ganey Associates LLC completed an acquisition of 100% of the equity interest of Idea Holdings, LLC (“Hello Ignite”). The total purchase price of the acquisition was \$5.0 million, which was settled through a cash payment. Hello Ignite provides crowd sourcing software which enables companies to collect, share and manage innovative ideas from employees to improve experiences for customers.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the acquisition date. The inputs for determining fair value of the intangible assets are largely based on management’s judgements and are not generally observable in active markets, the Company considers such inputs to be Level 3 measurements in the fair value hierarchy. The initial accounting for this acquisition is considered preliminary and is subject to adjustments on receipt of additional information relevant to complete the opening balances for the income tax accounts.

Cash	\$	298
Accounts receivable		91
Intangible assets		4,355
Total identifiable assets acquired		4,744
Accounts payable		(23)
Deferred revenue		(277)
Total identifiable liabilities assumed		(300)
Net identifiable assets acquired		4,444
Goodwill		517
Net assets acquired	\$	4,961

The Company recorded \$0.5 million of goodwill. The goodwill is primarily attributed to expected synergies from combining operations. The Company expects approximately \$0.5 million of goodwill to be deductible for income tax purposes.

The identified intangible assets were related to technology and customer relationships, which have amortization periods of 7 years and 7 years, respectively.

Symphony Health Platforms

On May 25, 2021, Press Ganey Associates LLC completed an acquisition of 100% of the equity interest of Symphony Performance Health Holdings, Inc. (“SPH”). SPH provides regulatory and elective surveys, call center outreach, consulting and analytic applications to health plans, accountable care organizations, healthcare providers and payer and organizations. The acquisition enhances the Company’s suite of health care performance improvement solutions.

The total purchase price of the acquisition was \$401.9 million. The purchase price was settled through a cash payment of \$351.9 million as well as through issuance of equity interest in the Ultimate Parent valued at \$50.0 million as of the acquisition date.

The following table summarizes the allocation of purchase price to the fair value of the assets acquired and liabilities assumed for SPH:

Cash	\$	13,043
Accounts receivable		10,844
Prepaid expenses		1,266
Unbilled revenue		3,179
Property and equipment		3,058
Intangible assets		220,784
Other assets		164
Total identifiable assets acquired		252,338
Accounts payable		(1,289)
Accrued expenses		(7,529)
Deferred revenue		(6,169)
Other liabilities		(4,292)
Deferred tax liabilities		(39,082)
Total identifiable liabilities assumed		(58,361)
Net identifiable assets assumed		193,977
Goodwill		207,972
Net assets acquired	\$	401,949

The Company recorded \$208.0 million of goodwill. The goodwill is primarily attributed to expected synergies from combining operations. The Company expects approximately \$9.6 million of goodwill to be deductible for income tax purposes.

The identified intangible assets were related to trade name, database, technology, customer relationships and non-competition agreements, which have amortization periods of 5 years, 5 years, 5 years, 15 years and 3 years, respectively, and a total weighted average amortization period of 12.9 years.

Transaction expenses of \$2.1 million relating to the purchase are included in selling, general and administrative expenses for the year ended December 31, 2021.

6. Goodwill and intangible assets

Goodwill

The following is a summary of the activity in goodwill:

Balance as of January 1, 2021	\$	2,582,955
Acquisition of SPH		207,972
Final purchase price allocation adjustments for 2020 acquisitions		(1,982)
Balance as of December 31, 2021		2,788,945
Acquisition of Forsta		498,488
Acquisition of HelloIgnite		517
Foreign currency translation		(8,779)
Balance as of December 31, 2022	\$	3,279,171

As of October 1, 2022, the Company performed its annual impairment review and concluded the fair value exceeded the carrying value of its reporting unit. There were no events or circumstances from the date of the assessment through December 31, 2022 that would affect this conclusion.

Intangible assets, net

The gross carrying amounts and accumulated amortization of the Company's intangible assets were as follows:

	December 31, 2022				December 31, 2021			
	Average Remaining Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Average Remaining Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trade name (indefinite life)	—	\$ 506,000	\$ —	\$ 506,000	—	\$ 506,000	\$ —	\$ 506,000
Trade name (finite life)	6.4	63,917	(11,135)	52,782	4.3	24,460	(3,154)	21,306
Customer contracts	2.9	11,118	(4,700)	6,418	3.9	11,118	(2,477)	8,641
Customer relationships	11.8	1,950,110	(382,588)	1,567,522	12.8	1,715,694	(255,902)	1,459,792
Proprietary technology	7.0	233,599	(63,200)	170,399	3.6	117,315	(32,859)	84,456
Database	1.9	121,100	(76,196)	44,904	2.9	121,100	(51,976)	69,124
Other	1.0	2,499	(1,104)	1,395	2.0	2,572	(917)	1,655
		<u>\$ 2,888,343</u>	<u>\$ (538,923)</u>	<u>\$ 2,349,420</u>		<u>\$ 2,498,259</u>	<u>\$ (347,285)</u>	<u>\$ 2,150,974</u>

The Company recorded amortization expense of \$191.6 million and \$161.7 million for the year ended December 31, 2022 and 2021, respectively. The Company cannot reliably determine the pattern for which it derives the benefit of its intangible assets. As such, the Company amortizes its intangible assets using the straight-line method over their estimated lives.

The estimated annual amortization expense in each of the next five years is as follows:

2023	\$	202,727
2024		193,116
2025		171,760
2026		150,925
2027		147,279

7. Long-term debt

As of December 31, 2022 and 2021, the Company's long-term debt consisted of the following:

	December 31,	
	2022	2021
Term Loan Facilities:		
First Lien Term Loan	\$ 1,209,375	\$ 1,221,875
First Lien Second Amendment Term Loan	354,157	357,752
First Lien Third Amendment Term Loan	397,000	—
Second Lien Term Loan	452,500	452,500
Revolving line of credit:		
Revolving line of credit	170,000	30,000
Finance lease obligations	34,528	—
Long-term debt before discount	<u>2,617,560</u>	<u>2,062,127</u>
Less: Unamortized deferred financing fees	(35,215)	(36,442)
Less: Unamortized original issue discount	(7,811)	(5,926)
Total long-term debt	<u>2,574,534</u>	<u>2,019,759</u>
Less: current maturities	(23,787)	(16,100)
Total long-term debt, excluding current maturities	<u>\$ 2,550,747</u>	<u>\$ 2,003,659</u>

As of December 31, 2022, future contractual maturities of long-term debt, excluding finance lease obligations, were as follows:

2023	\$ 20,096
2024	190,096
2025	20,096
2026	1,900,244
Thereafter	452,500
Total debt	<u>\$ 2,583,032</u>

First Lien Credit Agreement

The Company entered into a First Lien Credit Agreement (“First Lien Agreement”), dated July 25, 2019. The First Lien Agreement provided a new term loan facility in an aggregate principal amount of \$1,250.0 million (“First Lien Term Loan”) and a new revolving credit facility of \$250.0 million (“Revolving Credit Facility”). The First Lien Agreement also provided an incremental credit facility (“Swing Line Loan”). The debt was issued with an original issue discount of \$6.3 million. Deferred financing fees of \$35.8 million were also capitalized in connection with the First Lien Agreement. The interest rate applicable to the First Lien Term Loan is also based on, at the borrower’s option, (i) a fluctuating rate of interest determined by reference to an adjusted base rate (“ABR”) plus an applicable margin or (ii) a Eurocurrency rate (“LIBOR”), plus an applicable margin. The applicable margins fluctuate depending on the Company’s Net Leverage Ratio, as defined in the First Lien Agreement. The applicable margin for the ABR and LIBOR calculations are 2.50% and 3.50%, respectively, as of December 31, 2022. The Company is required to repay the outstanding principal amount of the First Lien Term Loan in equal quarterly amounts of \$3.1 million, commencing on December 31, 2019. The remaining First Lien Term Loan balance will be due upon maturity on July 25, 2026.

On October 6, 2020, the Company entered into the First Amendment which provided an incremental term loan facility in an aggregate principal amount of \$180.0 million (“First Lien First Amendment”), that matures on July 25, 2026. The First Lien First Amendment was issued with an original issue discount of \$1.8 million. Deferred financing fees of \$2.9 million were also capitalized in connection with the amendment. The interest rate applicable to the First Lien Incremental Term Loan is based on, at the borrower’s option, (i) a fluctuating rate of interest determined by reference to an adjusted base rate (“ABR”) plus an applicable margin or (ii) a Eurocurrency rate (“LIBOR”), with a floor of 0.75%, plus an applicable margin. The applicable margins fluctuate depending on the Company’s Net Leverage Ratio, as defined in the First Lien Agreement. The applicable margin for the ABR and LIBOR calculations are 3.00% and 4.00%, respectively, as of December 31, 2022. The First Lien Incremental Term Loan is payable in quarterly installments beginning March 31, 2021. The remaining loan balance will be due upon maturity.

On May 25, 2021, the Company repaid in full the remaining First Lien First Amendment Term Loan and entered into the Second Amendment which provided a new term loan facility in an aggregate principal amount of \$359.6 million (“First Lien Second Amendment”). The repayment and the new term loan facility were settled net. The First Lien Second Amendment matures on July 25, 2026. The First Lien Second Amendment was issued with an original issue discount of \$2.1 million. Deferred financing fees of \$5.3 million were also capitalized in connection with the amendment. The interest rate applicable to the First Lien Second Amendment is also based on, at the borrower’s option, (i) a fluctuating rate of interest determined by reference to an adjusted base rate (“ABR”) plus an applicable margin or (ii) a Eurocurrency rate (“LIBOR”), with a floor of 0.75%, plus an applicable margin. The applicable margins fluctuate depending on the Company’s Net Leverage Ratio, as defined in the First Lien Agreement. The applicable margin for the ABR and LIBOR calculations are 2.75% and 3.75%, respectively, as of December 31, 2022. The First Lien Second Amendment is payable in quarterly installments beginning September 30, 2021. The remaining loan balance will be due upon maturity.

As a result of the Second Amendment of the First Lien Credit Agreement, the Company recognized a loss on extinguishment of debt of \$1.4 million during the year ended December 31, 2021.

On April 26, 2022, the Company entered into the Third Amendment which provided a new term loan facility in an aggregate principal amount of \$400.0 million (“First Lien Third Amendment”). The First Lien Third Amendment matures on July 25, 2026. The First Lien Third Amendment was issued with an original issue discount of \$3.8 million. Deferred financing fees of \$7.6 million were also capitalized in connection with the amendment. The interest rate applicable to the First Lien Third Amendment is also based on, at the borrower’s option, (i) a fluctuating rate of interest determined by reference to an adjusted based rate (“ABR”) plus an applicable margin or (ii) a Secured Overnight Financing rate (“SOFR”), with a floor of 0.75%, plus an applicable margin. The applicable margin fluctuates depending on the Company’s Net Leverage Ratio, as defined in the First Lien Agreement. The applicable margin for the ABR and SOFR calculations are 2.75% and 3.75%, respectively, as of December 31, 2022. The First Lien Third Amendment is payable in quarterly installments beginning June 30, 2022. The remaining loan balance will be due upon maturity.

The Company can repay the First Lien Agreement and the First Lien Second Amendment in whole or part without penalty. In addition, the Company is required to make additional annual principal payments of up to 50% of excess cash flow (as determined by the Company’s Net Leverage Ratio, as defined in the First Lien Agreement). Excess cash flow amounts less than the greater of \$11.4 million or 5% of consolidated Adjusted EBITDA are not required to be applied to pay down the First Lien Term Loan.

The interest rate applicable to the Revolving Credit Facility is also based on, the borrower’s option, (i) a fluctuating rate of interest determined by reference to an adjusted base rate (“ABR”) plus an applicable margin or (ii) a Eurocurrency rate (“LIBOR”), plus an applicable margin. The applicable margins fluctuate depending on the Company’s Net Leverage Ratio, as defined in the First Lien Agreement. The applicable margin for the ABR and LIBOR calculations are 2.50% and 3.50%, respectively, as of December 31, 2022.

Unamortized deferred financing fees related to the Revolving Credit Facility were \$2.2 million and \$3.7 million as of December 31, 2022 and 2021, respectively, and are included in other non-current assets in the consolidated balance sheets.

Any outstanding balances on the Revolving Credit Facility will be due upon maturity on July 25, 2024. The Company is charged a loan commitment fee for unused amounts on the Revolving Credit Facility. The loan commitment fee was 0.50% as of December 31, 2022 and 2021.

Second Lien Credit Agreement

The Company entered into a Second Lien Credit Agreement (“Second Lien Agreement”), dated July 25, 2019. The Second Lien Agreement provided a new term loan facility in an aggregate principal amount of \$452.5 million. Deferred financing fees of \$12.1 million were capitalized in connection with the Second Lien Agreement. The Second Lien Agreement matures on July 25, 2027. The interest rate on the Second Lien Agreement is a 9% fixed rate.

Debt covenants

At fiscal quarter-end, so long as the outstanding amount of the Revolving Credit Facility, Swing Line Loans and Letters of Credit (excluding letters of credit to the extent cash collateralized and undrawn letters of credit) exceed 35% of the Revolving Commitment then in effect, the First Lien Net Leverage Ratio must not exceed 8.50:1.00. Additionally, the First Lien Agreement contains certain restrictive covenants limiting the Company in its ability to incur additional indebtedness or liens, make certain investments or other restricted payments, enter into certain transactions with affiliates, merge or consolidate with another entity, or dispose of certain assets. The Company is in compliance with all debt covenants as of December 31, 2022 and 2021.

Other Information

The recorded values of the variable rate term loans under the Company’s credit agreements approximate fair value because the interest rates fluctuate with market rates.

8. Derivatives

Interest rate swaps

The Company's objective in using interest rate derivatives is to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy.

In August 2019, the Company entered into an interest rate swap designated as a cash flow hedge with a notional amount of \$850.0 million with an effective date of August 31, 2019 and a maturity date of August 31, 2023.

Notional amounts and fair value of derivative instruments

The following table presents the notional amounts of the Company's outstanding derivative instruments by type:

(in thousands)	December 31,	
	2022	2021
Designated Derivatives:		
Interest rate swap contracts	\$ 850,000	\$ 850,000

The following are the pre-tax effects of derivative instruments on the consolidated statement of comprehensive loss for the years ended December 31, 2022 and 2021:

	Statement of Operations Classification	Amount of loss reclassified from other comprehensive loss into income	
		Year ended December 31, 2022	2021
Derivatives in cash flow hedging relationship:			
Interest rate swap contracts	Interest expense	\$ 3,518	\$ (10,102)

The amount of income to be reclassified to consolidated statement of operations within the next 12 months is \$20.1 million.

The following table presents the Company's gross assets and liabilities measured on a recurring basis and classified as level 2 within the fair value hierarchy:

	Derivative Assets		Derivative Liabilities			
	Balance Sheet Classification	December 31,		Balance Sheet Classification	December 31,	
		2022	2021		2022	2021
Designated Derivatives:						
Interest rate swap contracts	Current portion of derivative assets	\$ 20,142	\$ -	Current portion of derivative liabilities	\$ -	\$ 6,960
Interest rate swap contracts	Derivative assets	-	-	Derivative liabilities	-	918
Total designated derivatives		<u>\$ 20,142</u>	<u>\$ -</u>		<u>\$ -</u>	<u>\$ 7,878</u>

9. Leases

As part of the adoption of ASC 842 Leases, the Company elected the following practical expedients:

- Package of practical expedients which eliminates the need to reassess (1) whether any expired or existing contracts are or contain leases; (2) the lease classification for any expired or existing leases; and (3) the initial direct costs for any existing leases.
- The practical expedient whereby the lease and non-lease components will not be separated for all classes of assets.
- Not to recognize Right-of-use (ROU) assets and corresponding lease liabilities with a lease term of 12 months or less from the lease commencement date.

For existing leases, the Company did not elect the use of hindsight and did not reassess lease term upon adoption.

The Company adjusted the opening ROU asset balance based on its remaining deferred rent liabilities. On January 1, 2022, the Company recorded \$28.4 million in operating lease ROU assets (net of derecognition of deferred rent of \$4.2 million recognized previously) and \$32.6 million in operating lease liabilities. Finance leases were not impacted by the adoption of Topic 842, as finance lease liabilities and the corresponding ROU assets were already recorded on the consolidated balance sheet under the previous guidance, Topic 840. The adoption did not materially impact the Company's consolidated statements of comprehensive loss or cash flows.

	<u>Balance Sheet Location</u>	<u>December 31, 2022</u>
Assets:		
Operating lease assets	Other non-current assets	\$ 31,618
Finance lease assets	Property and equipment, net	35,202
Total lease assets		<u>\$ 66,820</u>
Liabilities:		
Current liabilities:		
Current portion of operating lease liabilities	Accrued expenses and other liabilities	\$ 8,516
Current portion of finance lease liabilities	Current portion of long-term debt	3,691
Non-current liabilities:		
Operating lease liabilities	Other non-current liabilities	27,294
Finance lease liabilities	Long-term debt	30,837
Total lease liabilities		<u>\$ 70,338</u>

The components of lease cost for operating and finance leases are as follows as of December 31, 2022:

	<u>2022</u>
Finance lease costs	\$
Amortization of ROU assets	3,998
Interest on lease liabilities	1,334
Operating lease costs	9,553
Other lease costs	55
Variable lease costs	104
Total gross lease costs	<u>\$ 15,044</u>
Less: sublease income	(666)
Total net lease costs	<u>\$ 14,378</u>

Amortization of ROU assets is classified as Depreciation and amortization on the consolidated statement of comprehensive loss. Interest on lease liabilities is classified as Interest expense on the consolidated statement of comprehensive loss. Operating lease cost, Other lease cost and Variable lease cost are classified as Selling, general and administrative expenses on the consolidated statement of comprehensive loss.

Supplemental cash flow information related to leases was as follows during 2022:

Cash paid for amounts included in measurement of lease obligations	
Operating cash flows from operating leases	\$ 9,621
Operating cash flows from finance leases	1,334
Financing cash flows from finance leases	3,668

The following table represents the weighted-average remaining lease term and discount rate as of December 31, 2022:

Operating leases:	
Weighted average remaining lease term (years)	5.85
Weighted average discount rate	4.62%
Finance leases:	
Weighted average remaining lease term (years)	17.24
Weighted average discount rate	4.46%

Future undiscounted lease payments for the Company's operating and finance lease liabilities are as follows as of December 31, 2022:

	<u>Operating</u>	<u>Finance</u>
2023	\$ 10,042	\$ 5,136
2024	8,947	4,769
2025	5,973	3,832
2026	4,571	3,727
2027	3,261	2,804
Thereafter	9,630	30,461
Total future lease payments	<u>\$ 42,424</u>	<u>\$ 50,729</u>
Less imputed interest	(6,614)	(16,201)
Present value of lease liabilities	35,810	34,528
Lease liabilities, current	8,516	3,691
Lease liabilities, non-current	<u>\$ 27,294</u>	<u>\$ 30,837</u>

The Company recorded total rent expense under terms of its operating leases of \$6.2 million for the year ended December 31, 2021.

The Company recorded amortization of the assets under capital leases of \$2.8 million for the year ended December 31, 2021. Amortization of the assets under capital leases is included in depreciation and amortization expense on the consolidated statements of comprehensive loss.

In August 2019, the Company entered into a build-to-suit lease agreement for an office building in South Bend, Indiana. As part of the lease agreement, the Company's landlord agreed to provide development and construction services to construct the new facility and lease it to the Company. The Company was responsible for a portion of the construction costs and was deemed the owner of the building during the construction period. Construction of the building was substantially complete in March 2021 and the lease term commenced on April 1, 2021. The Company classified the asset as property and equipment, net, and began depreciating it over its useful life of 27 years, the lesser of the useful life of the asset and the lease period. The Company also had a liability due to the landlord of \$13.0 million as of December 31, 2021. The Company accounted for the lease payments as debt service payments on the liability.

Upon adoption of ASC 842, the Company derecognized the asset and liability, and the difference of \$0.7 million was recognized as an adjustment to shareholder's equity.

10. Defined Contribution Retirement Plan

The Company provides defined contribution plans to assist eligible employees in providing for retirement and other future needs. Company contribution expense amounted to \$6.9 million and \$2.2 million in the years ended December 31, 2022 and 2021, respectively.

11. Shareholder's Equity

Equity-based compensation

On July 25, 2019, the Ultimate Parent of the Company created the Azalea Parent Holdings LP 2019 Class B Unit Incentive Equity Plan (the "Plan"). The Plan allows the Company to issue awards to employees of the Company. Awards are in the form of incentive units. As of December 31, 2022, there were 172,338, 81,013 and 22,544 units of Class B-1, Class B-2 and Class B-3, respectively, authorized and remaining to be issued under the Plan.

On October 25, 2022, the Ultimate Parent of the Company created the Azalea Parent Holdings LP 2022 Phantom Incentive Equity Plan (the "Phantom Plan"). The Phantom Plan allows the Company to issue phantom units to employees of the Company that vest once required vesting conditions have been satisfied. Phantom units are notional units that represent a right to receive payment as defined and as stipulated in the Phantom Plan and the grant agreement. As of December 31, 2022, there are no units of Phantom Class B-1, Phantom Class B-2 and Phantom Class B-3 authorized and remaining to be issued under the Phantom Plan.

On October 25, 2022, the Ultimate Parent of the Company created the Azalea Parent Holdings LP Forsta Class F Unit 2022 Phantom Incentive Plan (the "Forsta Phantom Plan"). The Forsta Phantom Plan allows the Company to issue phantom units to employees of the Company that vest once required vesting conditions have been satisfied. Forsta phantom units are notional units that represent a right to receive payment as defined and as stipulated in the Forsta Phantom Plan and the grant agreement. As of December 31, 2022, there were 26,859 and 80,596 units of Phantom Class F-1 and Phantom Class F-2, respectively, authorized and remaining to be issued under the Forsta Phantom Plan.

The following table reflects equity-based compensation expense recognized in the Company's consolidated statement of comprehensive loss for the years ended December 31, 2022 and 2021:

	Year Ended December 31,	
	2022	2021
Cost of revenue	\$ 109	\$ 1,275
General and administrative	7,559	6,908
Total	<u>\$ 7,668</u>	<u>\$ 8,183</u>

Class B-1 units

Class B-1 units generally vest annually over a four-year period based on continued employment. The following table reflects the Class B-1 units activity during the year ended December 31, 2022:

	Class B-1 Units	
	Units	Weighted average fair value
Outstanding as of January 1, 2022	1,501,536	\$ 19.99
Granted	269,149	31.04
Exercised	—	—
Forfeited	(89,913)	21.59
Cancelled	(86,012)	19.99
Outstanding as of December 31, 2022	<u>1,594,760</u>	\$ 21.84
Exercisable as of December 31, 2022	<u>863,948</u>	\$ 20.00
Expected to vest after December 31, 2022	<u>730,812</u>	\$ 24.09

The average remaining contractual term of the Class B-1 units is 6.57 years at December 31, 2022. As of December 31, 2022, the Company has unrecognized equity-based compensation expense related to non-vested units of approximately \$17.6 million, which will be recognized over the remaining weighted-average vesting term of 2.00 years.

Class B-2 and B-3 units

Class B-2 and Class B-3 units vest upon the achievement of performance and market conditions. The performance condition is the occurrence of an initial public offering, change in control or other transaction that allows the Company's investors to monetize all or a portion of their investment. The Company reviews progress toward the attainment of the performance criteria regularly. The market condition is based on the Ultimate Parent's return on investment. The Company will recognize equity-based compensation expense when the performance condition is probable, which will be upon the occurrence of one of the events listed above.

The following tables reflect the Class B-2 and B-3 units activity during the year ended December 31, 2022:

	Class B-2 Units	
	Units	Weighted average fair value
Outstanding as of January 1, 2022	976,096	\$ 12.88
Granted	179,419	26.95
Exercised	—	—
Forfeited	(101,697)	14.08
Outstanding as of December 31, 2022	<u>1,053,818</u>	<u>\$ 15.16</u>
Exercisable as of December 31, 2022	<u>—</u>	<u>\$ —</u>
Expected to vest as of December 31, 2022	<u>1,053,818</u>	<u>\$ 15.16</u>

	Class B-3 Units	
	Units	Weighted average fair value
Outstanding as of January 1, 2022	271,098	\$ 6.23
Granted	49,821	19.48
Exercised	—	—
Forfeited	(28,240)	7.36
Outstanding as of December 31, 2022	<u>292,679</u>	<u>\$ 8.38</u>
Exercisable as of December 31, 2022	<u>—</u>	<u>\$ —</u>
Expected to vest as of December 31, 2022	<u>292,679</u>	<u>\$ 8.38</u>

The average remaining contractual term of the Class B-2 and Class B-3 units is 6.57 years at December 31, 2022. As of December 31, 2022, the Company has unrecognized stock-based compensation expense related to non-vested Class B-2 and B-3 units of approximately \$18.4 million, which will be recognized once the performance condition is probable (upon the occurrence of any of the above mentioned events).

Phantom Class B-1 units

Phantom Class B-1 units generally vest annually over a four-year period based on continued employment. The following table reflects the Phantom Class B-1 units activity during the year ended December 31, 2022:

	Phantom Class B-1 Units	
	Units	Weighted average fair value
Outstanding as of January 1, 2022	—	\$ —
Granted	78,982	31.04
Exercised	—	—
Forfeited	—	—
Cancelled	—	—
Outstanding as of December 31, 2022	<u>78,982</u>	<u>\$ 31.04</u>
Exercisable as of December 31, 2022	<u>—</u>	<u>\$ —</u>
Expected to vest after December 31, 2022	<u>78,982</u>	<u>\$ 31.04</u>

The average remaining contractual term of the Phantom Class B-1 units is 9.82 years at December 31, 2022. As of December 31, 2022, the Company has unrecognized compensation expense related to non-vested units of approximately \$2.5 million, which will be recognized over the remaining weighted-average vesting term of 3.40 years.

Phantom Class B-2 and Phantom Class B-3 units

Phantom Class B-2 and Phantom Class B-3 units vest upon the achievement of performance and market conditions. The performance condition is the occurrence of an initial public offering, change in control or other transaction that allows the Company's investors to monetize all or a portion of their investment. The Company reviews progress toward the attainment of the performance criteria regularly. The market condition is based on the Ultimate Parent's return on investment. The Company will recognize compensation expense when the performance condition is probable, which will be upon the occurrence of one of the events listed above.

The following tables reflect the Phantom Class B-2 and Phantom Class B-3 units activity during the year ended December 31, 2022:

	Phantom Class B-2 Units	
	Units	Weighted average fair value
Outstanding as of January 1, 2022	—	\$ -
Granted	52,650	26.95
Exercised	—	-
Forfeited	—	-
Outstanding as of December 31, 2022	<u>52,650</u>	<u>\$ 26.95</u>
Exercisable as of December 31, 2022	<u>—</u>	<u>\$ -</u>
Expected to vest as of December 31, 2022	<u>52,650</u>	<u>\$ 26.95</u>

	Phantom Class B-3 Units	
	Units	Weighted average fair value
Outstanding as of January 1, 2022	—	\$ -
Granted	14,624	19.48
Exercised	—	-
Forfeited	—	-
Outstanding as of December 31, 2022	<u>14,624</u>	<u>\$ 19.48</u>
Exercisable as of December 31, 2022	<u>—</u>	<u>\$ -</u>
Expected to vest as of December 31, 2022	<u>14,624</u>	<u>\$ 19.48</u>

The average remaining contractual term of the Phantom Class B-2 and Phantom Class B-3 units is 9.82 years at December 31, 2022. As of December 31, 2022, the Company has unrecognized compensation expense related to non-vested Phantom Class B-2 and Phantom Class B-3 units of approximately \$1.7 million, which will be recognized once the performance condition is probable (upon the occurrence of any of the above mentioned events).

Phantom Class F-1 units

Phantom Class F-1 units generally vest annually over a four-year period based on continued employment.

The following table reflects the Phantom Class F-1 units activity during the year ended December 31, 2022:

	Phantom Class F-1 Units	
	Units	Weighted average fair value
Outstanding as of January 1, 2022	—	\$ —
Granted	128,433	74.07
Exercised	—	—
Forfeited	—	—
Cancelled	—	—
Outstanding as of December 31, 2022	<u>128,433</u>	<u>\$ 74.07</u>
Exercisable as of December 31, 2022	<u>—</u>	<u>\$ —</u>
Expected to vest after December 31, 2022	<u>128,433</u>	<u>\$ 74.07</u>

The average remaining contractual term of the Phantom Class F-1 units is 9.82 years at December 31, 2022. As of December 31, 2022, the Company has unrecognized compensation expense related to non-vested units of approximately \$9.5 million, which will be recognized over the remaining weighted-average vesting term of 3.40 years.

Phantom Class F-2 units

Phantom Class F-2 units vest upon the achievement of performance and market conditions. The performance condition is the occurrence of an initial public offering, change in control or other transaction of the overall Company or commercial business that allows the Company's investors to monetize all or a portion of their investment. The Company reviews progress toward the attainment of the performance criteria regularly. The market condition is based on the Ultimate Parent's return on investment. The Company will recognize compensation expense when the performance condition is probable, which will be upon the occurrence of one of the events listed above.

The following tables reflect the Phantom Class F-2 units activity during the year ended December 31, 2022:

	Phantom Class F-2 Units	
	Units	Weighted average fair value
Outstanding as of January 1, 2022	—	\$ —
Granted	385,288	72.61
Exercised	—	—
Forfeited	—	—
Cancelled	—	—
Outstanding as of December 31, 2022	<u>385,288</u>	<u>\$ 72.61</u>
Exercisable as of December 31, 2022	<u>—</u>	<u>\$ —</u>
Expected to vest after December 31, 2022	<u>385,288</u>	<u>\$ 72.61</u>

The average remaining contractual term of the Phantom Class F-2 is 9.82 years at December 31, 2022. As of December 31, 2022, the Company has unrecognized compensation expense related to non-vested Phantom Class F-2 units of approximately \$28.0 million, which will be recognized once the performance condition is probable (upon the occurrence of any of the above mentioned events).

Fair value

The fair value of the Class B-1 units vested during the years ended December 31, 2022 and 2021 is \$17.3 million and \$12.1 million, respectively.

Fair value assumptions

The fair value of the Plan units and Phantom Plan units were determined using an option pricing model. The weighted-average assumptions used in valuation model were as follows:

	Year ended December 31,	
	2022	2021
Expected volatility	45.0%	30.0%
Expected term (in years)	4	6
Risk-free interest rate	2.07	0.58
Expected dividend yield	—	—
Marketability discount	28.0%	28.0%

The Monte Carlo simulation-based option valuation model was used to calculate the fair value of the Forsta Phantom Plan units. The weighted-average assumptions used under the Monte Carlo simulation-based option valuation model were as follows:

	Year ended December 31,
	2022
Expected volatility	64.0%
Expected term (in years)	4
Risk-free interest rate	4.40
Expected dividend yield	—
Marketability discount	30.0%

For all valuation models, expected volatility was based on comparable companies' volatility. The risk-free interest rate was derived from the constant maturity treasury curve for a term matching the expected life of the award. The results of the valuations were adjusted to reflect the lack of marketability of the awards.

Equity contributions

Equity contributions during the year ended December 31, 2022 comprise predominately of issuance of equity interest of \$291.0 million by the Ultimate Parent in connection with the acquisition of Forsta as discussed in "Note 5: Business combinations". Equity contributions during the year ended December 31, 2021 comprise of proceeds of \$169.8 million from the issuance of preferred stock by the Parent and issuance of equity interest of \$50.0 million by the Ultimate Parent in connection with the acquisition of SPH as discussed in "Note 5: Business combinations".

12. Income taxes

Income tax benefit for the year ended December 31, 2022 and 2021, consist of the following:

	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
Year ended December 31, 2022			
U.S. federal	\$ 927	\$ (35,723)	\$ (34,796)
State and local	2,437	(39,818)	(37,381)
Foreign	135	(835)	(700)
	<u>\$ 3,499</u>	<u>\$ (76,376)</u>	<u>\$ (72,877)</u>
Year ended December 31, 2021			
U.S. federal	\$ —	\$ (36,374)	\$ (36,374)
State and local	602	6,761	7,363
Foreign	—	—	—
	<u>\$ 602</u>	<u>\$ (29,613)</u>	<u>\$ (29,011)</u>

Income tax benefit differed from the amounts computed by applying the U.S. federal income tax rate of 21% to loss before income taxes as a result of the following:

	<u>Year ended December 31, 2022</u>	<u>Year ended December 31, 2021</u>
Tax at federal statutory rate	\$ (39,792)	\$ (35,937)
State and local income taxes, net of federal benefit	(7,901)	(8,126)
Effect of state rate changes	(21,070)	13,761
Non-deductible fair value adjustments to contingent consideration	(6,091)	326
Other, net	1,977	965
	<u>\$ (72,877)</u>	<u>\$ (29,011)</u>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31 are presented below:

	<u>2022</u>	<u>2021</u>
Deferred tax assets:		
Accounts receivable	\$ 472	\$ 314
Accrued liabilities	3,163	5,946
Deferred revenue	3,502	—
Net operating loss carryforward	42,102	47,735
Derivative liabilities	—	2,042
Lease liabilities	17,704	—
Build-to-suit lease liability	—	3,742
163(j) Interest expense carryforward	59,273	32,202
Total gross deferred tax assets	<u>126,216</u>	<u>91,981</u>
Valuation allowance	(2,209)	(33)
Total deferred tax assets, net	<u>124,007</u>	<u>91,948</u>
Deferred tax liabilities:		
Property and equipment	12,689	24,622
Intangible assets and goodwill	574,422	543,017
Derivative assets	5,012	—
Right of use assets	16,515	—
Other	3,798	2,087
Total gross deferred tax liabilities	<u>612,436</u>	<u>569,726</u>
Net deferred tax liabilities	<u>\$ 488,429</u>	<u>\$ 477,778</u>

The Company has gross U.S. federal net operating loss carryforwards in the amount of \$106.1 million and \$167.2 million at December 31, 2022 and 2021, respectively. Of these amounts, \$50.1 million and \$48.5 million have a 20-year life and will expire between the tax years 2033 and 2037 and the remainder has an indefinite carryforward. The Company estimated its tax effected state net operating loss carryforwards of \$10.9 million and \$7.1 million at December 31, 2022 and 2021, respectively. These net operating losses will expire between 2034 through 2042.

The Company has gross foreign net operating loss carryforwards at December 31, 2022 of \$6.6 million, \$5.6 million, \$2.6 million and \$0.2 million for its subsidiaries in the United Kingdom (“UK”), Norway, Australia and Canada, respectively. Of these amounts, the net operating loss carryforwards in the UK, Norway and Australia have an indefinite carryforward.

Accounting for income taxes requires that the Company reduce its deferred income tax assets by a valuation allowance if, based on the weight of the available evidence, it is more likely than not that all or a portion of a deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences are deductible. Accounting for income taxes requires that all evidence, both positive and negative, be evaluated to determine if the deferred tax asset is realizable. The Company has determined that a valuation allowance is required against foreign tax credits, state credits, and various foreign net operating losses of \$2.2 million that are not more likely than not to be realized. The Company has determined that it more likely than not it will be able to realize all of its other deferred tax assets.

The Company has not provided for deferred income taxes on the undistributed earnings of non-US subsidiaries, as it is the Company’s intention to indefinitely reinvest these earnings in non-US operations. A determination of the amount of the liability is not practical for the Company to determine.

In the US, Global Intangible Low-Taxed Income (GILTI) imposes a tax on the GILTI earned by certain non-US subsidiaries. The Company has elected to provide for the tax expense related to GILTI in the year the tax is incurred.

The Company recognizes a tax benefit from a tax position only if it is more likely than not to be sustained upon examination based solely on the technical merits of the position. The amount of the accrual for which an exposure exists is measured as the largest amount of benefit determined on a cumulative probability basis that the Company believes is more likely than not to be realized upon ultimate settlement of the position.

The Company is subject to U.S federal income tax, foreign income tax and various state jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. The Company is potentially subject to income tax audits in numerous jurisdictions until the applicable statute of limitations expires. The Company does not have any material uncertain tax positions as of December 31, 2022. The following is a summary of tax years potentially subject to examination in the significant jurisdictions in which the Company operates:

Jurisdiction	Tax years subject to examination
United States (Federal)	2019-2022
United States (State)	2017-2022

13. Commitments and contingencies

Litigation

The Company is involved in various legal actions in the ordinary course of its operations. Related reserves are recorded when it is probable that liabilities have been incurred and the amount of loss can be reasonably estimated. While it is not possible to predict the outcome of any of these proceedings, the Company's management has made an assessment using known facts and circumstances and does not believe that any of these proceedings, individually or in the aggregate, will have a material adverse effect on the Company's financial position. The Company does not believe that with respect to any pending legal matters, it is reasonably possible that a loss exceeding amounts already recognized may be material. However, actual outcomes may be different than expected and could have a material effect on the Company's results of operations or cash flows in a particular period.

14. Subsequent Events

The Company evaluated subsequent events through April 28, 2023, the date the consolidated financial statements were issued.

On March 3, 2023, certain wholly owned subsidiaries of the Company entered into an agreement ("Receivables Facility") to sell certain accounts receivable balances on a revolving basis, subject to a maximum funding limit of \$80.0 million. On March 6, 2023, we borrowed \$60.0 million on the Receivables Facility and used the proceeds to repay the revolving credit facility.

On March 17, 2023, the Company entered into the Fourth Amendment of its First Lien Credit Agreement ("First Lien Fourth Amendment"). The amendment extends the maturity of the revolving credit facility to January 25, 2026, as well as modifies the benchmark from LIBOR to SOFR.