

LT Holdco, LLC and Subsidiaries

Consolidated Financial Statements

As of December 31, 2023 (Successor) and December 31, 2022 (Successor)
and for the Year Ended December 31, 2023 (Successor), Year Ended December 31, 2022 (Successor), the Period from July 3,
2021 through December 31, 2021 (Successor), and the Period from December 27, 2020 through July 2, 2021 (Predecessor)

LT Holdco, LLC and Subsidiaries

TABLE OF CONTENTS

Independent Auditor's Report	1
Consolidated Balance Sheets	3
Consolidated Statements of Operations	4
Consolidated Statements of Comprehensive Income (Loss)	5
Consolidated Statement of Member's Equity	6
Consolidated Statements of Cash Flows	7
Notes to the Consolidated Financial Statements	8
Note 1 - Description of Business and Summary of Significant Accounting Policies	9
Note 2 - Revenue	16
Note 3 - Notes and Accounts Receivable	19
Note 4 - Property, Equipment, and Software, Net	20
Note 5 - Goodwill and Intangible Assets	21
Note 6 - Leases	22
Note 7 - Long-Term Obligations	23
Note 8 - Derivative Instruments and Hedging Activities	24
Note 9 - Member's Equity	25
Note 10 - Stock Compensation Plan	25
Note 11 - Fair Value of Financial Instruments	28
Note 12 - Income Taxes	29
Note 13 - Related Party Transactions	32
Note 14 - Commitments and Contingencies	34
Note 15 - Selling, General and Administrative Expenses	35
Note 16 - Assets Held for Sale	36
Note 17 - Employee 401(k) Plan	36
Note 18 - Subsequent Events	36

INDEPENDENT AUDITOR'S REPORT

To LT Holdco, LLC

Opinion

We have audited the consolidated financial statements of LT Holdco, LLC and subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2023 (Successor) and December 31, 2022 (Successor), and the related consolidated statements of operations, comprehensive income (loss), member's equity and cash flows for the years ended December 31, 2023 (Successor) and December 31, 2022 (Successor), the period from July 3, 2021 through December 31, 2021 (Successor), and the period from December 27, 2020 through July 2, 2021 (Predecessor), and the related notes to the consolidated financial statements (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 as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the periods described above 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 from 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.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not 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.

Deloitte & Touche LLP

Richmond, Virginia
May 10, 2024

LT Holdco, LLC and Subsidiaries

Consolidated Balance Sheets
As of December 31, 2023 (Successor) and December 31, 2022 (Successor)

(In thousands)	12/31/2023	12/31/2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,876	\$ 2,284
Current receivables, net	14,316	19,804
Assets held for sale	—	35
Other current assets	1,826	2,882
Total current assets	22,018	25,005
Property, equipment, and software, net	20,743	22,084
Non-current receivables, net	1,848	3,066
Goodwill	9,421	78,681
Intangible assets, net	80,034	107,132
Operating lease right-of-use assets	3,902	8,747
Other non-current assets	284	9,570
Total assets	\$ 138,250	\$ 254,285
Liabilities and Member's Equity		
Current liabilities:		
Current installments of long-term obligations	\$ 1,431	\$ 576
Current operating lease liabilities	1,800	3,734
Accounts payable and accrued expenses	16,522	23,617
Other current liabilities	1,202	1,760
Total current liabilities	20,955	29,687
Long-term obligations, excluding current installments, net	72,774	47,426
Non-current operating lease liabilities	1,919	5,095
Other non-current liabilities	585	1,262
Total liabilities	96,233	83,470
Member's equity		
Member's capital	42,248	171,234
Accumulated other comprehensive loss, net of taxes	(231)	(419)
Total member's equity	42,017	170,815
Total liabilities and member's equity	\$ 138,250	\$ 254,285

See accompanying notes to the consolidated financial statements.

LT Holdco, LLC and Subsidiaries

Consolidated Statements of Operations

Year Ended December 31, 2023 (Successor), Year Ended December 31, 2022 (Successor), the Period from July 3, 2021, through December 31, 2021 (Successor), and the Period from December 27, 2020, through July 2, 2021 (Predecessor)

(In thousands)	Successor			Predecessor
	Year Ended		Period from	Period From
	12/31/2023	12/31/2022	7/3/2021 -	12/27/2020 -
	12/31/2021			7/2/2021
Revenue:				
Service and other	\$ 100,894	\$ 118,370	\$ 17,007	\$ 107,486
Total revenues	100,894	118,370	17,007	107,486
Operating expenses:				
Selling, general, and administrative expenses	79,996	84,123	31,204	56,429
Depreciation and amortization expense	30,768	33,477	15,625	5,111
Impairment expense	69,572	267	78	—
Total operating expenses	180,336	117,867	46,907	61,540
Income (loss) from operations	(79,442)	503	(29,900)	45,946
Other (expense) income:				
Other	1,324	(1,804)	8,196	165
Interest expense, net	(10,397)	(2,070)	(906)	(3)
Income (loss) before income taxes	(88,515)	(3,371)	(22,610)	46,108
Income tax (benefit) expense	9,948	(1,403)	(4,663)	2,462
Net income (loss)	\$ (98,463)	\$ (1,968)	\$ (17,947)	\$ 43,646

See accompanying notes to the consolidated financial statements.

LT Holdco, LLC and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)

Year Ended December 31, 2023 (Successor), Year Ended December 31, 2022 (Successor), the Period from July 3, 2021, through December 31, 2021 (Successor), and the Period from December 27, 2020, through July 2, 2021 (Predecessor)

(In thousands)	Successor			Predecessor
	Year Ended		Period from	Period From
	12/31/2023	12/31/2022	7/3/2021 -	12/27/2020 -
	12/31/2021			7/2/2021
Net income (loss)	\$ (98,463)	\$ (1,968)	\$ (17,947)	\$ 43,646
Other comprehensive income (loss)				
Foreign currency translation adjustment	188	(449)	30	292
Unrealized gain (loss) on interest rate swap agreement, net of taxes of \$0, (\$9), \$9 and \$13, respectively	—	(32)	32	46
Other comprehensive income (loss)	188	(481)	62	338
Comprehensive income (loss)	\$ (98,275)	\$ (2,449)	\$ (17,885)	\$ 43,984

See accompanying notes to the consolidated financial statements.

LT Holdco, LLC and Subsidiaries

Consolidated Statements of Cash Flows

Year Ended December 31, 2023 (Successor), Year Ended December 31, 2022 (Successor), the Period from July 3, 2021, through December 31, 2021 (Successor), and the Period from December 27, 2020, through July 2, 2021 (Predecessor)

(In thousands)	Successor			Predecessor
	Year Ended		Period from	Period From
	12/31/2023	12/31/2022	7/3/2021 - 12/31/2021	12/27/2020 - 07/02/2021
Operating activities				
Net income (loss)	\$ (98,463)	\$ (1,968)	\$ (17,947)	\$ 43,646
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Provision for doubtful accounts	3,650	1,445	2,196	2,460
Depreciation and amortization charges	30,768	33,477	15,625	5,111
Impairment charges	69,572	267	78	—
Amortization of deferred financing costs	874	480	120	—
Loss (gain) on disposal of fixed assets	718	1,441	38	(31)
Gain on disclaimed agreements	(2,650)	—	—	—
Stock-based compensation expense	(69)	314	—	217
Gain on bargain purchases and sales of Company-owned offices	(1,683)	(2,426)	(899)	(887)
Gain on sale of Trilogy	—	—	(8,500)	—
Unrealized (gain) loss on marketable security	(651)	1,523	52	—
Deferred income taxes	9,168	(929)	(8,257)	(17)
Changes in:				
Accounts, notes, and interest receivable	3,740	12,753	1,992	2,109
Income taxes	(201)	(1,214)	1,012	1,325
Other assets	1,048	(444)	1,552	(6,646)
Accounts payable and accrued expenses	(2,092)	9,991	770	(2,445)
Deferred revenue	(813)	(286)	(368)	(8,306)
Net cash provided by (used in) operating activities	12,916	54,424	(12,536)	36,536
Investing activities				
Issuance of operating loans to franchisees and area developers	(389)	(992)	(23)	(108)
Payments received on operating loans to franchisees and area developers	609	633	59	896
Purchases of Company-owned offices, area developer rights, and acquired customer lists	(579)	(1,606)	(14,011)	(888)
Proceeds from sale of Company-owned offices and area developer rights	—	173	—	325
Proceeds from the sale of property, equipment, and software	24	4,870	—	—
Purchases of property, equipment, and software	(4,401)	(7,845)	(4,711)	(4,935)
Net cash used in investing activities	(4,736)	(4,767)	(18,686)	(4,710)
Financing activities				
Repayment of other long-term obligations	(37)	(1,664)	(104)	(1,143)
Payment for debt issuance costs	(320)	(1,705)	—	—
Issuance of debt	26,282	49,038	—	—
(Payments to) borrowings from Parent	—	(29,000)	29,000	—
(Distribution to) contribution from Parent	(30,523)	(65,330)	1,968	(31,771)
Net cash provided by (used in) financing activities	(4,598)	(48,661)	30,864	(32,914)
Effect of exchange rate changes on cash, net	10	(26)	(12)	50
Net increase (decrease) in cash, cash equivalents and restricted cash	3,592	970	(370)	(1,038)
Cash and cash equivalents at beginning of year	2,284	1,314	1,684	2,722
Cash and cash equivalents at end of year	\$ 5,876	\$ 2,284	\$ 1,314	\$ 1,684
Supplemental Cash Flow Disclosure				
Cash paid for taxes, net of refunds	\$ 505	\$ 743	\$ 978	\$ —
Cash paid for interest	9,465	603	22	2
Accrued capital expenditures	173	466	528	24

See accompanying notes to the consolidated financial statements.

LT Holdco, LLC and Subsidiaries

Notes to the Consolidated Financial Statements

As of December 31, 2023 (Successor) and December 31, 2022 (Successor)
and for the Year Ended December 31, 2023 (Successor), Year Ended December 31, 2022 (Successor), the Period from July 3,
2021 through December 31, 2021 (Successor), and the Period from December 27, 2020 through July 2, 2021 (Predecessor)

Notes to the Consolidated Financial Statements

(1) Description of Business and Summary of Significant Accounting Policies

Nature of the Business

LT Holdco, LLC (formerly Franchise Group Intermediate L 1, LLC) (the “**Company**”), a Delaware limited liability company, is a holding company engaged through its subsidiaries as a franchisor, and to a lesser degree, an operator of a system of income tax preparation offices located in the United States of America (the “**U.S.**”) and Canada. Through its system of income tax preparation offices, the Company also facilitates refund-based tax settlement financial products, including refund transfer products in the U.S. and personal income tax refund discounting in Canada. The Company also offers online tax preparation services.

The Company was a wholly-owned subsidiary of Franchise Group, Inc. (“**FRG**” or “**Former Member**” or “**Former Parent**”), however, on February 21, 2021, Franchise Group Inc. entered into a definitive agreement with NextPoint Acquisition Corp. (“**NextPoint**” or “**Member**” or “**Parent**”), a special purpose acquisition corporation incorporated under the laws of the Province of British Columbia (“**Purchaser**”) to sell the Company (the “**Transaction**”) for a total purchase price of \$256.1 million. The purchase price consisted of \$182.1 million in cash and an equity interest in NextPoint worth \$74.0 million at the time of signing. The Transaction closed on July 2, 2021, immediately subsequent to which the Company's name was changed from Franchise Group Intermediate L 1, LLC to LT Holdco, LLC.

On July 2, 2021, in connection with the closing of the Transaction, the Company changed its fiscal year to a calendar year end. As such, these Consolidated Financial Statements are as of December 31, 2023 (Successor), December 31, 2022 (Successor), and for the year ended December 31, 2023 (Successor), year ended December 31, 2022 (Successor), the period from July 3, 2021, through December 31, 2021 (Successor), and the period from December 27, 2020, through July 2, 2021 (Predecessor).

On July 25, 2023, the Parent entered into a restructuring support agreement (“**RSA**”) with its primary secured lenders to substantially reduce the Parent’s consolidated debt. Under the RSA, the Parent’s primary secured lenders committed to purchase substantially all of the Parent’s assets (the “**Restructuring Transaction**”), to be implemented through a sale and investment solicitation process in which the interested third parties were invited to submit competing offers to purchase all or some of the Parent’s assets.

Also on July 25, 2023, the Parent declared insolvency through an application for an initial order (“**Initial Order**”) to commence proceedings under the Companies’ Creditors Arrangement Act, R.S.C 1985, c. C-36, as amended (“**CCAA Proceedings**”) with the Supreme Court of British Columbia. The CCAA Proceedings were the basis for which the Parent then filed for bankruptcy under Chapter 15 of the United States Bankruptcy Code (“**Chapter 15 Proceedings**”) on July 26, 2023. The Chapter 15 Proceedings sought recognition in the United States of the CCAA Proceedings and related relief. The Company was an included entity on the list of petitioners associated with CCAA Proceedings; therefore, the Company was part of the plan for restructuring, but the Company did not declare bankruptcy. Upon approval of the Initial Order of the CCAA Proceedings, the Parent received a \$25.0 million interim financing facility from BasePoint Capital LLC (“**BasePoint**”) and Drake Enterprises Ltd. (“**Drake**”), both of which were existing lenders to the Parent at the time of the Initial Order. The Company has been allowed to perform its day-to-day operations as usual throughout the CCAA Proceedings and Chapter 15 Proceedings.

Through the CCAA Proceedings, the Parent and the Company were granted the ability to disclaim certain obligations and contracts, which will allow for the Company to operate with fewer encumbrances in the future. Most notably, the Parent was able to reduce its aggregate outstanding debt obligation from approximately \$272 million to approximately \$75 million, with the majority of the Parent’s outstanding debt obligation released in exchange for the sale of the Company and other Parent subsidiaries to BasePoint and Drake (discussed further below). The remaining \$75 million is the long-term obligation directly associated with the Company (the “**LT Holdco Term Loan**”) and discussed in “Note 7 - Long-Term Obligations”.

LT Holdco, LLC and Subsidiaries

Notes to the Consolidated Financial Statements

In addition to the reduction of the Parent's outstanding debt obligations, the Company was able to disclaim certain of its operating contracts through the CCAA Proceedings, primarily associated with store closures, area developers, and other vendor contracts, as well as the certain of our accrued settlement obligations. The table below represent a breakdown of the impact of the disclaimed contracts and obligations on operating income for the year ended December 31, 2023.

(In thousands)	Gain (Loss)
Store closures	\$ (657)
Area Developer contracts	153
Vendor contracts	42
Accrued settlements	3,112
Impact on operating income	\$ 2,650

The table below represents a breakdown of the impact of the disclaimed contracts and obligations on the balance sheet accounts as of December 31, 2023.

(In thousands)	Increase (Decrease)
Property, equipment, and software, net	\$ (129)
Goodwill	(439)
Intangible assets, net	(363)
Operating lease right-of-use assets	(1,272)
Other non-current assets	(80)
Total assets	\$ (2,283)
Current operating lease liabilities	(705)
Accounts payable and accrued expenses	(3,196)
Other current liabilities	(153)
Non-current operating lease liabilities	(879)
Total liabilities	\$ (4,933)
Net impact	\$ 2,650

On October 31, 2023, the Supreme Court of British Columbia approved the Parent's plan for emergence from insolvency, which included the approval of the sale of the Company and other Parent subsidiaries to BasePoint and Drake. In connection with the approval of the sale of the Company to BasePoint and Drake, the Company was released from the purview of the Initial Order and all other orders granted in respect of the CCAA Proceedings. On December 11, 2023, the Parent received the approval of its plan for emergence from its Chapter 15 Proceedings, which allowed for the completion of a sale of the Company in exchange for a total purchase price of approximately \$144.6 million, cash paid at closing and debt assumed, as well as the elimination of most pending litigations against the Company, including the class-action litigation and the First Bank lawsuits discussed in Note 14. On January 2, 2024, the Restructuring Transaction was completed, and as a result, the Company effectively eliminated the burden of its cash distributions to the Parent, which had been used primarily to fund the daily operations of the Parent's other subsidiaries and were a primary driver of the Company's reduced liquidity. Refer to "Note 18 - Subsequent Events" for further detail.

Throughout the CCAA Proceedings and Chapter 15 Proceedings, the Company was in default of certain covenants within the LT Holdco Term Loan. The Company received waivers from BasePoint related to all actual covenant defaults through the date of these Consolidated Financial Statements. Additionally, the Company requested and received waivers for all anticipated events of non-compliance with the debt covenants of the LT Holdco Term Loan through January 2024; and has amended the debt covenants on a go-forward basis.

Notes to the Consolidated Financial Statements

Basis of Presentation

As a result of the closing of the Transaction on July 2, 2021, these Consolidated Financial Statements include the financial statements of the Company as Predecessor for the periods prior to July 2, 2021, and as Successor for the periods after July 2, 2021. The Predecessor and Successor periods have been separated to highlight the fact that the financial information for such periods has been prepared under two different historical-cost bases of accounting and are not comparable.

The Consolidated Financial Statements of the Company have been prepared in accordance with accounting principles generally accepted in the U.S. (“GAAP”). In the opinion of management, all adjustments necessary for a fair presentation of such financial statements in accordance with GAAP have been recorded.

The Consolidated Statements of Operations include all revenues and costs directly attributable to the Company and an allocation of expenses from the Parent and Former Parent for administrative functional expenses. The Parent and Former Parent allocates these costs to the Company using methodologies that management believes are appropriate and reasonable, however, these costs may not be indicative of amounts that would have been incurred if the Company had operated independently of the Parent or Former Parent.

Transactions with the Parent and Former Parent and the subsidiaries of the Parent and Former Parent have been reflected in these Consolidated Financial Statements as related party transactions. Refer to “Note 13 - Related Party Transactions” for further detail. All intracompany accounts and transactions within the Company have been eliminated. The Parent and Former Parent’s net investment in the Company is presented as Member’s equity in the Consolidated Balance Sheets.

Current and deferred income tax and the related tax expense have been determined based on the Company’s stand-alone results as if it were a separate corporate taxpayer (i.e., following the separate-return methodology). Additionally, current income taxes payable calculated by the Company in applying the separate return methodology are deemed to have been remitted in cash to the Parent in the period the related tax expense was recorded.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of LT Holdco, LLC and all of the entities it controls, including all wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

The Company does not possess any ownership interests in franchisee entities; however, the Company may provide financial support to franchisee entities. Because the Company’s franchise arrangements provide franchisee entities the power to direct the activities that most significantly impact their economic performance, the Company does not consider itself the primary beneficiary of any such entity that meets the definition of a variable interest entity (“VIE”). Based on the results of management’s analysis of potential VIEs, the Company has not consolidated any franchisee entities. The Company’s maximum exposure to loss resulting from involvement with potential VIEs is attributable to accounts and notes receivable and future lease payments due from franchisees. When the Company does not have a controlling interest in an entity but has the ability to exert significant influence over the entity, the Company applies the equity method of accounting.

Functional and presentation currency

The Company’s functional currency is the currency of its primary economic environment, the U.S. dollar. These Consolidated Financial Statements are presented in U.S. dollars, which is also the Company’s presentation currency. All amounts have been rounded to the nearest thousand, unless otherwise noted.

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at year-end rates. Any resulting exchange differences are recorded in the Consolidated Statements of Operations.

Assets and liabilities of the Company’s Canadian operations reported in Canadian dollars are translated into U.S. dollars at the year-end exchange rate. Income and expenses are translated into U.S. dollars at the annual weighted average exchange rate.

Notes to the Consolidated Financial Statements

Differences arising from the translation of net assets of foreign operations, together with differences arising from translation of the net results of foreign operations, are presented in accumulated other comprehensive income (loss), net of taxes ("AOCI") in the Consolidated Balance Sheets.

Significant Accounting Policies

Cash and Cash Equivalents - The Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. Cash and cash equivalents are maintained in bank deposit accounts, which at times may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents balances.

Accounts Receivable - Accounts receivable are recorded at the invoiced amount net of an allowance for credit losses and accrue finance charges at 12% per annum ("p.a.") if unpaid after 30 days, compounded monthly. Account balances are charged-off against the allowance after all possible 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 accounts receivable.

Notes Receivable - Notes receivable are recorded net of revenue constraints and the allowance for credit losses. Revenue constraints relate to the financed portion of franchise fees, and in the case of sales of Company-owned offices, the financed portion of gains related to such sales in cases where revenue has not yet been recognized. Interest income is accrued on the unpaid principal balance. The Company places notes receivable on non-accrual status and records an allowance against accrued interest if it is determined that the likelihood of collecting substantially all of the note and accrued interest is not probable. Generally, payments received on notes receivable on non-accrual status are applied to the principal note balance until the note is current, and then to interest income. Notes are written-off against the allowance when all possible means of collection have been exhausted and the potential for recovery is considered remote.

Concentrations of Credit Risk - Financial instruments that could potentially subject the Company to concentrations of credit risk consist of accounts and notes receivable with its franchisees. The Company manages such risk by evaluating the financial position and value of the franchisees as well as obtaining the personal guarantee of the individual franchisees. As of December 31, 2023 and 2022, there were no significant concentrations of credit risk associated with any individual franchisee or group of franchisees.

Allowance for Credit Losses - The allowance for credit losses includes the Company's best estimate of the amount of probable credit losses in the Company's accounts and notes receivable balances outstanding. Because the repayment of accounts and notes receivable is dependent on the performance of the underlying franchises, management estimates the allowance for doubtful accounts by comparing the amounts due to the estimated fair values of the underlying franchises collateralizing such receivables. If the carrying amount exceeds the estimated fair value of the underlying franchisee, the receivable is considered impaired. Management believes the allowance is adequate to cover the Company's exposure to credit losses.

Property, Equipment, and Software - Property, equipment, and software are stated at cost less accumulated depreciation and amortization. Depreciation and amortization is calculated using the straight-line method over the estimated useful lives of the assets, which are generally three to five years for computer equipment, three to seven years for software, five to seven years for furniture and fixtures, and twenty to thirty years for buildings. Leasehold improvements are amortized over the lesser of the lease term or the estimated useful lives of the assets. Certain allowable costs of software developed or obtained for internal use are capitalized and amortized over the estimated useful life of the software.

Goodwill - Goodwill represents the excess of purchase price over fair value of the net assets of the acquired business. Prior to the Transaction, the reporting unit for the acquisition of assets from various franchisees was considered to be the franchise territory, with these assets operated as Company-owned offices. The reporting unit for the goodwill arising from the acquisition of the Company from the Former Parent by the Parent is considered to be the operations of the Company. With the internal reorganization resulting from the Transaction, there is no longer a distinct segment management structure overseeing the Company-owned offices, and therefore, as from the date of the Transaction, the entire operations of the Company are a single

Notes to the Consolidated Financial Statements

reporting unit. Goodwill is not amortized, but instead tested for impairment at least annually. Goodwill is tested for impairment more frequently if events and circumstances indicate that the reporting unit might be impaired. The Company performs its annual impairment test as of July 31.

Revenue Recognition for Service and Other Revenues: These include royalties and advertising fees from franchisees, fees from the sales of franchises and Area Developer (“AD”) territories, financial products, interest income from loans to franchisees and ADs, tax preparation services in the Company-owned stores and electronic filing fees. Commissions earned on services are presented net of related costs because the Company is acting as an agent in arranging the services for the customer and does not control the services being rendered. The Company recognizes franchise and AD fee revenue for the sales of individual territories on a straight-line basis over the initial contract term when the obligations of the Company to prepare the franchisee and AD for operation are substantially complete, not to exceed the estimated amount of cash to be received. Royalties and advertising fees are recognized as franchise territories generate sales. Tax return preparation fees and financial products revenue are recognized in the period in which the related tax return is filed for the customer. Discounts for promotional programs are recorded at the time the return is filed and are recorded as reductions to revenue. Interest income on notes receivable is recognized based on the outstanding principal note balance, less unrecognized revenue, unless the note is placed on non-accrual status. Interest income on the unrecognized revenue portion of notes receivable is recognized when received. For accounts receivable, interest income is recognized based on the outstanding receivable balance over 30 days old, net of an allowance. See “Note 2 - Revenue” for additional information about each revenue stream and the related performance obligations.

Gains on sales of Company-owned offices are recognized when cash is received. Losses on sales of Company-owned offices are recognized immediately.

Deferred Revenue - Deferred revenue represents the expected amount of cash to be received for AD and franchise fees in excess of the revenue recognized to date.

Derivative Instruments and Hedging Activities - The Company recognizes all derivative instruments as either assets or liabilities in the Consolidated Balance Sheet at their respective fair values. For derivatives designated in hedging relationships, changes in fair value are either offset through earnings against the change in fair value of the hedged item attributable to the risk being hedged or recognized in other comprehensive income (“OCI”) to the extent the derivative is effective at offsetting the changes in cash flows being hedged until the hedged item affects earnings.

The Company only enters into a derivative contract when it intends to designate the contract as a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). For all hedging relationships, the Company formally documents the hedging relationship, including its risk management objective and strategy for undertaking the hedge, the hedging instrument, the hedged transaction, the nature of the risk being hedged, how the hedging instrument’s effectiveness in offsetting the hedged risk will be assessed prospectively and retrospectively, and a description of the method used to measure ineffectiveness. The Company also formally assesses, both at the inception of the hedging relationship and on an ongoing basis, whether the derivatives are highly effective in offsetting changes in cash flows of hedged transactions. For derivative instruments that are designated and qualify as part of a cash flow hedging relationship, the effective portion of the gain or loss on the derivative is reported as a component of OCI and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current period earnings.

The Company discontinues hedge accounting prospectively when it determines that the derivative is no longer effective in offsetting cash flows attributable to the hedged risk; the derivative expires or is sold, terminated, or exercised; the cash flow hedge is de-designated because a forecasted transaction is not probable of occurring; or management determines to remove the designation of the cash flow hedge. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the Company continues to carry the derivative at its fair value in the Consolidated Balance Sheet and recognizes any subsequent changes in fair value in earnings. When it is no longer probable that a forecasted transaction will occur, the

Notes to the Consolidated Financial Statements

Company discontinues hedge accounting and immediately recognizes in earnings any gains and losses that were accumulated in OCI related to the hedging relationship.

Deferred Income Taxes - Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The determination of the Company's provision for income taxes requires significant judgment, the use of estimates, and the interpretation and application of complex tax laws. Significant judgment is required in assessing the timing and amounts of deductible and taxable items. The Company records unrecognized tax benefit liabilities for known or anticipated tax issues based on an analysis of whether, and the extent to which, additional taxes will be due. The Company has elected to classify interest charged on a tax settlement in interest expense, and accrued penalties, if any, in selling, general and administrative expenses.

Intangible Assets and Asset Impairment - Amortization of intangible assets is calculated using the straight-line method over the estimated useful lives of the assets, generally from two to ten years. Long-lived assets, such as property, equipment and software, and other purchased intangible assets subject to amortization and depreciation are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount of the asset to the estimated undiscounted future cash flows expected to be generated by the asset. Recognition and measurement of a potential impairment is performed for these assets at the lowest level for which cash flows are individually identifiable. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds its fair value.

Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values, and third-party independent appraisals, as appropriate. Assets expected to be sold within one year are no longer depreciated or amortized. These assets are classified as held-for-sale and are presented separately in the Consolidated Balance Sheet at the lower of carrying amount or fair value less estimated costs to sell.

Comprehensive Income - Comprehensive income consists of net income, foreign currency translation adjustments, and the unrealized gains or losses on derivatives determined to be cash flow hedges, net of taxes.

AD expense - AD fees consist primarily of the ADs' share of royalties and franchise fees in their territories. The Company expenses AD fees in the period in which they are incurred. Amounts due to ADs are recorded in other current liabilities in the Consolidated Balance Sheet.

Advertising Expenses - Advertising costs, consisting primarily of direct mail, radio, print media and online advertisements intended to attract new franchisees and customers, are expensed in the period incurred.

Stock-Based Compensation - The Company records the cost of its employee stock-based compensation as compensation expense in its Consolidated Statements of Operations. Compensation costs related to stock options are based on the grant date fair value of awards using the Black-Scholes-Merton option pricing model and considering forfeitures. Compensation costs related to restricted stock units are based on the grant date fair value and amortized on a straight-line basis over the vesting period for awards that do not vest in tranches. Beginning in the successor period, to conform with the recognition criteria used by the Parent, the Company recognizes compensation costs for an award that has a graded vesting schedule using the accelerated method over the requisite service period for each of the award tranches.

Notes to the Consolidated Financial Statements

Depreciation, Amortization, and Impairment Expenses - The Company has elected to report depreciation, amortization, and impairment expenses separately on the income statement. Prior period income statements have been reclassified to conform with the current period presentation.

Lease Accounting - The Company's lease portfolio consists mainly of leases for its retail store locations and office space. The Company also leases certain office equipment under finance leases. Finance lease right-of-use ("ROU") assets are included in Property, equipment and software, and the finance lease liabilities are included in current installments of long-term obligations and long-term obligations. The Company subleases some of its real estate and equipment leases.

At inception, the Company determines if an arrangement is a lease by evaluating whether the arrangement conveys the right to use an identified asset and whether the Company obtains substantially all of the economic benefits from, and has the ability to direct the use of, the asset. Leases with an initial term of 12 months or less are not recorded in the Consolidated Balance Sheet; the Company recognizes expense for these leases on a straight-line basis over the lease term. For leases with an initial term in excess of 12 months, ROU assets and lease liabilities are recognized based on the present value of the future lease payments over the committed lease term at the lease commencement date. The Company's leases do not contain an implicit rate; therefore, the Company uses its incremental borrowing rate and the information available at the lease commencement date in determining the present value of future lease payments. Most leases include one or more options to renew, with the exercise of the renewal options at the Company's sole discretion. The Company does not include renewal options in its determination of the lease term unless the renewals are deemed to be reasonably certain of exercise at lease commencement. Operating lease expense for lease payments is recognized on a straight-line basis over the lease term. The Company uses the long-lived assets impairment guidance in ASC Subtopic 360-10 "Property, Plant, and Equipment - Overall" to determine whether an ROU asset is impaired, and if so, the amount of the impairment charge to be recognized.

The Company has lease agreements with lease and non-lease components, which the Company elects to combine as one lease component for all classes of underlying assets. Non-lease components include variable costs based on actual costs incurred by the lessor related to the payment of real estate taxes, common area maintenance and insurance. These variable payments are expensed as incurred as variable lease costs.

Use of Estimates

In preparing these Consolidated Financial Statements in conformity with GAAP, Company management has made a number of estimates and assumptions related to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

Recent Accounting Pronouncements

- In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-13, "Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The amendments in this ASU, among other things, require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. Among other things, the ASU also amended the impairment model for available-for-sale securities and addressed purchased financial assets with deterioration. The Company adopted ASU 2016-13 as of January 1, 2023, in accordance with the required implementation date. There was no impact of adoption to retained earnings, net of deferred income taxes. The Company determined that ASU 2016-13 had no material impact on the Consolidated Financial Statements.
- ASU 2023-09 - Income Taxes (Topic 740): *Improvements to Income Tax Disclosures*. This update, effective January 1, 2025 (with early adoption permitted), enhances annual income tax disclosures primarily to further disaggregate existing disclosures related to the effective income tax rate reconciliation and income taxes paid. The Company is currently evaluating the impact this update will have on the disclosures.

Notes to the Consolidated Financial Statements

Acquisition of the Company by the Parent from the Former Parent

As discussed above, on July 2, 2021, the Parent announced it had completed the acquisition of the Company from the Former Parent. The fair value of the consideration transferred at the acquisition date was \$256.1 million, consisting of \$182.1 million in cash and \$74.0 million in equity interests. The acquisition of the Company, as well as additional businesses, positioned the Parent as a one-stop financial services destination for consumers and small businesses. The table below summarizes the fair values of the identifiable assets acquired and liabilities assumed, which are pushed down to the Company as the Parent has identified the Company as the reporting unit.

(In thousands)	July 2, 2021 Fair value
Cash and cash equivalents	\$ 1,684
Current receivables, net	32,428
Assets held for sale	7,475
Other current assets	1,571
Property, equipment, and software, net	12,542
Non-current receivables, net	2,988
Goodwill	76,604
Intangible assets, net	138,200
Operating lease right-of-use assets	9,164
Other non-current assets	2,475
Total assets	285,131
Current installments of long-term obligations	444
Current operating lease liabilities	5,343
Accounts payable and accrued expenses	10,278
Other current liabilities	4,896
Long-term obligations, excluding current installments, net	1,496
Non-current operating lease liabilities	4,406
Other non-current liabilities	2,140
Total liabilities	29,003
Consideration transferred	<u><u>\$ 256,128</u></u>

(2) Revenue

The following represents disaggregated revenue for the years ended December 31, 2023 and 2022, the period from July 3, 2021, to December 31, 2021, and the period from December 27, 2020, to July 2, 2021.

(In thousands)	Successor			Predecessor
	Year Ended		Period From	Period From
	12/31/2023	12/31/2022	7/3/2021 - 12/31/2021	12/27/2020 - 7/2/2021
Franchise fees	\$ 634	\$ 838	\$ 398	\$ 585
Area developer fees	64	116	318	312
Royalties and advertising fees	55,614	60,313	5,511	53,582
Financial products	25,106	32,138	5,672	30,092
Interest income	1,136	2,061	1,346	1,749
Assisted tax preparation fees, net of discounts	12,811	15,264	498	16,147
Electronic filing fees	2,506	2,859	104	2,662
Other revenues	3,023	4,781	3,160	2,357
Total service and other revenue	<u><u>\$ 100,894</u></u>	<u><u>\$ 118,370</u></u>	<u><u>\$ 17,007</u></u>	<u><u>\$ 107,486</u></u>

Notes to the Consolidated Financial Statements

Performance Obligations

Information about the Company's revenue streams and related performance obligations are summarized below:

Initial Franchise Fees

Typically, franchise rights are granted to franchisees for an initial term of five years with an option to renew at no additional cost. In exchange for initial franchise fees, royalties and advertising fees, the Company is obligated by its franchise agreements to provide training, an operations manual, site selection guidance, tax preparation software, operational assistance, tax and technical support, the ability to perform electronic filing, and marketing and advertising. Under ASC 606, the transaction price received from customers is allocated to each separate and distinct performance obligation. The transaction price attributable to each separate and distinct performance obligation is then recognized as the performance obligations are satisfied. The services that the Company provides related to the initial franchise fees the Company receives from franchisees do not contain separate and distinct performance obligations from the franchise right. Accordingly, initial franchise fees, as constrained for amounts the Company does not expect to collect, are recognized over the initial term of the franchise agreement, which is generally five years.

AD Fees

Historically, the rights to develop a new territory were granted to an AD for an initial term of six or ten years with an option to renew at no additional cost. Under ASC 606, the Company recognizes AD fees, as constrained for amounts not expected to be collected, over the initial term of the AD agreement.

The Company also sells developed territories and simultaneously grants new ADs the right to operate as the exclusive AD in such territories for an initial term of six years or ten years. Under ASC 606, the transaction price, as constrained for amounts the Company does not expect to collect, is recognized as revenue over the initial term of the AD agreement.

The Company has made the decision to no longer sell new AD territories or renew existing AD agreements as they expire.

Royalties and Advertising fees

Royalties and advertising fees, which are based on a percentage of the franchisees' sales, are recognized at the time the underlying sales occur. The Company has elected to use the right-to-invoice practical expedient for the recognition of minimum royalties. The Company believes that franchisees' sales provide a faithful depiction of the transfer of goods or services. Royalties and advertising fees are due within thirty days.

Financial Products

Revenue from financial products represents fees the Company earns for the facilitation of refund transfer and refund-based advance loan products provided by a third-party financial institution. Financial product revenue is recorded when the Company has satisfied all performance obligations associated with the facilitation of refund transfers and advance loans. Performance obligations are considered satisfied when the return is accepted by the Internal Revenue Service ("IRS") for refund transfers and when the loan is approved by the bank for advance loans. Refund transfer products and refund-based advance loans are recorded on a net basis as the Company is acting as an agent. The bank maintains full discretion in establishing pricing and is primarily responsible for fulfilling the promise to provide the products, while Liberty acts as a facilitator operating on behalf of the financial institution.

Interest Income

Interest income on notes receivable is recognized based on the outstanding principal note balance, less unrecognized revenue, unless the note is placed on non-accrual status. Interest income on the unrecognized revenue portion of notes receivable is recognized as received. For accounts receivable, interest income is recognized based on the outstanding receivable balance past due over 30 days, net of an allowance.

Notes to the Consolidated Financial Statements

Assisted Tax Preparation Fees

Assisted tax preparation fees, net of discounts, are recorded at the time the return is filed. The related discounts are recorded as reductions to revenue. Assisted tax preparation fees are due upon the filing of the customers' tax return.

Electronic Filing Fees

Electronic filing fees are recorded in the period the tax return is electronically filed. Under ASC 606, the electronic filing fees, net of the franchisees' share in such fees, are recorded as revenue in the Consolidated Statement of Operations.

Contract Balances

The following table provides information about receivables and contract liabilities (advances, deferred revenue, franchise and AD fees) from contracts with customers:

(In thousands)	Successor	
	12/31/2023	12/31/2022
Accounts receivable	\$ 11,760	\$ 13,248
Notes receivable	4,404	7,371
Advances, deferred revenue, franchise and AD fees	10,101	16,912

Changes in deferred revenue, franchise and AD fees are as follows:

(In thousands)	Successor			Predecessor
	Year Ended		Period From	Period From
	12/31/2023	12/31/2022	7/3/2021 - 12/31/2021	12/27/2020 - 7/2/2021
Deferred revenue, franchise and AD fees at beginning of period	\$ 16,912	\$ 2,205	\$ 2,578	\$ 10,895
New advances	9,000	15,000	—	12,000
Revenue recognized during the period	(15,835)	(636)	(929)	(20,897)
New deferrals of franchise and AD fees	24	343	556	580
Deferred revenue, franchise and AD fees at end of period	\$ 10,101	\$ 16,912	\$ 2,205	\$ 2,578

Anticipated Future Recognition of Advances, Deferred Revenue, Franchise and AD Fees

The following table reflects estimated advances, deferred revenue, franchise and AD fees expected to be recognized in future periods related to performance obligations that are unsatisfied as of December 31, 2023:

(In thousands)	Estimate by Fiscal Year
2024	\$ 9,516
2025	413
2026	144
2027	28
Total	\$ 10,101

Notes to the Consolidated Financial Statements

(3) Notes and Accounts Receivable

Current and non-current receivables as of December 31, 2023 and 2022, are presented in the Consolidated Balance Sheets, as follows:

(In thousands)	Successor	
	12/31/2023	12/31/2022
Accounts receivable, net	\$ 13,649	\$ 14,062
Notes receivable, net	3,398	4,880
Interest receivable, net	1,175	1,339
Other current receivables	—	2,251
Allowance for credit losses	(3,906)	(2,728)
Current receivables, net	14,316	19,804
Notes receivable - non-current, net	2,299	3,383
Allowance for credit losses - non-current	(451)	(317)
Non-current receivables, net	1,848	3,066
Total receivables	\$ 16,164	\$ 22,870

The Company provides select financing to franchisees for the purchase of franchises, areas and Company-owned offices, and operating loans for working capital and equipment needs. The franchise-related notes are generally payable over five years, and the operating loans generally are due within one year. Most notes bear interest at 12%.

Most of the notes receivable are due from the Company's franchisees and are collateralized by the underlying franchise, and when the franchise is an entity, are guaranteed by the owners of the respective entity. The debtors' ability to repay the notes is dependent upon both the performance of the franchisee's industry as a whole and the individual franchise.

The table above includes unrecognized revenue. Unrecognized revenue relates to the portion of franchise fees that the Company has not yet recognized, or in the case of sales of Company-owned offices, the financed portion of gains related to these sales in cases where revenue has not yet been recognized. For gains related to the sale of Company-owned offices, revenue is recorded as note payments are received by the Company. The Company evaluates the amount it anticipates collecting for franchise fees on a periodic basis. Unrecognized revenue was \$3.6 million and \$5.4 million as of December 31, 2023 and 2022, respectively.

Allowance for Credit Losses

Management considers specific accounts and notes receivable to be impaired if the net amounts due exceed the fair value of the underlying franchise at the time of the valuation and estimates a current expected credit loss ("CECL") based on that excess. The adequacy of the current expected credit loss allowance is assessed on a regular basis and adjusted as deemed necessary. Management believes the recorded allowance is adequate based upon its consideration of the estimated value of the franchises and AD areas, which serve as collateral for the receivables. Any adverse change in the individual franchisees' or ADs' areas could affect the Company's estimate of the allowance.

Activity in the allowance for credit losses for the years ended December 31, 2023 and 2022, was as follows:

(In thousands)	Successor	
	Year Ended	
	12/31/2023	12/31/2022
Balance at beginning of period	\$ 3,045	\$ 2,196
Provision for credit losses	2,587	1,445
Write-offs	(1,313)	(581)
Foreign currency adjustment	38	(15)
Balance at end of period	\$ 4,357	\$ 3,045

Notes to the Consolidated Financial Statements

While not specifically identifiable as of the balance sheet date, the Company's experience also indicates that a portion of other accounts and notes receivable are impaired, and therefore, are also reserved for, since management does not expect to collect all principal and interest due under the current contractual terms.

Analysis of Past Due Receivables

The breakdown of accounts and notes receivable past due as of December 31, 2023, and 2022, was as follows:

(In thousands)	Successor			
	12/31/2023			
	Past due	Current	Interest receivable, net	Total receivables
Accounts receivable, net	\$ 5,114	\$ 8,535	\$ —	\$ 13,649
Notes and interest receivable, net	1,290	4,407	1,175	6,872
Total accounts, notes, and interest receivable, net	<u>\$ 6,404</u>	<u>\$ 12,942</u>	<u>\$ 1,175</u>	<u>\$ 20,521</u>

(In thousands)	Successor			
	12/31/2022			
	Past due	Current	Interest receivable, net	Total receivables
Accounts receivable, net	\$ 4,170	\$ 9,892	\$ —	\$ 14,062
Notes and interest receivable, net	1,204	7,059	1,339	9,602
Total accounts, notes, and interest receivable, net	<u>\$ 5,374</u>	<u>\$ 16,951</u>	<u>\$ 1,339</u>	<u>\$ 23,664</u>

Accounts receivable are considered to be past due if unpaid 30 days after billing, and notes receivable are considered past due if unpaid 90 days after the due date. Due to the seasonality of the business, most past due balances are collected in the first quarter of the following fiscal year. If it is determined that the likelihood of collecting substantially all of the note and accrued interest is not probable the notes are placed on non-accrual status. The Company's notes receivable on non-accrual status as of December 31, 2023, and 2022 totaled \$1.3 million and \$1.2 million, respectively. Payments received on notes on non-accrual status are applied to the principal note balance until the note is current and then to interest income. Non-accrual notes that become current are moved back to accrual status during the next annual review.

(4) Property, Equipment, and Software, Net

Property, equipment, and software as of December 31, 2023 and 2022, was as follows:

(In thousands)	Successor	
	12/31/2023	12/31/2022
Land and land improvements	\$ 1,058	\$ 1,058
Buildings and building improvements	2,821	2,784
Leasehold improvements	1,068	1,069
Furniture, fixtures, and equipment	547	812
Software	21,805	19,114
Construction in progress	5	20
ROU assets	144	143
Property, equipment, and software, gross	27,448	25,000
Less accumulated depreciation and amortization	6,705	2,916
Property, equipment, and software, net	<u>\$ 20,743</u>	<u>\$ 22,084</u>

Software includes both internally developed software and purchased software. Included in software are \$2.3 million and \$6.7 million of assets that had not been placed into service as of December 31, 2023, and 2022, respectively.

Total depreciation and amortization expense on property, equipment, and software was \$3.9 million for the year ended December 31, 2023 (\$2.4 million for the year ended December 31, 2022, and \$0.6 million and \$0.8 million for the periods from

Notes to the Consolidated Financial Statements

July 3, 2021 to December 31, 2021, and December 27, 2020 to July 2, 2021, respectively). These amounts are included in depreciation and amortization expense in the Consolidated Statement of Operations.

(5) Goodwill and Intangible Assets

Changes in the carrying amount of goodwill for the year ended December 31, 2023 and 2022, were as follows:

(In thousands)	Successor	
	Year Ended	Year Ended
	12/31/2023	12/31/2022
Balance at beginning of period	\$ 78,681	\$ 77,300
Acquisitions of assets from franchisees and third parties	1,132	2,342
Disposals and foreign currency changes, net	(883)	(961)
Impairment	(69,509)	—
Balance at end of period	<u>\$ 9,421</u>	<u>\$ 78,681</u>

On July 25, 2023, when the Company entered into the RSA and CCAA Proceedings, the Company determined that an event had occurred that would indicate that the reporting unit might be impaired. As a matter of happenstance, this event date essentially aligned with the Company's annual goodwill impairment testing date. Through the annual goodwill impairment testing conducted for July 2023, the Company determined that a goodwill impairment had occurred and the Company recorded an impairment charge of approximately \$69 million. The Company did not record any goodwill impairment charges for the year ended December 31, 2022.

Components of intangible assets as of December 31, 2023 and 2022, were as follows:

(In thousands)	Successor			
	12/31/2023			
	Weighted average amortization period	Gross carrying amount	Accumulated amortization	Net carrying amount
Tradenames ⁽¹⁾	Indefinite life	\$ 13,000	\$ —	\$ 13,000
AD rights	9 years	27,447	(10,770)	16,677
Customer lists	4 years	1,694	(777)	917
Customer relationships	4.5 years	98,000	(49,000)	49,000
Re-acquired rights	2 years	636	(196)	440
Total intangible assets		<u>\$ 140,777</u>	<u>\$ (60,743)</u>	<u>\$ 80,034</u>

(In thousands)	Successor			
	12/31/2022			
	Weighted average amortization period	Gross carrying amount	Accumulated amortization	Net carrying amount
Tradenames ⁽¹⁾	Indefinite life	\$ 13,000	\$ —	\$ 13,000
AD rights	9 years	34,579	(11,387)	23,192
Customer lists	4 years	2,637	(837)	1,800
Customer relationships	4.5 years	98,000	(29,400)	68,600
Re-acquired rights	2 years	803	(263)	540
Total intangible assets		<u>\$ 149,019</u>	<u>\$ (41,887)</u>	<u>\$ 107,132</u>

⁽¹⁾ The Company's Tradenames have an indefinite life and are tested as part of the Company's annual impairment testing or when there is an indication of impairment.

For the years ended December 31, 2023 and 2022, the Company recorded goodwill and intangible assets of \$1.9 million and \$5.5 million, respectively, from the acquisition of franchises and third parties. All franchise acquisitions were accounted for as business combinations and recorded as intangible assets.

LT Holdco, LLC and Subsidiaries

Notes to the Consolidated Financial Statements

The Company reviews amortizable intangible assets for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. Write-downs of assets acquired from franchisees relate to Company-owned offices that were subsequently closed and the difference between the fair value and carrying value of existing assets of Company-owned offices. As a result, the carrying values of assets acquired from franchisees were reduced by \$0.1 million and \$0.0 million for the years ended December 31, 2023 and 2022, respectively. These amounts were included in impairment expense in the accompanying Consolidated Statements of Operations. The Company estimated the fair value of assets associated with Company-owned offices based on a valuation technique as described in “Note 1 - Description of Business and Summary of Significant Accounting Policies.”

For the years ended December 31, 2023 and 2022, amortization expense was \$26.9 million and \$31.1 million, respectively. These amounts were included in depreciation and amortization expense in the accompanying Consolidated Statements of Operations. Annual amortization expense for the next five years is estimated to be as follows:

(In thousands)	As of 12/31/2023
2024	\$ 23,867
2025	22,836
2026	12,255
2027	2,085
2028	1,757
Thereafter	4,234
Total estimated amortization expense	\$ 67,034

(6) Leases

Lease costs recognized in selling, general and administrative expenses in the Consolidated Statements of Operations for the years ended December 31, 2023 and 2022, the period from July 3, 2021, to December 31, 2021, and the period from December 27, 2020, to July 2, 2021, were as follows:

(In thousands)	Successor			Predecessor
	Year Ended		Period From	Period From
	12/31/2023	12/31/2022	7/3/2021 -	12/27/2020 -
	12/31/2021	7/2/2021		
Operating lease costs	\$ 4,144	\$ 5,111	\$ 2,609	\$ 2,755
Short-term operating lease costs	16	78	28	45
Variable operating lease costs	949	917	445	651
Sublease income	(1,440)	(2,021)	(948)	(517)
Total operating lease costs	\$ 3,669	\$ 4,085	\$ 2,134	\$ 2,934

LT Holdco, LLC and Subsidiaries

Notes to the Consolidated Financial Statements

As of December 31, 2023, maturities of lease liabilities were as follows:

(In thousands)	Operating leases
2024	\$ 2,094
2025	1,281
2026	704
2027	91
2028	30
Thereafter	—
Total undiscounted lease payments	4,200
Less interest	(481)
Present value of lease liabilities	<u>\$ 3,719</u>

As of December 31, 2023, operating leases had a weighted-average remaining lease term of 2.6 years and a weighted-average discount rate of 11.4%.

The following represents other information pertaining to the Company's lease arrangements for the years ended December 31, 2023 and 2022, the period from July 3, 2021, to December 31, 2021, and the period from December 27, 2020, to July 2, 2021:

(In thousands)	Successor			Predecessor
	Year Ended		Period From	Period From
	12/31/2023	12/31/2022	7/3/2021 - 12/31/2021	12/27/2020 - 7/2/2021
Non-cash information on lease liabilities arising from right-of-use assets	\$ 285	\$ 3,325	\$ 4,564	\$ 2,656
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	4,192	5,051	2,513	2,753

As a result of the CCAA Proceedings, the Company was able to disclaim certain leases related to stores. The impact of disclaiming those leases on operating lease right-of-use assets, current operating lease liabilities, and non-current operating lease liabilities is presented in “Note 1 - Description of Business and Summary of Significant Accounting Policies”.

(7) Long-Term Obligations

Long-term obligations as of December 31, 2023 and 2022, was as follows:

(In thousands)	Successor	
	12/31/2023	12/31/2022
LT Holdco Term Loan	\$ 74,140	\$ 47,361
Amounts due to former ADs, franchisees, and third parties at zero percent interest	—	539
Finance lease liabilities	65	102
Total long-term obligations	74,205	48,002
Less current installments	1,431	576
Total long-term obligations, net of current installments	<u>\$ 72,774</u>	<u>\$ 47,426</u>

LT Holdco, LLC and Subsidiaries

Notes to the Consolidated Financial Statements

In connection with the Transaction, the Parent entered into a \$200 million revolving credit facility (the “**Credit Facility**”), with affiliates of BasePoint. On November 1, 2022, the Parent and BasePoint entered into a Waiver and Amendment to the Revolving Credit Agreement (the “**Credit Facility Amendment**”), which, among others, set the maximum revolving Credit Facility commitment at \$130.0 million and provided for a new \$74.4 million LT Holdco Term Loan to the Company. The Company paid a \$1.7 million fee upon executing the Credit Facility Amendment and received \$49.0 million of the principal balance. An additional \$25.4 million refinance was executed on May 1, 2023. The new \$74.4 million term loan bears interest at the SOFR Reference Rate plus 9.50% per annum. The effective interest rate for the LT Holdco Term loan is 15.30% per annum., and it matures on July 2, 2025. Beginning on June 30, 2024, the Company is required to make amortization payments of \$0.7 million on the LT Holdco Term Loan on June 30th and December 31st each year, and as from the same date, may be required to make prepayments based on a calculation of excess cash flow.

Throughout the CCAA Proceedings and Chapter 15 Proceedings, the Company was in default of certain covenants within the LT Holdco Term Loan. The Company received waivers from BasePoint related to all actual covenant defaults through the date of these Consolidated Financial Statements. Additionally, the Company requested and received waivers for all events of non-compliance with the debt covenants of the LT Holdco Term Loan through January 2024; and amended the debt covenants on a go-forward basis.

On April 19, 2024, the Company amended the LT Holdco Term Loan to include a \$5.0 million swingline. The Company may draw on the line through the maturity date of the LT Holdco Term Loan. The swingline bears interest at the SOFR Reference Rate plus 15.00% per annum.

Aggregate maturities of long-term debt as of December 31, 2023, were as follows:

(In thousands)	As of 12/31/2023
2024	\$ 1,431
2025	72,770
2026	4
Total long-term debt	<u>\$ 74,205</u>

(8) Derivative Instruments and Hedging Activities

From time-to-time, the Company may enter into derivative financial instruments to manage exposures to changes in interest rates and foreign currency fluctuation on short-term advances made to its Canadian subsidiary. The Company does not speculate using derivative instruments, nor does it enter into derivative instruments for any purpose other than cash flow hedging.

Interest rate swap agreements. In December 2016, in connection with obtaining a mortgage payable to a bank, the Company entered into an interest rate swap agreement with a notional amount of \$2.2 million, which was equal to the amount of the mortgage. The swap allowed the Company to manage fluctuations in cash flows resulting from changes in the interest rate on the mortgage by converting the variable rate of the Company's mortgage into a fixed rate of 4.12%. The Company had designated the swap agreement as a cash flow hedge. The original maturity of the interest rate swap was in December 2026, however, in August 2022, the Company sold the underlying property. As a result, the swap was unwound in 2022 resulting in a loss of \$0.1 million recorded in selling, general, and administrative expenses in the Consolidated Statement of Operations. As of December 31, 2023 and 2022, there were no outstanding interest rate swap agreements.

Forward contracts related to foreign currency exchange rates. In connection with short-term advances made to its Canadian subsidiary related to the discounting of personal income tax refunds, the Company entered into forward contracts to eliminate the exposure related to foreign currency fluctuations. Under the terms of the forward currency contracts, the exchange rate for repayments were fixed at the time advances were made, and the advances were repaid prior to April 30th of each year. These forward contracts were designated as cash flow hedges. All of the forward contracts expired prior to December 31, 2021. As

Notes to the Consolidated Financial Statements

such, as of December 31, 2023 and 2022, there were no remaining forward contracts outstanding. During the period from July 3, 2021, to December 31, 2021 (successor), and the period from December 27, 2020, to July 2, 2021 (predecessor), these foreign currency hedges were effective, and therefore, no amounts were recognized in the Consolidated Statements of Operations.

(9) Member's Equity

Member's capital

Member's capital is comprised of equity transactions with the Parent and Former Parent. As discussed in "Note 1- Description of Business and Summary of Significant Accounting Policies", at the formation of the Company in July 2019, the assets and liabilities of SiempreTax, LLC and JTH Tax, LLC were transferred by the Former Parent to the Company. The historical member's capital shown for the periods prior to the equity reorganization consists of the combined member's capital of SiempreTax, LLC and JTH Tax, LLC. On July 2, 2021 the Company was sold by the Former Parent to the Parent. The beginning member's capital as of July 3, 2021, represents the fair value of the purchase consideration paid by the Parent to the Former Parent.

Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive (loss) income as of December 31, 2023 and 2022, were as follows:

(In thousands)	Successor	
	12/31/2023	12/31/2022
Foreign currency translation adjustment	\$ (231)	\$ (419)
Total accumulated other comprehensive (loss) income	\$ (231)	\$ (419)

(10) Stock Compensation Plan

Stock Options, Restricted Stock Units and Performance Stock Units of the Parent and Former Parent

On July 2, 2021, in connection with the closing of the Transaction, employees of the Company became eligible to receive stock options, restricted share units and performance share units (collectively, "grants") issued by the Parent under the equity incentive plan of the Parent (the "Equity Incentive Plan"). No grants were awarded to any employees of the Company during the period from July 3, 2021, to December 31, 2021.

Concurrent with the CCAA Proceedings, as described in "Note 1 - Description of Business and Summary of Significant Accounting Policies", all outstanding stock options and RSU's of the Parent were cancelled.

Notes to the Consolidated Financial Statements

Stock Options of the Parent

Stock option activity during the years ended December 31, 2023 and 2022, was as follows:

	Number of options	Weighted-average exercise price
Outstanding as of December 31, 2021	—	\$ —
Granted	372,000	1.90
Transferred ⁽¹⁾	(62,250)	1.90
Outstanding as of December 31, 2022	309,750	\$ 1.90
Forfeited or expired	(309,750)	1.90
Outstanding as of December 31, 2023	—	\$ —

⁽¹⁾ Represent stock options of employees who were transferred to other entities controlled by the Parent.

Pursuant to the Equity Incentive Plan, the Company granted stock options to employees on March 23, 2022. One third of the award vests on each of the three-year anniversary dates of the grant. The Company uses a Black Scholes model to determine the fair value of the options. Volatility, the expected term and the risk-free rate are the primary inputs to the model.

No stock options were granted during the year ended December 31, 2023, and there were no stock options outstanding as of December 31, 2023.

Restricted Share Units of the Parent

The Parent awarded restricted share units (“RSU’s”) to employees of the Company during the year ended December 31, 2022. The Company recognizes expense based on the estimated fair value of the RSU’s granted over the vesting period using the accelerated method. The fair value of RSU’s is determined using the Parent’s closing stock price on the date of the grant and generally vest at the end of a three-year period.

RSU activity during the years ended December 31, 2023 and 2022, was as follows:

	Number of RSUs	Weighted-average fair value at grant date
Outstanding as of December 31, 2021	—	\$ —
Granted	124,000	3.00
Transferred ⁽¹⁾	(18,875)	3.00
Forfeited or expired	(8,000)	3.00
Outstanding as of December 31, 2022	97,125	\$ 3.00
Forfeited or expired	(97,125)	3.00
Outstanding as of December 31, 2023	—	\$ —

⁽¹⁾ Represent RSU’s of employees who were transferred to other entities controlled by the Parent.

No RSU's were granted during the year ended December 31, 2023, and there were no RSU's outstanding as of December 31, 2023.

Stock Compensation Expense Recognized under Parent

The Company recorded a \$0.1 million benefit due to forfeitures and \$0.3 million of expense related to stock awards for the years ended December 31, 2023 and 2022, respectively. No expense was recorded related to stock awards during the period from July 3, 2021, to December 31, 2021.

Notes to the Consolidated Financial Statements

Stock Options of the Former Parent

No options were granted by the Former Parent during the period from December 27, 2020, to July 2, 2021. Stock option activity, under the Former Parent, during the Period from December 27, 2020, to July 2, 2021, was as follows:

	Number of options	Weighted average exercise price
Outstanding as of December 26, 2020	321,667	9.82
Granted	—	—
Exercised	(26,889)	10.22
Forfeited or expired	—	—
Outstanding as of July 2, 2021	<u>294,778</u>	\$ 9.78

Non-vested stock options activity, under the Former Parent, during the Period from December 27, 2020, to July 2, 2021, was as follows:

	Non-vested options	Weighted average exercise price
Outstanding as of December 26, 2020	63,334	8.83
Granted	—	—
Vested	(63,334)	8.83
Forfeited	—	—
Outstanding as of July 2, 2021	<u>—</u>	\$ —

The former options were redeemed as part of the Transaction and are no longer outstanding.

Restricted Stock Units of the Former Parent

The Former Parent awarded restricted stock units to certain employees of the Company. Restricted stock units are valued at the closing stock price the day of the grant date. Compensation costs associated with these restricted shares are amortized on a straight-line basis over the vesting period and recognized as an increase in additional paid-in capital.

Restricted stock activity, under the Former Parent, during the period from December 27, 2020, to July 2, 2021, was as follows.

	Number of RSUs	Weighted Average Fair Value at Grant Date
Balance as of December 26, 2020	22,460	9.98
Granted	—	—
Vested	(18,594)	9.51
Forfeited	(3,866)	12.22
Balance as of July 2, 2021	<u>—</u>	\$ —

Performance Stock Units of the Former Parent

The Former Parent awarded performance stock units (“PSU’s”) to certain employees of the Company. The following represents the rollforward of the PSU’s awarded by the Former Parent to the Company’s employees.

	Number of PSUs	Weighted Average Fair Value at Grant Date
Balance as of December 26, 2020	26,500	14.40
Granted	—	—
Vested	—	—
Forfeited	(26,500)	14.40
Balance as of July 2, 2021	<u>—</u>	\$ —

Notes to the Consolidated Financial Statements

Stock Compensation Expense Recognized under Former Parent

The Company recorded \$0.3 million of expense related to stock awards for the period from December 27, 2020 to July 2, 2021.

(11) Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets and liabilities subject to fair value measurements are classified according to a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. Valuation methodologies under the fair value hierarchy are as follows.

- Level 1—Quoted prices for identical assets and liabilities in active markets.
- Level 2—Quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, and model-based valuations in which all significant inputs are observable in the market.
- Level 3—Unobservable inputs in which little or no market data exists, requiring an entity to develop its own assumptions.

The Company measures or monitors certain of its assets and liabilities on a fair value basis. Fair value is used on a recurring basis for those assets and liabilities for which fair value is the primary basis of accounting. Other assets and liabilities are measured at fair value on a non-recurring basis; that is, they are subject to fair value adjustment in certain circumstances, such as when there is evidence of impairment.

For each of the fair value hierarchy levels, the following tables present the assets and liabilities that are measured at fair value on a recurring and non-recurring basis as of December 31, 2023 and 2022:

(In thousands)	Total	12/31/2023		
		Fair value measurements using		
		Level 1	Level 2	Level 3
Non-recurring assets:				
Impaired accounts and notes receivable, net of unrecognized revenue	\$ 2,907	\$ —	\$ —	\$ 2,907
Impaired goodwill	9,421	—	—	9,421
Total non-recurring assets	\$ 12,328	\$ —	\$ —	\$ 12,328

(In thousands)	Total	12/31/2022		
		Fair value measurements using		
		Level 1	Level 2	Level 3
Non-recurring assets:				
Impaired accounts and notes receivable, net of unrecognized revenue	\$ 2,990	\$ —	\$ —	\$ 2,990
Total non-recurring assets	\$ 2,990	\$ —	\$ —	\$ 2,990
Recurring liabilities:				
Contingent consideration included in obligations due to former ADs, franchisees and others	\$ 539	\$ —	\$ —	\$ 539
Interest rate swap agreement	—	—	—	—
Total recurring liabilities	\$ 539	\$ —	\$ —	\$ 539

Notes to the Consolidated Financial Statements

The Company's policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers into or out of Level 1 or 2 recurring fair value measurements for the years ended December 31, 2023 and 2022.

The following methods and assumptions are used to estimate the fair value of the Company's financial instruments.

Impaired accounts and notes receivable: Accounts and notes receivable are considered to be impaired if the net amounts due exceed the fair value of the underlying franchise or if management considers it probable that all principal and interest will not be collected when contractually due. In establishing the estimated fair value of the underlying franchise, consideration is given to a variety of factors, including recent comparable sales of Company-owned stores, sales between franchisees, the net fees of open offices and the number of unopened offices.

Contingent consideration included in long-term obligations: Contingent consideration is carried at fair value. The fair value of these obligations was determined based upon the estimated future net revenues of the acquired businesses.

Other Fair Value Measurements

Accounting standards require the disclosure of the estimated fair value of financial instruments that are not recorded at fair value. For the financial instruments not recorded at fair value, estimates of fair value are made at a point in time based on relevant market data and information about the financial instrument. No readily available market exists for a significant portion of the Company's financial instruments. Fair value estimates for these instruments are based on current economic conditions, interest rate risk characteristics, and other factors. Many of these estimates involve uncertainties and matters of significant judgment and cannot be determined with precision. Therefore, the calculated fair value estimates in many instances cannot be substantiated by comparison to independent markets, and in many cases, may not be realizable in a current sale of the instrument. In addition, changes in assumptions could significantly affect these fair value estimates. The following methods and assumptions were used by the Company in estimating the fair value of these financial instruments.

Cash equivalents: The carrying amounts approximate fair value because of the short maturity of these instruments. Cash equivalent financial instruments consist of money market accounts.

Receivables other than notes, other current assets, accounts payable and accrued expenses, and due to ADs: The carrying amounts approximate fair value because of the short maturity of these instruments.

Notes receivable: The carrying amount approximates fair value because the interest rate charged by the Company on these notes approximates rates currently offered by local lending institutions for loans of similar terms to individuals/entities with comparable credit risk (Level 3).

Long-term debt: The carrying amount approximates fair value because the interest rate paid has a variable component (Level 2).

(12) Income Taxes

Overview

The Company calculates the provision for income taxes by using the separate return method. Under this method, the Company is assumed to file a separate return with the tax authority. The Company's current provision is the amount of tax payable or refundable on the basis of a hypothetical, current year separate return. The Company provides deferred taxes on temporary differences and any carryforwards it could claim on its hypothetical separate return and assesses the need for a valuation allowance on the basis of the Company's projected results.

LT Holdco, LLC and Subsidiaries

Notes to the Consolidated Financial Statements

Components of income tax expense for the years ended December 31, 2023 and 2022, the period from July 3, 2021, to December 31, 2021, and the period from December 27, 2020, to July 2, 2021, were as follows:

(In thousands)	Successor			Predecessor
	Year Ended		Period From	Period From
	12/31/2023	12/31/2022	7/3/2021 - 12/31/2021	12/27/2020 - 7/2/2021
Current:				
Federal	\$ 104	\$ 251	\$ 10	\$ 1,513
State	44	105	—	—
Foreign	632	(824)	1,958	966
Current Tax expense (benefit)	780	(468)	1,968	2,479
Deferred:				
Federal	6,890	(526)	(5,076)	—
State	2,019	(179)	(1,460)	—
Foreign	259	(230)	(95)	(17)
Deferred tax expense (benefit)	9,168	(935)	(6,631)	(17)
Total income tax expense (benefit)	\$ 9,948	\$ (1,403)	\$ (4,663)	\$ 2,462

For the years ended December 31, 2023 and 2022, the period from July 3, 2021, to December 31, 2021, and the period from December 27, 2020, to July 2, 2021, income (loss) before taxes consisted of the following:

(In thousands)	Successor			Predecessor
	Year Ended		Period From	Period From
	12/31/2023	12/31/2022	7/3/2021 - 12/31/2021	12/27/2020 - 7/2/2021
U.S. Operations	\$ (91,592)	\$ (4,186)	\$ (29,709)	\$ 42,338
Foreign operations	3,077	815	7,099	3,770
Income (loss) before income taxes	\$ (88,515)	\$ (3,371)	\$ (22,610)	\$ 46,108

Income tax benefit differed from the amounts computed by applying the U.S. federal income tax rate of 21% to pre-tax income from continuing operations as a result of the following for the years ended December 31, 2023 and 2022, the period from July 3, 2021, to December 31, 2021, and the period from December 27, 2020, to July 2, 2021:

(In thousands)	Successor			Predecessor
	Year Ended		Period From	Period From
	12/31/2023	12/31/2022	7/3/2021 - 12/31/2021	12/27/2020 - 7/2/2021
Computed "expected" income tax expense (benefit)	\$ (18,588)	\$ (698)	\$ (4,698)	\$ 9,683
Increase (decrease) in income taxes resulting from:				
Current state taxes	(4,525)	83	—	—
State income taxes, net of federal benefit	—	(179)	(1,460)	—
Nondeductible expenses	75	104	61	20
Goodwill impairment expense	6,062	—	—	—
Stock compensation expense	—	—	—	(200)
Foreign tax rate differential	164	(3)	391	204
Rate change	—	—	—	—
Valuation allowance	26,316	—	—	(7,422)
Remeasurement of deferreds	—	(14)	—	—
Global intangible low-taxed income ("GILTI")	—	157	1,120	376
Return to provision	309	(865)	—	14
Other	135	12	(77)	(213)
Total income tax expense (benefit)	\$ 9,948	\$ (1,403)	\$ (4,663)	\$ 2,462

LT Holdco, LLC and Subsidiaries

Notes to the Consolidated Financial Statements

The tax effect of temporary differences between the financial statement carrying amounts and tax basis of assets and liabilities that give rise to significant portions of deferred tax assets and liabilities as of December 31, 2023 and 2022, were as follows:

(In thousands)	Successor	
	12/31/2023	12/31/2022
Deferred tax assets:		
Federal and state net operating loss carryforward	\$ 4,731	\$ 3,208
Intangible, franchise and AD rights	19,213	6,863
Allowance for doubtful accounts	1,563	1,727
Deferred revenue	214	392
Unrealized gain/loss	229	324
Lease liability	918	2,354
Interest carryforward	2,166	—
Stock compensation	59	—
Total deferred tax assets (before valuation allowance)	29,093	14,868
Valuation allowance	(26,316)	—
Total deferred tax assets (after valuation allowance)	2,777	14,868
Deferred tax liabilities		
Property, equipment and software (U.S.)	(846)	(1,266)
Intangible assets	(562)	(1,775)
Right-of-use assets	(960)	(2,214)
Other current assets	(409)	(447)
Total deferred tax liabilities	(2,777)	(5,702)
Net deferred tax assets	\$ —	\$ 9,166

As of December 31, 2023, the Company has gross U.S. federal net operating losses of \$17.5 million, which do not expire, and state net operating losses of \$18.6 million, a portion of which will begin to expire in 2026. As of December 31, 2022, the Company had gross U.S. federal net operating losses of \$11.9 million and state net operating losses of \$15.8 million.

As of December 31, 2023, the Company's earliest open tax year for U.S. federal income tax purposes was the fiscal year ended December 27, 2020.

Pursuant to ASC 740-30-25, the Company asserts that the undistributed earnings of its foreign subsidiary, Liberty Tax Canada, as of December 31, 2023, are permanently and indefinitely reinvested, and the Company will not recognize a deferred tax liability for outside basis differences related to its investment in the foreign subsidiary. The Company has concluded that it does not need to repatriate funds to the U.S. to satisfy domestic needs. Any undistributed earnings will be used to meet the working capital needs of Liberty Tax Canada. The amount of cumulative earnings for Liberty Tax Canada as of December 31, 2023, since the Company was acquired by NextPoint Financial Inc on July 2, 2021, are \$11.3 million of income. As the Company has asserted permanent reinvestment of these earnings, it is impracticable to determine the deferred tax liability associated with the Company's investment in the foreign subsidiary.

The Company has elected to treat amounts incurred under the GILTI rules as an expense in the period in which the tax is accrued. Accordingly, no deferred tax assets or liabilities are recorded related to GILTI.

As of December 31, 2023, no uncertain tax position liabilities, interest or penalties related to any uncertain tax positions were recorded.

Notes to the Consolidated Financial Statements

(13) Related Party Transactions

Transactions entered into between the Company and Parent and Former Parent are related party transactions. Transactions with the Parent and Former Parent include various services and administration functions provided by the Parent and Former Parent, cash management including treasury functions provided by the Parent and Former Parent and filing and payment of federal and state taxes for the business. These transactions are recorded at cost.

Services provided by the Parent and Former Parent

The Company has allocated costs for services and administrative functions provided by the Parent and Former Parent, including, but not limited to, executive management, legal, finance, marketing, and human resources. The allocations are generally determined using a percentage of total revenue. Management of the Company, Parent and Former Parent consider these allocations to be a reasonable reflection of the utilization of services by, or benefits provided to, the Company. However, these allocations may not reflect the expense the Company would have incurred as a standalone entity for the periods presented.

For the years ended December 31, 2023 and 2022, the period from July 3, 2021, to December 31, 2021, and the period from December 27, 2020, to July 2, 2021, a total of \$7.2 million, \$5.8 million, \$2.1 million and \$1.5 million of corporate expenses were allocated to the Company by the Parent and Former Parent, respectively.

(In thousands)	Successor			Predecessor
	Year Ended		Period From	Period From
	12/31/2023	12/31/2022	7/3/2021 - 12/31/2021	12/27/2020 - 7/2/2021
Employee compensation and benefits	\$ 3,350	\$ 3,136	\$ 1,018	\$ 1,271
Professional fees and insurance	3,835	2,618	1,090	244
Total charge, net	\$ 7,185	\$ 5,754	\$ 2,108	\$ 1,515

As of December 31, 2023 and 2022, there were no related party receivable or payable balances outstanding.

M. Brent Turner

M. Brent Turner was the Chief Executive Officer of the Company until March 30, 2023. As of December 31, 2023, Mr. Turner held 0% of NextPoint's Common Shares related to both his termination of services and the CCAA Proceedings. As of December 31, 2022, Mr. Turner held approximately 2%, of NextPoint's Common Shares, directly or through entities under his control.

- *Revolution Financial, Inc.* Mr. Turner, through an affiliate, owned a 34% equity interest in Revolution Financial, Inc. (“**Revolution**”). The material assets of Revolution were sold to a third party, FlexShopper, Inc., on December 1, 2022. Subsidiaries of the Company are or were party to the following agreements with Revolution:
 - *Revolution Financial Tax Program Agreement.* The Company was party to a one-year Tax Program Agreement (the “**Revolution Tax Program Agreement**”) with Revolution effective as of November 20, 2020. Effective November 20, 2021, the Company extended the Revolution Tax Program Agreement for another year under the same terms and conditions discussed below, and the Revolution Tax Program Agreement expired effective November 20, 2022. The Revolution Tax Program Agreement allowed Revolution to use Liberty Tax’s tax preparation systems, certain identified intellectual property licensed from Liberty Tax, and other expertise from Liberty Tax to offer tax preparation services to consumers in Revolution locations. Pursuant to the terms provided in the Revolution Tax Program Agreement, (i) Revolution would pay to the Company 60% of the Gross Receipts (as defined in the Revolution Tax Program Agreement) generated by the tax preparation services provided as part of the program, (ii) the Company would pay up to five thousand dollars (\$5,000) per Revolution location towards the cost associated with replacing the

Notes to the Consolidated Financial Statements

exterior signage of Revolution locations with Liberty branded signage, and (iii) the Company would pay 60%, and Revolution would pay 40%, of the costs associated with local store marketing materials. For the year ended December 31, 2022, the period from July 3, 2021, to December 31, 2021, and the period from December 27, 2020, to July 2, 2021, the Company earned less than \$0.1 million in royalties related to the Revolution Tax Program Agreement and incurred no expenses.

- *Revolution Financial Loan Program Agreement.* The Company was party to a one-year Loan Program Agreement (the “**Revolution Loan Program Agreement**”) with Revolution effective as of December 2, 2020. Effective December 2, 2021, the Company extended the Revolution Loan Program Agreement for another year under the same terms and conditions discussed below, and the Revolution Loan Program Agreement expired effective December 2, 2022. The Revolution Loan Program Agreement provided that Revolution would use its lending platform and expertise to offer consumer lending in Liberty Tax locations. Pursuant to the terms provided in the Revolution Loan Program Agreement, the Company and/or its franchisees would pay Revolution a one-time fee of ten thousand dollars (\$10,000) as a software license fee for each location that participates in the program. Revolution would pay a management fee to the Company and/or franchisee in an amount equal to fifty percent (50)% of the monthly net revenue (as defined in the Revolution Loan Program Agreement) during each calendar month (or portion thereof). During the year ended December 31, 2022, the period from July 3, 2021, to December 31, 2021, and the period from December 27, 2020, to July 2, 2021, the Company did not earn any fees or incur any expenses related to the Revolution Loan Program Agreement.
- *Revolution Management Services Agreement.* On July 22, 2022, the Company entered into a Management Services Agreement with Revolution (the “**Revolution MSA**”) under which it will provide 1. retail management services involving the oversight and operation of certain store locations; 2. underwriting and analytics services, and other technology tools and services; 3. treasury management and accounting services; 4. collection management and call-center strategies and services; and 5. legal, compliance and marketing services. As compensation for these services, Revolution paid JTH Financial, LLC, a monthly fee of one-thousand dollars through maturity of the agreement on December 31, 2022.
- *Credit Saint.* The Company entered into a Referral and Joint Marketing Agreement with Credit Saint, a New Jersey limited liability company on December 31, 2021. Mr. Turner acquired a 17% equity interest in Credit Saint in February 2022. Credit Saint is in the business of providing credit repair services to businesses and individuals. Pursuant to the agreement with Credit Saint, JTH Tax LLC agreed to promote the referral of prospects by its franchisees to Credit Saint for credit repair services in exchange for certain specified referral fees. The agreement carries an initial term through December 31, 2024, after which time it automatically renews for one-year periods unless either party provides written notice to the other at least ninety days prior to the end of the initial term or any renewal term. During the year ended December 31, 2023 and the year ended December 31, 2022, Credit Saint paid the Company less than ten thousand dollars in commissions. The Company terminated the agreement with Credit Saint on May 26, 2023.

M. Ghazi Dakik

Revolution Financial, Inc. M. Ghazi Dakik was the Chief Legal and Compliance Officer of the Company until March 30, 2023. As of December 31, 2022, Mr. Dakik was a minority equity holder in Revolution. See above for a description of agreements between the Company and Revolution.

Notes to the Consolidated Financial Statements

(14) Commitments and Contingencies

In the ordinary course of operations, the Company may become or is party to claims and lawsuits that are considered to be ordinary, routine litigation, incidental to the business, including claims and lawsuits concerning the preparation of customers' income tax returns, the fees charged to customers for various products and services, relationships with franchisees, intellectual property disputes, employment matters and contract disputes. Although the Company cannot provide assurance that it will ultimately prevail in each instance, it believes the amount, if any, it will be required to pay in the discharge of liabilities or settlements in these claims will not have a material adverse impact on its Consolidated Statement of Operations, financial position or cash flows except as provided below.

Class-Action Litigation

Rene Labrado v. JTH Tax, Inc. On July 3, 2018, a class-action complaint was filed in the Superior Court of California, County of Los Angeles by a former employee for herself and on behalf of all other "similarly situated" persons. The Complaint alleged, among other things, that the Company allegedly violated various provisions of the California Labor Code, including: unpaid overtime, unpaid meal period premiums, unpaid rest premiums, unpaid minimum wages, final wages not timely paid, wages not timely paid, non-compliant wage statements, failure to keep pay records, unreimbursed business expenses and violation of California Business and Profession Code Section 17200. As part of the CCAA Proceedings described in Note 1, the Company has disclaimed this litigation, and in 2023, reversed the \$1.2 million accrual related to this case.

DOJ and IRS Matters

On December 3, 2019, the Department of Justice ("DOJ") initiated a legal proceeding against the Company, in the U.S. District Court for the Eastern District of Virginia. Also, on December 3, 2019, the DOJ and the Company filed a joint motion asking the court to approve a proposed order setting forth certain enhancements to the Company's compliance program and requiring the Company to retain an independent monitor to oversee the implementation of the required enhancements to the compliance program. The monitor will work with the Company's compliance team and may make recommendations for further refinements to improve the tax compliance program. As part of the proposed order, the Company also agreed that it would not rehire or otherwise engage the Company's former chairman, John T. Hewitt, under whose supervision the conduct at issue occurred, and agreed not to grant Mr. Hewitt any options or other rights to acquire equity in the Company, or to nominate him to the Company's Board of Directors. On December 20, 2019, the Court granted the joint motion for the proposed order and the confidentiality motion, which fully resolved the legal proceeding initiated by DOJ.

In addition, the Company entered into a settlement agreement resolving the previously disclosed investigation by the IRS with respect to the tax return preparation activities of the Company's franchise operations and Company-owned stores. Pursuant to that agreement, the Company agreed to make a compliance payment to the IRS in the amount of \$3.0 million, plus penalties and interest, to be paid in installments over four years, starting with an upfront payment of \$1.0 million in December 2019, followed by a \$0.5 million payment on each anniversary thereof. At December 31, 2023, all amounts owed by the Company were paid to the DOJ.

The Company expects that the increased costs to enhance its compliance program could exceed \$1.0 million per year over several years, in addition to the costs necessary to resolve the investigation. Since the time of the settlement agreement with the DOJ, the Company has been in regular communication with the independent monitor and DOJ as necessary. Under the terms of the settlement agreement with the DOJ, the requirement for the Company to maintain an independent monitor expired at the end of December 2022.

On January 9, 2023, the Company and the DOJ agreed to a stipulation to the Order, dated December 3, 2019, for the Company to provide a supplemental report to the Final Annual Monitorship Report. Specifically, the Company will submit tax filing and compliance information for the 2023 season (i.e., from January 1, 2023, through April 18, 2023) to an external auditor agreed upon by both parties. Further, the Company agreed to expand the scope of its compliance monitoring systems designed to detect and deter fraudulent federal tax returns filed with Schedule C forms reporting the profit or loss from sole proprietorship businesses. The terms of this stipulation are only applicable to the 2023 tax filing season.

LT Holdco, LLC and Subsidiaries

Notes to the Consolidated Financial Statements

Other Matters

District of Columbia v. JTH Tax, LLC. On September 21, 2022, the DC Attorney General (“AG”) filed a complaint against the Company in the Superior Court of the District of Columbia. The complaint contains one count asserting an alleged violation of the DC Consumer Protection Procedures Act. The AG alleges that the Company's Cash-In-A-Flash promotion was deceptive and misleading as franchisees in the District allegedly increased their prices to offset offering the Cash-In-A-Flash promotion. The complaint seeks an unspecified amount of damages and injunctive relief.

On October 17, 2022, JTH removed the case to federal court of the District of Columbia and on October 24, 2022 filed a motion to dismiss. On October 26, 2022, the District filed a motion to remand the case back to state court. The Company's opposition was filed on November 15, 2022, and the reply for the District was filed on November 29, 2022. The motion to remand was granted by the Court. The Company agreed upon a settlement with the District in early 2024. As of December 31, 2023, the Company had accrued \$0.7 million related to this case, which is included in Accounts payable and accrued expenses in the Consolidated Balance Sheet.

First Bank v. JTH Tax, LLC. On December 1, 2022, First Bank filed a lawsuit against the Company in the Eastern District of New York. The lawsuit alleged that First Bank provided an SBA loan to a former franchisee of the Company in the amount of \$1.3 million, and this former franchisee has allegedly defaulted on the loan. As part of the CCAA Proceedings described in Note 1, the Company has disclaimed this litigation.

Parent Company Credit Facility Guarantee

On July 2, 2021, in connection with the acquisition of the Company by the Parent from the Former Parent, the Parent entered into a \$200 million revolving credit facility. As part of the CCAA Proceedings and approval of the sale of the Company as described in Note 1, the Parent was released of this obligation in 2023.

(15) Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended December 31, 2023 and 2022, the period from July 3, 2021, to December 31, 2021, and the period from December 27, 2020, to July 2, 2021, were as follows:

(In thousands)	Successor			Predecessor
	Year Ended		Period From	Period From
	12/31/2023	12/31/2022	7/3/2021 - 12/31/2021	12/27/2020 - 7/2/2021
Employee compensation and benefits	\$ 28,037	\$ 30,464	\$ 10,374	\$ 20,431
AD expense	1,214	2,550	428	6,508
Advertising expense	14,388	13,798	4,849	8,195
Professional fees	7,106	8,270	3,504	3,202
Bad debt expense	2,587	1,445	2,196	2,460
Software, computer and office supplies	11,595	9,799	2,902	6,375
Other	15,069	17,797	6,951	9,258
Total selling, general and administrative expense	\$ 79,996	\$ 84,123	\$ 31,204	\$ 56,429

Notes to the Consolidated Financial Statements

(16) Assets Held for Sale

Assets held for sale represent the Company's owned buildings and equipment being marketed for sale. Changes in the carrying amount of assets held for sale for the years ended December 31, 2023 and 2022, were as follows:

(In thousands)	Successor	
	Year Ended	Year Ended
	12/31/2023	12/31/2022
Balance at beginning of period	\$ 35	\$ 7,475
Transfer out from property, equipment, and software	—	(32)
Disposal	(35)	(7,408)
Balance at end of period	\$ —	\$ 35

(17) Employee 401(k) Plan

Effective October 1, 2021, all employees became eligible for the defined-contribution 401(k) plan of the Parent. This plan matches 50% of each employees' contribution up to 6% of the employees' salary, for a maximum matching contribution equal to 3% of the employees' salary.

(In thousands)	Successor			Predecessor
	Year Ended		Period From	Period From
	12/31/2023	12/31/2022	7/3/2021 -	12/27/2020 -
			12/31/2021	7/2/2021
Contribution Expense	\$ 388	\$ 431	\$ 72	\$ —

(18) Subsequent Events

The Company evaluated events or transactions occurring after December 31, 2023, through May 10, 2024, the date of issuance of these Consolidated Financial Statements, that would have a material impact on the accounting or presentation of the Consolidated Financial Statements.

On January 2, 2024, the Restructuring Transaction was completed, and as a result, the assets and liabilities of the Company will be recognized at fair value in accordance with ASC 805 - "Business Combinations".