

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **September 30, 2019**

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission File Number: **001-37979**

VERRA MOBILITY CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware

*(State of
Incorporation)*

81-3563824

*(I.R.S. Employer
Identification No.)*

1150 North Alma School Road

Mesa, Arizona

(Address of Principal Executive Offices)

85201

(Zip Code)

(480) 443-7000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

(Title of Each Class)

(Trading Symbol)

(Name of Each Exchange on Which Registered)

Class A common stock, par value \$0.0001 per share

VRRM

Nasdaq Capital Market

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definition of "large accelerated filer", "accelerated filer", "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

As of November 1, 2019, there were 159,150,055 shares of the Company's Class A common stock, par value \$0.0001 per share, issued and outstanding.

VERRA MOBILITY CORPORATION
FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2019
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Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of federal securities laws. All statements contained in this Quarterly Report on Form 10-Q other than statements of historical fact, including statements regarding our future operating results and financial position, our business strategy and plans, products, services, and technology offerings, market conditions, growth and trends, expansion plans and opportunities and our objectives for future operations, are forward-looking statements. The words “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “intend,” “expect,” “could,” “would,” “project,” “plan,” “potentially,” “preliminary,” “likely,” and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties, and assumptions, including those described in Item 1A of this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K/A for the year ended December 31, 2018, under Part I, Item 1A, “Risk Factors.” Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the effect of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties, and assumptions, the future events and trends discussed in this Quarterly Report on Form 10-Q may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

You should not rely on forward-looking statements as predictions of future events. The events and circumstances reflected in the forward-looking statements may not occur. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, performance, or events and circumstances reflected in the forward-looking statements will be achieved or occur. We undertake no obligation to update any of these forward-looking statements for any reason after the date of this Quarterly Report on Form 10-Q or to conform these statements to actual results or revised expectations.

Unless the context indicates otherwise, as used in this Quarterly Report on Form 10-Q, the terms “Verra Mobility,” the “Company,” “we,” “us,” and “our” refer to Verra Mobility Corporation, a Delaware corporation, and its subsidiaries taken as a whole, unless otherwise noted.

PART I—FINANCIAL INFORMATION**Item 1. Financial Statements.**

VERRA MOBILITY CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(\$ in thousands except per share data)	September 30, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 135,564	\$ 65,048
Restricted cash	2,156	2,033
Accounts receivable, net	108,682	87,511
Unbilled receivables	15,073	12,956
Prepaid expenses and other current assets	26,623	17,600
Total current assets	288,098	185,148
Installation and service parts, net	7,936	9,282
Property and equipment, net	69,481	69,243
Intangible assets, net	444,506	514,542
Goodwill	563,452	564,723
Other non-current assets	2,386	1,845
Total assets	<u>\$ 1,375,859</u>	<u>\$ 1,344,783</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 57,194	\$ 45,188
Accrued liabilities	24,020	14,444
Current portion of long-term debt	9,104	9,104
Total current liabilities	90,318	68,736
Long-term debt, net of current portion and deferred financing costs	858,189	860,249
Other long-term liabilities	2,872	3,369
Payable related to tax receivable agreement	66,097	69,996
Asset retirement obligation	6,740	6,750
Deferred tax liabilities	24,052	33,627
Total liabilities	1,048,268	1,042,727
Commitments and contingencies (Note 14)		
Stockholders' equity		
Preferred stock, \$.0001 par value	—	—
Common stock, \$.0001 par value	16	16
Common stock contingent consideration	54,862	73,150
Additional paid-in capital	369,670	348,017
Accumulated deficit	(89,400)	(113,306)
Accumulated other comprehensive loss	(7,557)	(5,821)
Total stockholders' equity	327,591	302,056
Total liabilities and stockholders' equity	<u>\$ 1,375,859</u>	<u>\$ 1,344,783</u>

See accompanying Notes to the Condensed Consolidated Financial Statements.

VERRA MOBILITY CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME (LOSS)
(Unaudited)

(In thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Service revenue	\$ 110,757	\$ 105,203	\$ 311,884	\$ 271,253
Product sales	17,483	2,399	24,392	3,787
Total revenue	128,240	107,602	336,276	275,040
Cost of service revenue	1,388	1,735	4,390	4,217
Cost of product sales	7,238	1,375	10,432	2,425
Operating expenses	32,965	27,820	94,098	80,301
Selling, general and administrative expenses	21,293	21,687	62,709	82,551
Depreciation, amortization and (gain) loss on disposal of assets, net	28,697	28,790	86,488	74,830
Impairment of property and equipment	—	—	5,898	—
Total costs and expenses	91,581	81,407	264,015	244,324
Income from operations	36,659	26,195	72,261	30,716
Interest expense, net	14,932	20,312	46,621	52,538
Loss on extinguishment of debt	—	—	—	10,151
Other income, net	(2,727)	(2,942)	(8,279)	(7,001)
Total other expenses	12,205	17,370	38,342	55,688
Income (loss) before income tax provision (benefit)	24,454	8,825	33,919	(24,972)
Income tax provision (benefit)	6,702	2,312	9,756	(4,532)
Net income (loss)	\$ 17,752	\$ 6,513	\$ 24,163	\$ (20,440)
Other comprehensive income (loss):				
Foreign currency translation adjustment	(1,664)	(728)	(1,736)	(4,440)
Total comprehensive income (loss)	\$ 16,088	\$ 5,785	\$ 22,427	\$ (24,880)
Earnings (loss) per share:				
Basic weighted average shares outstanding	158,610	72,904	157,514	69,334
Basic earnings (loss) per share	\$ 0.11	\$ 0.09	\$ 0.15	\$ (0.29)
Diluted weighted average shares outstanding	163,705	72,904	160,723	69,334
Diluted earnings (loss) per share	\$ 0.11	\$ 0.09	\$ 0.15	\$ (0.29)

See accompanying Notes to the Condensed Consolidated Financial Statements.

VERRA MOBILITY CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

For the Three and Nine Months Ended September 30, 2019

(In thousands)	Common Stock		Common Stock Contingent Consideration	Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount					
Balance as of December 31, 2018	156,057	\$ 16	\$ 73,150	\$ 348,017	\$ (113,306)	\$ (5,821)	\$ 302,056
Net income	—	—	—	—	2,820	—	2,820
Cumulative effect of adoption of the new revenue accounting standard	—	—	—	—	(257)	—	(257)
Adjustment to equity infusion from Gores	—	—	—	(6,205)	—	—	(6,205)
Adjustment to tax receivable agreement liability	—	—	—	2,940	—	—	2,940
Stock-based compensation	—	—	—	2,143	—	—	2,143
Other comprehensive income	—	—	—	—	—	1,324	1,324
Balance as of March 31, 2019	156,057	16	73,150	346,895	(110,743)	(4,497)	304,821
Net income	—	—	—	—	3,591	—	3,591
Earn-out shares issued to Platinum Stockholder	2,500	—	(18,288)	18,288	—	—	—
Vesting of restricted stock units	53	—	—	—	—	—	—
Stock-based compensation	—	—	—	2,812	—	—	2,812
Other comprehensive loss	—	—	—	—	—	(1,396)	(1,396)
Balance as of June 30, 2019	158,610	16	54,862	367,995	(107,152)	(5,893)	309,828
Net income	—	—	—	—	17,752	—	17,752
Adjustment to equity infusion from Gores	—	—	—	(796)	—	—	(796)
Stock-based compensation	—	—	—	2,471	—	—	2,471
Other comprehensive loss	—	—	—	—	—	(1,664)	(1,664)
Balance as of September 30, 2019	<u>158,610</u>	<u>\$ 16</u>	<u>\$ 54,862</u>	<u>\$ 369,670</u>	<u>\$ (89,400)</u>	<u>\$ (7,557)</u>	<u>\$ 327,591</u>

For the Three and Nine Months Ended September 30, 2018

Balance as of December 31, 2017	60,484	\$ 6	\$ —	\$ 129,020	\$ 18,238	\$ —	\$ 147,264
Net loss	—	—	—	—	(22,158)	—	(22,158)
Stock issued in exchange for HTA acquisition	6,051	1	—	57,270	—	—	57,271
Balance as of March 31, 2018	66,535	7	—	186,290	(3,920)	—	182,377
Net loss	—	—	—	—	(4,795)	—	(4,795)
Stock issued in exchange for EPC acquisition	6,369	1	—	60,284	—	—	60,285
Other comprehensive loss	—	—	—	—	—	(3,712)	(3,712)
Balance as of June 30, 2018	72,904	8	—	246,574	(8,715)	(3,712)	234,155
Net income	—	—	—	—	6,513	—	6,513
Other comprehensive loss	—	—	—	—	—	(728)	(728)
Balance as of September 30, 2018	<u>72,904</u>	<u>\$ 8</u>	<u>\$ —</u>	<u>\$ 246,574</u>	<u>\$ (2,202)</u>	<u>\$ (4,440)</u>	<u>\$ 239,940</u>

See accompanying Notes to the Condensed Consolidated Financial Statements.

VERRA MOBILITY CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(\$ in thousands)	Nine Months Ended September 30,	
	2019	2018
Cash Flows from Operating Activities:		
Net income (loss)	\$ 24,163	\$ (20,440)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	86,501	74,839
Amortization of deferred financing costs and discounts	5,066	6,933
Impairment of property and equipment	5,898	—
Bad debt expense	5,347	4,355
Deferred income taxes	(9,426)	(16,514)
Stock-based compensation	7,426	—
Loss on extinguishment of debt	—	10,151
Installation and service parts expense	1,055	432
Accretion expense	269	292
Write-downs of installation and service parts and (gain) on disposal of assets	(13)	(9)
Changes in operating assets and liabilities:		
Accounts receivable, net	(26,353)	(10,703)
Unbilled receivables	(2,117)	(7,744)
Prepaid expenses and other current assets	(8,971)	3,751
Other assets	(541)	(1,305)
Accounts payable and accrued liabilities	12,258	1,651
Other liabilities	(4,976)	365
Net cash provided by operating activities	95,586	46,054
Cash Flows from Investing Activities:		
Acquisition of businesses, net of cash and restricted cash acquired	—	(525,362)
Purchases of installation and service parts and property and equipment	(17,492)	(19,622)
Cash proceeds from the sale of assets	14	5
Net cash used in investing activities	(17,478)	(544,979)
Cash Flows from Financing Activities:		
Borrowings on revolver	—	468
Repayment on revolver	—	(468)
Borrowings of long-term debt	—	1,033,800
Repayment of long-term debt	(6,827)	(452,575)
Payment of debt issuance costs	(299)	(30,352)
Payment of debt extinguishment costs	—	(8,187)
Net cash (used in) provided by financing activities	(7,126)	542,686
Effect of exchange rate changes on cash and cash equivalents	(343)	(594)
Net increase in cash, cash equivalents and restricted cash	70,639	43,167
Cash, cash equivalents and restricted cash - beginning of period	67,081	10,509
Cash, cash equivalents and restricted cash - end of period	\$ 137,720	\$ 53,676

See accompanying Notes to the Condensed Consolidated Financial Statements.

VERRA MOBILITY CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(Unaudited)

	<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Supplemental cash flow information:		
Interest paid	\$ 42,308	\$ 45,238
Income taxes paid, net	23,870	857
Supplemental non-cash investing and financing activities:		
Reduction to tax receivable agreement liability	2,940	—
Gores equity infusion working capital adjustment payable to related party	7,001	—
Earn-out shares issued to Platinum Stockholder	18,288	—
Additions to ARO, property and equipment, and other	175	188
Purchases of installation and service parts and property and equipment in accounts payable and accrued liabilities at period-end	8,399	3,518
Capital contributions received in Parent common stock	—	117,556
Payable to HTA sellers in connection with business acquisition	—	11,337

See accompanying Notes to the Condensed Consolidated Financial Statements.

VERRA MOBILITY CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation and Description of Business

Basis of Presentation

Verra Mobility Corporation (collectively with its subsidiaries, the “*Company*” or “*Verra Mobility*”), formerly known as Gores Holdings II, Inc. (“*Gores*”), was originally incorporated in Delaware on August 15, 2016, as a special purpose acquisition company formed for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization, or other similar business combination with one or more target businesses. On January 19, 2017, the Company consummated its initial public offering, following which its shares began trading on the Nasdaq Capital Market (“*Nasdaq*”).

On June 21, 2018, Gores, AM Merger Sub I, Inc., a direct, wholly-owned subsidiary of Gores (“*First Merger Sub*”), AM Merger Sub II, LLC, a direct, wholly-owned subsidiary of Gores (“*Second Merger Sub*”), Greenlight Holding II Corporation (“*Greenlight*”), and PE Greenlight Holdings, LLC entered into an Agreement and Plan of Merger as amended on August 23, 2018 by that certain Amendment No. 1 to Agreement and Plan of Merger (as amended, the “*Merger Agreement*”), which provided for, among other things, (i) the merger of First Merger Sub with and into Greenlight, with Greenlight continuing as the surviving corporation (the “*First Merger*”) and (ii) immediately following the First Merger and as part of the same overall transaction as the First Merger, the merger of Greenlight with and into Second Merger Sub, with Second Merger Sub continuing as the surviving entity (the “*Second Merger*”) and, together with the First Merger, the “*Merger*” and, together with the other transactions contemplated by the Merger Agreement, the “*Business Combination*”).

In connection with the closing of the Business Combination on October 17, 2018 (the “*Closing Date*”), Gores changed its name from Gores Holdings II, Inc. to Verra Mobility Corporation, changed its trading symbols on Nasdaq from “GSHT,” and “GSHTW,” to “VRRM” and “VRRMW,” and Second Merger Sub changed its name from AM Merger Sub II, LLC to Verra Mobility Holdings, LLC. As a result of the Business Combination, Verra Mobility Corporation became the owner, directly or indirectly, of all of the equity interests of Verra Mobility Holdings, LLC and its subsidiaries. The Business Combination is treated as a reverse acquisition and recapitalization in which Greenlight is treated as the accounting acquirer (and legal acquirer) and Gores is treated as the accounting acquiree (and legal acquirer). Accordingly, as of the Closing Date, Greenlight’s historical results of operations replaced Gores’ historical results of operations for periods prior to the Business Combination, and the results of operations of both companies are included in the accompanying condensed consolidated financial statements for periods following the Merger (see Note 3).

On May 31, 2017, Greenlight Acquisition Corporation (“*Parent*”) acquired ATS Consolidated Inc. (“*ATS*”) pursuant to the Agreement and Plan of Merger, dated April 15, 2017 by and among ATS, Greenlight Merger Corporation, a wholly-owned subsidiary of Parent (“*ATS Merger Sub*”) and Parent whereby ATS merged with and into ATS Merger Sub with the former surviving (the “*ATS Merger*”). Prior to the Business Combination, Parent was ultimately owned by Greenlight, which in turn was owned by certain private equity investment vehicles sponsored by Platinum Equity, LLC (collectively, “*Platinum*”) (see Note 3).

Description of Business

Verra Mobility offers integrated technology solutions and services to commercial fleets, rental car companies and state and local governments. The Company has customers located throughout the United States, Canada and Europe. The Company is organized into two operating divisions: Commercial Services and Government Solutions (see Note 15).

The Commercial Services division offers toll and violation management solutions for the commercial fleet and rental car industries by partnering with the leading fleet management and rental car companies in North America. Electronic toll payment services enable fleet drivers and rental car customers to use high-speed cashless toll lanes or all-electronic cashless toll roads. The service helps commercial fleets reduce toll management costs, while it provides rental car companies with a revenue-generating, value-added service for their customers. Electronic violation processing services reduce the cost and risk associated with vehicle-issued violations, such as toll, parking or camera-enforced tickets. Title and registration services offer title and registration processing for individuals, rental car companies and fleet management companies. In Europe, the Company provides violations processing through Euro Parking Collection plc (“*EPC*”).

The Government Solutions division provides complete, end-to-end red-light, speed, school bus stop arm and bus lane enforcement solutions. The Company's programs are designed to reduce traffic violations and resulting collisions, injuries, and fatalities. The Company implements and administers traffic safety programs for municipalities, counties, school districts and law enforcement agencies of all sizes.

2. Significant Accounting Principles and Policies

Principles of Consolidation

The accompanying unaudited interim condensed consolidated financial statements include the accounts of the Company prepared in accordance with generally accepted accounting principles in the United States of America ("**GAAP**"). All intercompany balances and transactions have been eliminated in consolidation. In the opinion of the Company's management, the unaudited interim condensed consolidated financial statements reflect all adjustments, which are normal and recurring in nature, necessary for fair financial statement presentation.

Use of Estimates

The preparation of these financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the unaudited interim condensed consolidated financial statements and accompanying notes. Significant items subject to such estimates and assumptions include the fair values assigned to net assets acquired (including identifiable intangibles) in business combinations, the carrying amounts of long-lived assets and goodwill, the carrying amount of installation and service parts, the allowance for doubtful accounts, valuation allowances on deferred tax assets, asset retirement obligations, contingent consideration and the recognition and measurement of loss contingencies.

Management believes that its estimates and assumptions are reasonable in the circumstances; however, actual results could differ materially from those estimates.

Recent Accounting Pronouncements

Accounting Standards Adopted

In January 2016, the Financial Accounting Standards Board ("**FASB**") issued Accounting Standards Update ("**ASU**") 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, and issued an amendment within ASU 2019-04, collectively Topic 825. The main objective of the updates is to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The new guidance addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Most notably, ASU 2016-01 requires the change in fair value of available for sale securities to be recognized in net income. The pronouncement also requires the use of the exit price notion, the separate presentation of financial assets and liabilities by measurement category and form of asset, and the separate presentation in other comprehensive income of changes in fair value resulting from a change in the instrument-specific credit risk. The Company adopted the new standard as of July 01, 2019 which did not have a material effect on the Company's financial position, results of operations or cash flows and disclosures.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires that restricted cash be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. We elected to early adopt the requirements of the new standard in the fourth quarter of 2018 using the retrospective transition method, as required by the new standard. The adoption of this ASU had an immaterial impact to the condensed consolidated statements of cash flows.

The following table provides a reconciliation of Cash and cash equivalents and Restricted cash reported within the Condensed Consolidated Balance Sheets as of September 30, 2019 and 2018, respectively, that sums to the total of such amounts in the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2019 and 2018, respectively:

(\$ in thousands)	September 30, 2019	September 30, 2018
Cash and cash equivalents	\$ 135,564	\$ 51,948
Restricted cash	2,156	1,728
Cash, cash equivalents and restricted cash in the Condensed Consolidated Statements of Cash Flows	<u>\$ 137,720</u>	<u>\$ 53,676</u>

Revenue Recognition

On January 1, 2019, the Company adopted ASU 2014-09, *Revenue from Contracts with Customers*, Topic 606 (“ASC 606”) using the modified retrospective method applied to those contracts that were not completed as of the adoption date. Results for 2019 are presented under ASC 606, while prior periods were not adjusted and are reported under ASC Topic 605, *Revenue Recognition* (“ASC 605”).

The Company has evaluated its current accounting practices to the requirements of ASC 606. This evaluation included an assessment of representative contracts from each of the Company’s revenue streams. The adoption of this standard did not have a material impact on the Company’s financial position, results of operations or cash flows, however, there have been additions and modification to its existing financial disclosures. While the overall revenue, systems and controls were minimally impacted by the new standard, the underlying recognition methodology has changed.

Under the new standard, the Company now recognizes revenue when the Company satisfies the performance obligation, including, for some of its contracts, the processing of the violation on the customer’s behalf. The primary difference under ASC 606 within the Government Solutions segment is the deferral of revenue related to certain variable price contracts, until citation payment. The Company recorded a \$0.3 million reduction to opening retained earnings as of January 1, 2019 for the cumulative impact of adoption related to the recognition of revenue in its Government Solutions segment. There was no cumulative impact of adoption related to the Commercial Services segment.

The comparative information was not restated and continues to be presented under ASC 605 for those periods. There was no material impact upon adoption related to the costs of obtaining or fulfilling a contract.

Nature of goods and services

The following is a description of principal activities – separated by reportable segments – from which the Company generates revenue:

- a) **Commercial Services segment:** The Commercial Services segment offers toll and violation management solutions for the commercial fleet and rental car industries by partnering with the leading fleet management and rental car companies in North America. The Company determined its performance obligation is a distinct stand-ready obligation, as there is an unspecified quantity of services provided that does not diminish, and the customer is being charged only when it uses the Company’s services, such as toll payment, title and registration, etc. Therefore, all services provided within the Commercial Services segment are accounted for as a single performance obligation, of a series of distinct items, with distinct time increments, as a stand-ready obligation. Payment terms for contracts with commercial fleet and rental car companies vary, but are usually billed as services are performed. Revenue from services provided in the Commercial Services segment is recognized over time as the customer simultaneously receives and consumes the benefits provided by the Company and as the Company performs the services.
- b) **Government Solutions segment:** The Government Solutions segment principally generates revenue from providing complete, end-to-end red-light, speed, school bus stop arm, and bus lane enforcement solutions. Products, when sold, are typically sold together with the services in a bundle. The average initial term of a contract is 3 to 5 years. Payment terms for contracts with government agencies vary depending on whether the consideration is fixed or variable. Payment terms for contracts with fixed consideration are usually based on equal installments over the duration of the contract. Payment terms for contracts with variable consideration are usually billed and collected as citations are issued or paid.

For bundled packages, the Company accounts for individual products and services separately if they are distinct – i.e., if a product or service is separately identifiable from other items in the bundle and if a customer can benefit from it as a stand-alone item. The consideration is allocated between separate products and services in a bundle based on their stand-alone selling prices (“SSP”). The Company estimates the SSP of its services based upon observable evidence, market conditions and other relevant inputs.

- Product sales (sale of camera and installation) – The Company recognizes revenue when the installation process is completed and the camera is ready to perform the services as expected by the customer. Generally, it occurs at site acceptance or first citation. The Company recognizes revenue for the sale of the camera and installation services at a point in time.
- Service revenue – The Company determined its performance obligation is to provide a complete end-to-end safety and enforcement solution. Promises include providing a system to capture images, processing images taken by the camera, forwarding eligible images to the local police department and processing payments on behalf of the municipality. The Company determined that certain of the promises to its customers are capable of being distinct, as they may provide some measure of benefit to the customer either on their own or together with other resources that are readily available to the customer. However, the Company determined that the promises to its customers do not meet the criterion of being distinct within the context of its contracts. The Company would not be able to fulfill its promises individually, as its customers could not obtain the intended benefit from the contract without the Company fulfilling all promises. Accordingly, the Company concluded that each contract represents one service offering and is a single performance obligation to our customer. Further, the Company accounts for all the services as a single continuous service. The Company applies the series guidance for those services as the nature of the service is to provide a service for a period of time with distinct time increments. The Company recognizes revenue from services over time, as they are performed.

Remaining Performance Obligations

As of September 30, 2019, the Company had approximately \$0.2 million of remaining performance obligations in the Government Solutions segment, which include amounts that will be invoiced and recognized in future periods. The remaining performance obligations are limited only to arrangements that meet the definition of a contract under ASC 606 as of September 30, 2019. As these amounts relate to the initial deferral of revenue under a contract, the Company expects to recognize these amounts over a two month period at the end of the contract.

The Company applies the practical expedient in paragraph 606-10-50-14A of ASC 606 and does not disclose variable consideration allocated entirely to wholly unsatisfied stand-ready performance obligations for certain Government Solutions and Commercial Services contracts as part of the information about remaining performance obligations. The duration for these contracts ranges between 3 and 5 years for new contracts.

Significant Judgments

Under the new revenue standard, significant judgments are required in order to identify contracts with customers and estimate transaction prices. Additional judgments are required for the identification of distinct performance obligations, the estimation of standalone selling prices and the allocation of the transaction price by relative standalone selling prices. Assumptions regarding timing of when control transfers to the customer requires significant judgment in order to recognize revenue. The Company makes significant judgments related to identifying the performance obligation and determining whether the services provided are able to be distinct, determining the transaction price, specifically as it is related to the different variable consideration structures identified in the Company’s contracts, and in determining the timing of revenue recognition.

Accounting Standards Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* and issued certain amendments within ASU 2018-01, 2018-10, 2018-11 and ASU 2019-01, respectively and collectively Topic 842 to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2019, and early adoption is permitted. The Company does not plan to early adopt this standard. The impact of the implementation of this standard is still being determined by the Company.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326)*, and issued certain amendments within ASU 2019-04 and ASU 2019-05, respectively and collectively Topic 326, which require companies to present assets held at amortized cost and available for sale debt securities net of the amount expected to be collected. The guidance requires the measurement of expected credit losses to be based on relevant information from past events, including historical experiences, current conditions and reasonable and supportable forecasts that affect collectability. The guidance will be effective for fiscal years and interim periods beginning after December 15, 2019 and early adoption is permitted. Different components of the guidance require modified retrospective or prospective adoption. The impact of the implementation of this standard is still being determined by the Company.

In January 2017, the FASB issued ASU 2017-04, *Intangibles—Goodwill and Other (Topic 350)*. ASU 2017-04 simplifies the accounting for goodwill impairment and removes Step 2 of the goodwill impairment test. Goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value limited to the total amount of goodwill allocated to that reporting unit. Entities will continue to have the option to perform a qualitative assessment to determine if a quantitative impairment test is necessary. The same one-step impairment test will be applied to goodwill at all reporting units, even those with zero or negative carrying amounts. The amendments in this ASU are effective for goodwill impairment tests in fiscal years beginning after December 15, 2021. The impact of the implementation of this standard is still being determined by the Company.

In June 2018, the FASB issued ASU 2018-07, *Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*. These amendments expand the scope of Topic 718, Compensation—Stock Compensation (which currently only includes share-based payments to employees) to include share-based payments issued to nonemployees for goods or services. ASU 2018-07 is effective beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. At this time, the Company does not expect this standard to have a material effect on the Company's financial position, results of operations or cash flows and disclosures.

In August 2018, the FASB issued ASU 2018-13, *(Topic 820) Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. The amendments in this update modify the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement. The amendments in this update are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted. The Company does not plan to early adopt the standard. The impact of the implementation of this standard is still being determined by the Company, and it is not expected to be material to the consolidated financial statements.

3. Mergers and Acquisitions

Verra Mobility Merger

As described in Note 1, Gores and Greenlight consummated the Business Combination on October 17, 2018. Pursuant to *Business Combinations (Topic 805)*, the Business Combination qualified as a reverse acquisition because immediately following completion of the transaction the stockholders of Greenlight immediately prior to the Business Combination maintained effective control of Verra Mobility, the post-combination company. For accounting purposes, Greenlight is deemed the accounting acquirer in the transaction and, consequently, the transaction is treated as recapitalization of Greenlight (i.e. a capital transaction involving the issuance of stock by Greenlight in exchange for the payment of cash by Gores to the selling shareholders of Greenlight). Accordingly, the consolidated assets, liabilities and results of operations of Greenlight are the historical financial statements of Verra Mobility and the Gores assets, liabilities and results of operations are consolidated with Greenlight beginning on the acquisition date. No step-up in basis of intangible assets or goodwill was recorded for this transaction. The Company effected this treatment through opening stockholders' equity by adjusting the number of common shares outstanding. Other than underwriting and professional fees paid to consummate the transaction, the Business Combination primarily involved the exchange of cash and equity between Gores, Greenlight and the stockholders of the respective companies. During the nine months ended September 30, 2019, the Company recorded a \$7.0 million payable to Platinum, a related party, for the recapitalization related to the working capital adjustment required by the merger agreements. This resulted in a decrease to the Additional paid-in capital account for \$7.0 million, and a corresponding increase to Accrued liabilities.

ATS Merger

On May 31, 2017, ATS was acquired by Parent through the merger of ATS Merger Sub with and into ATS for a total purchase price of \$548.2 million (\$550.0 million less adjustments set forth in the ATS Merger agreement). The Company recognized approximately \$9.9 million of costs related to the ATS Merger, which consisted of \$8.0 million of payments for acquisition services to Platinum Equity Advisors, LLC, an affiliate of Platinum (“**Advisors**”), and \$1.9 million of professional fees and other expenses related to the ATS Merger.

On May 31, 2017, ATS Merger Sub obtained debt financing pursuant to a credit agreement entered into with a syndicate of lenders. ATS Merger Sub was merged with and into ATS on the same date, effectively making ATS the sole borrower (see Note 8).

HTA Merger

On March 1, 2018, the Company acquired all of the issued and outstanding membership interests of Highway Toll Administration, LLC, and Canada Highway Toll Administration (collectively, “**HTA**”), pursuant to a unit purchase agreement (“**Unit Agreement**”) for a cash purchase price of \$525.0 million subject to adjustments set forth in the Unit Agreement which aggregated \$9.7 million, a \$11.3 million payable to the HTA sellers for certain tax items and the issuance of 5.26 shares of Greenlight common stock resulting in an aggregate purchase price of \$603.3 million (the “**HTA Merger**”). The Greenlight shares issued to the Company were determined to have a fair value of \$57.3 million. The Company reflected the receipt of the Greenlight common shares as a capital contribution from Parent and then delivered these shares to the HTA sellers as non-cash purchase consideration.

The Company estimated the fair value of the Greenlight common shares issued in connection with this transaction with input from management and a contemporaneous third-party valuation of the Company. Management determined the fair value of Greenlight was the same as the Company as Greenlight’s only holdings were the Company. The valuation advisory firm prepared a valuation report as of March 1, 2018. The assumptions and inputs used in connection with the valuation reflected management’s best estimate of the Company’s business condition, prospects and operating performance on the valuation date. The Company averaged the results of a discounted cash flow analysis, comparable public company analysis and comparable acquisitions analysis to determine an enterprise value of \$2.1 billion. The Company then deducted debt of \$1.0 billion to arrive at a concluded equity value of \$1.1 billion, which was used to derive a per share value.

The final allocation of the purchase consideration is summarized as follows:

(\$ in thousands)

Assets acquired	
Cash	\$ 2,996
Accounts receivable	10,220
Prepaid expense and other current assets	5,266
Installation and service parts	296
Property and equipment	996
Customer relationships	242,500
Developed technology	72,800
Non-compete agreements	48,500
Trademark	5,500
Goodwill	233,271
Total assets acquired	622,345
Liabilities assumed	
Accounts payable and accrued expenses	14,268
Deferred tax liability	4,733
Total liabilities assumed	19,001
Total purchase price	<u>\$ 603,344</u>

The excess of cost of the HTA Merger over the net amounts assigned to the fair value of the net assets acquired was recorded as goodwill and was assigned to the Company's Commercial Services segment. The Company made certain immaterial adjustments to the preliminary purchase price allocation resulting in a \$1.2 million net reduction to goodwill. The goodwill consists largely of the expected cash flows and future growth anticipated for the Company. Most of the goodwill is expected to be deductible for tax purposes. The customer relationship value was based on an excess earnings methodology utilizing projected cash flows. The non-compete agreement values were based on the with-or-without method. The trademark and the developed technology values were based on a relief-from-royalty method. The customer relationship, developed technology, non-compete and trademark intangibles were assigned useful lives of 9 years, 5.5 years, 5 years and 3 years, respectively.

The Company recognized \$15.6 million of costs related to the HTA Merger, which were included in Selling, general and administrative expenses in the Condensed Consolidated Statement of Operations in the nine months ended September 30, 2018. These costs consisted of \$7.2 million for acquisition services to Advisors and \$8.4 million of professional fees and other expenses related to the transaction.

EPC Merger

On April 6, 2018, the Company acquired all of the issued and outstanding capital stock of EPC, pursuant to a stock purchase agreement for purchase consideration of 5.54 shares of Greenlight common stock and working capital adjustments set forth in the stock purchase agreement, which aggregated \$2.6 million, resulting in an aggregate purchase price of \$62.9 million (the "***EPC Merger***"). The Company reflected the receipt of the Greenlight common shares as a capital contribution from Parent and then delivered these shares to the EPC sellers as non-cash purchase consideration.

The Company estimated the fair value of the Greenlight common shares issued in connection with this transaction with input from management and a contemporaneous third-party valuation of the Company. Management determined the fair value of Greenlight was the same as the Company as Greenlight's only holdings were the Company. The valuation advisory firm prepared a valuation report as of March 1, 2018. The assumptions and inputs used in connection with the valuation reflected management's best estimate of the Company's business condition, prospects and operating performance on the valuation date. The Company averaged the results of a discounted cash flow analysis, comparable public company analysis and comparable acquisitions analysis to determine an enterprise value of \$2.1 billion. The Company then deducted debt of \$1.0 billion to arrive at a concluded equity value of \$1.1 billion, which was used to derive a per share value.

The final allocation of the purchase consideration is summarized as follows:

(\$ in thousands)

Assets acquired	
Cash	\$ 9,029
Other assets	1,948
Trademark	1,100
Customer relationships	19,400
Developed technology	3,900
Goodwill	40,826
Total assets acquired	76,203
Liabilities assumed	
Accounts payable and accrued expenses	8,995
Deferred tax liability	4,273
Total liabilities assumed	13,268
Total purchase price	\$ 62,935

Goodwill arising from the EPC Merger was assigned to the Company's Commercial Services segment and consists largely of the expected cash flows and future growth anticipated for the Company. The goodwill is not expected to be deductible for tax purposes. The customer relationship value was based on an excess earnings methodology utilizing projected cash flows. The trademark and the developed technology values were based on a relief-from-royalty method. The customer relationship, trademark, and developed technology intangibles were assigned useful lives of 10 years, 5 years and 4.5 years, respectively.

The Company recognized \$3.0 million of costs related to the EPC Merger in the nine months ended September 30, 2018, which consisted of \$2.5 million for acquisition services to Advisors and \$0.5 million of professional fees and other expenses.

Pro Forma Financial Information

The pro forma information below gives effect to the Business Combination, the HTA Merger and the EPC Merger (collectively, the “*Transactions*”) as if they had been completed on the first day of the period presented. The pro forma results of operations are presented for information purposes only. As such, they are not necessarily indicative of the Company’s results had the Transactions been completed on the first day of the period presented, nor do they intend to represent the Company’s future results. The pro forma information does not reflect any cost savings from operating efficiencies or synergies that could result from the acquisitions and does not reflect additional revenue opportunities following the Transactions. The pro forma information includes adjustments to record the assets and liabilities associated with the Transactions at their respective fair values based on available information and to give effect to the financing for the Transactions.

(\$ in thousands)	Nine Months Ended September 30, 2018
Revenue	\$ 294,262
Income from operations	50,922
Net income before income tax	14,357
Net income	8,715
Earnings per share - basic	\$ 0.13

The pro forma results include adjustments to reflect additional amortization of intangibles associated with the acquired businesses and interest expense for debt issued in connection with the HTA Merger.

4. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following at:

(\$ in thousands)	September 30, 2019	December 31, 2018
Prepaid tolls	\$ 10,609	\$ 8,434
Prepaid services	4,710	3,017
Prepaid income taxes	5,608	1,562
Prepaid computer maintenance	2,679	1,709
Deposits	1,699	839
Prepaid insurance	583	1,230
Prepaid rent	535	406
Other	200	403
Total prepaid expenses and other current assets	<u>\$ 26,623</u>	<u>\$ 17,600</u>

5. Goodwill and Intangible Assets

The following table presents the changes in the carrying amount of goodwill by reportable segment:

(\$ in thousands)	Commercial Services	Government Solutions	Total
Balance at December 31, 2018	\$ 404,977	\$ 159,746	\$ 564,723
Foreign currency translation adjustment	(1,271)	—	(1,271)
Balance at September 30, 2019	<u>\$ 403,706</u>	<u>\$ 159,746</u>	<u>\$ 563,452</u>

Intangible assets consist of the following as of the respective period-ends:

(\$ in thousands)	September 30, 2019			December 31, 2018		
	Weighted Average Remaining Useful Life	Gross Carrying Amount	Accumulated Amortization	Weighted Average Remaining Useful Life	Gross Carrying Amount	Accumulated Amortization
Trademarks	1.8 years	\$ 31,265	\$ 16,518	2.7 years	\$ 31,302	\$ 8,902
Non-compete agreements	3.3 years	62,100	21,705	4.0 years	62,100	12,390
Customer relationships	7.1 years	359,132	72,450	7.9 years	359,768	42,201
Developed technology	3.5 years	160,724	58,042	4.3 years	160,852	35,987
Gross carrying value of intangible assets		613,221	\$ 168,715		614,022	\$ 99,480
Less: accumulated amortization		(168,715)			(99,480)	
Intangible assets, net		\$ 444,506			\$ 514,542	

Amortization expense was \$23.1 million for each of the three months ended September 30, 2019 and 2018, and was \$69.4 million and \$57.7 million for the nine months ended September 30, 2019 and 2018, respectively.

Estimated amortization expense in future years is expected to be:

(\$ in thousands)	
Remainder of 2019	\$ 23,022
2020	92,088
2021	83,797
2022	79,090
2023	50,691
2024	40,203
Thereafter	75,615
Total	\$ 444,506

6. Impairment of Property and Equipment

The Company reviews its long-lived assets for impairment whenever events or circumstances indicate that the carrying value of an asset may not be fully recoverable. The Company assesses recoverability by comparing the estimated undiscounted future cash flows expected to be generated by the assets with their carrying value. If the carrying value of the assets exceeds the estimated undiscounted future cash flows expected to be generated by the assets, an impairment loss is recognized for the difference between the estimated fair value of the assets and their carrying value.

The state of Texas passed legislation as of June 1, 2019 to ban red-light photo enforcement programs across the state, with certain carve-outs for some existing programs. The Company considered this event an indicator for potential impairment and, as such, evaluated the recoverability of property and equipment used in the operations of red-light photo enforcement programs in Texas. As a result, the Company recognized an impairment charge in the Government Solutions segment of \$5.9 million for the nine months ended September 30, 2019, which is included in Impairment of property and equipment in the Condensed Consolidated Statements of Operations.

7. Accrued Liabilities

Accrued liabilities consist of the following at:

(\$ in thousands)	September 30, 2019	December 31, 2018
Accrued salaries and wages	\$ 9,749	\$ 8,340
Gores equity infusion working capital adjustment payable to related party	7,001	—
Restricted cash due to customers	2,156	2,033
Current portion of related party TRA liability	914	—
Accrued self-insurance liability	798	423
Accrued sales commissions	599	463
Advanced deposits payable	375	805
Deferred rent	371	523
Income taxes payable	359	862
Accrued interest payable	216	232
Other	1,482	763
Total accrued liabilities	<u>\$ 24,020</u>	<u>\$ 14,444</u>

8. Debt

The following table provides a summary of the Company's long-term debt at:

(\$ in thousands)	September 30, 2019	December 31, 2018
New First Lien Term Loan, due February 28, 2025	\$ 896,697	\$ 903,524
Less: original issue discounts	(5,026)	(5,819)
Less: unamortized deferred financing costs	(24,378)	(28,352)
Total debt	867,293	869,353
Less: Current portion of long-term debt	(9,104)	(9,104)
Total long-term debt, net of current portion	<u>\$ 858,189</u>	<u>\$ 860,249</u>

In connection with the ATS Merger, ATS Consolidated, Inc., subsequently renamed VM Consolidated, Inc., a wholly-owned subsidiary of the Company, entered into a First Lien Term Loan Credit Agreement (the "**Old First Lien**"), a Second Lien Term Loan Credit Agreement (the "**Old Second Lien**"), (collectively the "**Old Term Loans**"), and a Revolving Credit Agreement (the "**Old Revolver**") with a syndicate of lenders (collectively, the "**2017 Credit Facilities**"). The 2017 Credit Facilities provided for committed senior secured financing of \$490.0 million, consisting of the following: the Old Term Loans with an aggregate principal amount of \$450.0 million; and the Old Revolver, available for loans and letters of credit with an aggregate revolving commitment of up to \$40.0 million (based on borrowing based eligibility as described below).

In connection with the HTA Merger, the Company replaced the 2017 Credit Facilities by entering into a First Lien Term Loan Credit Agreement (the "**New First Lien Term Loan**"), a Second Lien Term Loan Credit Agreement (the "**New Second Lien Term Loan**"), (collectively the "**New Term Loans**") and a Revolving Credit Agreement (the "**New Revolver**") with a syndicate of lenders (collectively, the "**2018 Credit Facilities**"). The 2018 Credit Facilities provide for committed senior secured financing of \$1.115 billion, consisting of the New Term Loans with an aggregate principal amount of \$1.04 billion and the New Revolver available for loans and letters of credit with an aggregate revolving commitment of up to \$75 million (based on borrowing based eligibility as described below).

The preexisting Old Term Loans were repaid concurrent with the closing on the 2018 Credit Facilities and the preexisting Old Revolver was undrawn at close. The outstanding balances at the date of close on the Old Term Loans, which were repaid with proceeds from the 2018 Credit Facilities, were \$323.4 million and \$125 million, respectively.

In July 2018, the Company amended the New First Lien Term Loan (the “*New First Lien Term Loan Amendment*”) to expand the aggregate principal loan amount under the New First Lien Term Loan from \$840 million to \$910 million and to modify certain defined terms. In connection with this amendment, the Company incurred a consent fee of \$0.4 million, which was capitalized as deferred financing costs and is being amortized over the remaining life of the New First Lien Term Loan. The additional \$70 million along with funds contributed by Platinum were used to repay the \$200 million New Second Lien Term Loan in full contemporaneously with the close of the Business Combination on October 17, 2018.

The New First Lien Term Loan is repayable at 1.0% per annum of the amount initially borrowed, paid in quarterly installments. The New First Lien Term Loan matures on February 28, 2025. The New First Lien Term Loan bears interest based, at our option, on either (1) LIBOR plus an applicable margin of 3.75% per annum, or (2) an alternate base rate plus an applicable margin of 2.75% per annum. At September 30, 2019, the interest rate on the New First Lien Term Loan was 5.79%.

In addition, the New First Lien Term Loan contains provisions that require mandatory prepayments of excess cash flow (as defined by the New First Lien Term Loan agreement) to be made as of the last day of the fiscal year, beginning with fiscal year ending December 31, 2019, in an amount equal to the percentages set forth in the following table:

Consolidated first lien net leverage ratio (as defined by the New First Lien Term Loan agreement)	Applicable prepayment percentage
> 3.70:1.00	50%
≤ 3.70:1.00 and > 3.20:1.00	25%
≤ 3.20:1.00	0%

The New Revolver matures on February 28, 2023. Borrowing eligibility under the New Revolver is subject to a monthly borrowing base calculation based on (i) certain percentages of eligible accounts receivable and inventory, less (ii) certain reserve items, including outstanding letters of credit and other reserves. The New Revolver bears interest on either (1) LIBOR plus an applicable margin, or (2) an alternate base rate, plus an applicable margin. The margin percentage applied to (1) LIBOR is either 1.25%, 1.50%, or 1.75%, or (2) the base rate is either 0.25%, 0.50%, or 0.75%, depending on the Company’s average availability to borrow under the commitment. At September 30, 2019, the Company had no outstanding borrowings on the New Revolver and availability to borrow under the New Revolver was \$74.9 million, net of \$0.1 million of outstanding letters of credit.

Interest on the unused portion of the New Revolver is payable quarterly at 0.375% at September 30, 2019. The Company is also required to pay participation and fronting fees on \$0.1 million in outstanding letters of credit at 1.38% as of September 30, 2019.

All borrowings and other extensions of credits under the 2018 Credit Facilities are subject to the satisfaction of customary conditions and restrictive covenants including absence of defaults and accuracy in material respects of representations and warranties. At September 30, 2019, the Company was compliant with the 2018 Credit Facilities covenants. Substantially all of the Company’s assets are pledged as collateral to secure the Company’s indebtedness under the 2018 Credit Facilities.

The Company recognized a charge of \$10.2 million in the nine months ended September 30, 2018 consisting of a \$3.8 million prepayment penalty on the Old Term Loan balances, a \$2.0 million write-off of preexisting deferred financing costs and \$4.4 million of lender and third-party costs associated with the issuance of the 2018 Credit Facilities.

The Company recorded interest expense, including amortization of deferred financing costs and discounts, of \$14.9 million and \$20.3 million for the three months ended September 30, 2019 and 2018, respectively, and \$46.6 million and \$52.5 million for the nine months ended September 30, 2019 and 2018, respectively.

The weighted average effective interest rate of the Company’s outstanding borrowings under the 2018 Credit Facilities was 5.79% at September 30, 2019.

9. Fair Value Measurements

As of September 30, 2019 and December 31, 2018, the amounts of our assets and liabilities that were accounted for at fair value were immaterial.

ASC Topic 820, Fair Value Measurement includes a single definition of fair value to be used for financial reporting purposes, provides a framework for applying this definition and for measuring fair value under GAAP, and establishes a fair value hierarchy that categorizes into three levels the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are summarized as follows:

Level 1 – Fair value is based on observable inputs such as quoted prices for identical assets or liabilities in active markets.

Level 2 – Fair value is determined using quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active or inputs other than quoted prices that are directly or indirectly observable.

Level 3 – Fair value is determined using one or more significant inputs that are unobservable in active markets at the measurement date, such as a pricing model, discounted cash flow or similar technique.

Fair Value of Financial Instruments

The carrying amounts reported in our unaudited interim condensed consolidated balance sheets for cash, accounts receivable, accounts payable and accrued expenses approximate fair value due to the immediate to short-term maturity of these financial instruments. The estimated fair value of our New First Lien Term Loan as of September 30, 2019 and December 31, 2018 is categorized in Level 2 of the fair value hierarchy and was calculated based upon available market information. The carrying value and fair value of our debt is as follows:

(\$ in thousands)	Level in Fair Value Hierarchy	September 30, 2019		December 31, 2018	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Total debt	2	\$ 867,293	\$ 902,301	\$ 869,353	\$ 889,971

10. Net Income (Loss) Per Share

Basic net income (loss) per share is calculated by dividing net income (loss) by the weighted average shares outstanding during the period, without consideration of common stock equivalents. Diluted net income (loss) per share is calculated by adjusting the weighted average shares outstanding for the dilutive effect of common stock equivalents outstanding for the period, determined using the treasury-stock method.

The components of basic and diluted net income (loss) per share are as follows:

(In thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Numerator:				
Net income (loss)	\$ 17,752	\$ 6,513	\$ 24,163	\$ (20,440)
Denominator:				
Weighted average shares - basic	158,610	72,904	157,514	69,334
Common stock equivalents	5,095	—	3,209	—
Weighted average shares - diluted	163,705	72,904	160,723	69,334
Net income (loss) per common share - basic	\$ 0.11	\$ 0.09	\$ 0.15	\$ (0.29)
Net income (loss) per common share - diluted	\$ 0.11	\$ 0.09	\$ 0.15	\$ (0.29)
Antidilutive weighted average shares excluded from diluted net income (loss) per share:				
Contingently issuable shares (1)	7,500	—	8,571	—
Warrants	—	20,000	6,667	20,000
Restricted stock units	—	—	29	—
Total antidilutive shares excluded	7,500	20,000	15,267	20,000

(1) Contingently issuable shares relate to the earn-out agreement as discussed in Note 13, *Related Party Transactions*.

11. Income Taxes

Our interim income tax provision is determined using an estimated annual effective tax rate, adjusted for discrete items arising in that period. The estimated annual effective tax rate requires judgment and is dependent upon several factors. We provide for income taxes under the liability method. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of differences between the tax basis of assets or liabilities and their carrying amounts in the financial statements.

We provide a valuation allowance for deferred tax assets if it is more likely than not that these items will expire before we are able to realize their benefit. We calculate the valuation allowance in accordance with the authoritative guidance relating to income taxes, which requires an assessment of both positive and negative evidence regarding the realizability of these deferred tax assets, when measuring the need for a valuation allowance. Significant judgment is required in determining any valuation allowance against deferred tax assets.

Our effective income tax rate was 27.4% and 26.2% for the three months ended September 30, 2019 and 2018, respectively, and 28.8% and (18.1)% for the nine months ended September 30, 2019, and 2018, respectively. The increase, compared to the same periods in 2018, was primarily due to higher pretax income across multiple jurisdictions and an increase in permanent differences between book and taxable income.

The total amount of unrecognized tax benefits as of September 30, 2019 was \$2.0 million, of which \$1.8 million would affect our effective tax rate if recognized. We recognize interest and penalties related to unrecognized tax benefits through income tax expense. As of September 30, 2019, we had \$0.7 million accrued for the payment of interest and penalties.

The Company is subject to examination by the Internal Revenue Service and taxing authorities in various states. The Company's U.S. federal income tax return remains subject to income tax examinations by tax authorities for the years 2016 to 2018. The Company's state income tax returns are under examination by certain states for tax years 2015 to 2017, and other state income tax returns are subject to examination for tax years 2014 to 2018. Tax returns for years prior to 2014 remain open in a number of states due to tax attributes generated but not utilized yet. The Company regularly assesses the likelihood of additional tax deficiencies in each of the tax jurisdictions and, accordingly, makes appropriate adjustments to the tax provision as deemed necessary.

12. Stock-Based Compensation

The following details the components of stock-based compensation for the periods presented:

(\$ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Operating expenses	\$ 138	\$ —	\$ 614	\$ —
Selling, general and administrative expenses	2,333	—	6,812	—
Total stock-based compensation expense	\$ 2,471	\$ —	\$ 7,426	\$ —

There were no corresponding stock compensation amounts in the three and nine months ended September 30, 2018.

13. Related Party Transactions

Tax Receivable Agreement

At the closing of the Business Combination, the Company entered into a tax receivable agreement (“TRA”) with PE Greenlight Holdings, LLC (the “Platinum Stockholder”) and Greenlight as the stockholder representative. The TRA generally provides for the payment by the post-closing company to the Platinum Stockholder of 50% of the net cash savings, if any, in U.S. federal, state and local income tax that the post-closing company actually realizes (or is deemed to realize in certain circumstances) in periods after the closing of the Business Combination as a result of the increase in the tax basis of the intangible assets which resulted from the acquisition of HTA by Verra Mobility prior to the Business Combination. The post-closing company generally will retain the benefit of the remaining 50% of these cash savings. The Company estimated the potential maximum benefit to be paid will be approximately \$70 million, and recorded an initial liability and corresponding charge to equity at the closing of the Business Combination. Subsequently, the Company adjusted this amount. At September 30, 2019, the TRA was approximately \$67.0 million of which \$0.9 million was the current portion included in Accrued liabilities and \$66.1 million included in Payable related to tax receivable agreement on the Condensed Consolidated Balance Sheets. Future adjustments to the liability under the TRA will be based upon changes to future anticipated taxable income and tax rates and will be recorded in the statement of operations.

Earn-Out Agreement

Under the Merger Agreement, the Platinum Stockholder is entitled to receive additional shares of Class A Common Stock (the “**Earn-Out Shares**”) if the volume weighted average closing sale price of one share of Class A Common Stock on the Nasdaq exceeds certain thresholds for a period of at least 10 days out of 20 consecutive trading days at any time during the five-year period following the closing of the Business Combination (the “**Common Stock Price**”).

The Earn-Out Shares are issued by the Company to the Platinum Stockholder as follows:

- a one-time issuance of 2,500,000 shares if the Common Stock Price is greater than \$13.00;
- a one-time issuance of 2,500,000 shares if the Common Stock Price is greater than \$15.50;
- a one-time issuance of 2,500,000 shares if the Common Stock Price is greater than \$18.00; and
- a one-time issuance of 2,500,000 shares if the Common Stock Price is greater than \$20.50.

If any of the Common Stock Price thresholds described in the foregoing clauses (each, a “**Triggering Event**”) are not achieved within the five-year period following the closing of the Business Combination, the Company will not be required to issue the Earn-Out Shares in respect of such Common Stock Price threshold. In no event shall the Platinum Stockholder be entitled to receive more than an aggregate of 10,000,000 Earn-Out Shares.

If, during the earn-out period, there is a change of control (as defined in the Merger Agreement) that will result in the holders of Parent Class A Common Stock receiving a per share price equal to or in excess of the applicable Common Stock Price required in connection with any Triggering Event (an “**Acceleration Event**”), then immediately prior to the consummation of such change of control: (a) any such Triggering Event that has not previously occurred shall be deemed to have occurred; and (b) Parent shall issue the applicable Earn-Out Shares to the cash consideration stockholders (as defined in the Merger Agreement) (in accordance with their respective pro rata cash share), and the recipients of the issued Earn-Out Shares shall be eligible to participate in such change of control.

The Company has estimated the fair value of the contingently issuable shares to be \$73.15 million. The Company used a Monte Carlo simulation option-pricing model to arrive at this estimate. Each tranche was valued separately giving specific consideration to the tranche’s price target. The simulation considered volatility and risk free rates utilizing a peer group based on a five year term. This was initially recorded as a distribution to shareholders and was presented as Common stock contingent consideration. Upon the occurrence of a Triggering Event, any issuable shares would be transferred from Common stock contingent consideration to Common stock and Additional paid-in capital. Any contingently issuable shares not issued as a result of a Triggering Event not being attained by the end of earn-out period will be cancelled.

On April 26, 2019, the Triggering Event for the issuance of the first tranche of Earn-Out Shares occurred, as the volume weighted average closing price per share of the Company’s Class A Common Stock as of that date had been greater than \$13.00 for 10 out of 20 consecutive trading days. This Triggering Event resulted in the issuance of 2,500,000 shares of the Company’s Class A Common Stock and an increase in the Company’s Common stock and Additional paid-in capital accounts of \$18.3 million, with a corresponding decrease to the Common stock contingent consideration account.

Platinum Stockholder Secondary Offering

On June 10, 2019, the Platinum Stockholder sold 15,000,000 shares of the Company’s Class A Common Stock in a secondary offering. On July 8, 2019, the underwriters of the secondary offering fully exercised the overallotment option granted at the time of the secondary offering to purchase an additional 2,250,000 shares of the Company’s Class A Common Stock at the secondary offering price of \$12.50 per share, less underwriting discounts and commissions, from the Platinum Stockholder. The Company received no proceeds from the secondary offering or the exercise of the overallotment option. The Company incurred \$1.1 million in expenses related to the secondary offering, consisting of various registration, filing and professional services fees, which were included in the Selling, general and administrative expenses in the Condensed Consolidated Statements of Operations. Specifically, pursuant to the Amended and Restated Registration Rights Agreement dated as of October 17, 2018, the Company was required to pay, among other things, all registration and filing fees, reasonable fees and expenses of legal counsel for the Platinum Stockholder, and road show and marketing expenses. After giving effect to the secondary offering and exercise of the overallotment option, the Platinum Stockholder held approximately 24.6% of the Company’s outstanding Class A Common Stock.

Advisory Services Agreement

The Company had a corporate advisory services agreement with Advisors whereby the Company paid a management fee for services and related expenses incurred by Advisors in the provision of those services. The Company paid \$4.1 million during the nine months ended September 30, 2018. The agreement was terminated effective October 17, 2018 in connection with the Business Combination.

On January 7, 2019, the Company entered into a new corporate advisory services agreement with Advisors to provide certain transactional and corporate advisory services to the Company as mutually agreed by the parties. No fees are payable under the agreement, but the Company must reimburse Advisors for its out-of-pocket expenses incurred in connection with services rendered.

14. Commitments and Contingencies

The Company has issued various letters of credit under contractual arrangements with certain of its vendors and customers. Outstanding letters of credit under these arrangements totaled \$0.1 million at September 30, 2019.

The Company has non-cancelable purchase commitments to certain vendors. The aggregate non-cancelable purchase commitments outstanding at September 30, 2019 were \$16.5 million.

The Company is subject to tax audits in the normal course of business and does not have material contingencies recorded related to such audits.

Legal Proceedings

The Company is subject to legal and regulatory actions that arise from time to time in the ordinary course of business. The Company records a liability when it believes it is probable a loss will be incurred and the amount of loss or range of loss can be reasonably estimated. The assessment as to whether a loss is probable, reasonably possible or remote, and as to whether a loss or a range of such loss is estimable, often involves significant judgment about future events. The Company has determined that resolution of pending matters is not probable to have a material adverse impact on its condensed consolidated results of operations, cash flows, or financial position. However, the outcome of litigation is inherently uncertain. As additional information becomes available, the Company reassesses the potential liability.

15. Segment Reporting

The Company has two operating and reportable segments, Commercial Services and Government Solutions. Commercial Services offers toll and violation management solutions and title and registration services to commercial fleet vehicle owners, rental car companies and violation issuing authorities. Government Solutions implements and administers traffic safety programs and products for municipalities and local government agencies of all sizes. The Company's Chief Operating Decision Maker ("**CODM**") function is comprised of the Company's CEO and certain defined representatives of the Company's executive management team. The Company's CODM function monitors operating performance, allocates resources and deploys capital based on these two segments.

Segment performance is based on revenues and income from operations before depreciation, amortization, gain (loss) on disposal of assets, net, impairment of property and equipment, and stock-based compensation. The measure also excludes interest expense, net, loss on extinguishment of debt, income taxes and is inclusive of other income, net. The tables below refer to this measure as Segment profit (loss). The aforementioned items are not indicative of operating performance, and, as a result are not included in the measures that are reviewed by the CODM function for the operating and reportable segments. Other income, net consists primarily of credit card rebates earned on the prepayment of tolling violations and is therefore included in Segment profit (loss). There are no significant non-cash items reported in Segment profit (loss).

The following tables set forth financial information by segment for the respective periods:

(\$ in thousands)	For the Three Months Ended September 30, 2019			
	Commercial Services	Government Solutions	Corporate and Other	Total
Service revenue	\$ 77,633	\$ 33,124	\$ —	\$ 110,757
Product sales	—	17,483	—	17,483
Total revenue	77,633	50,607	—	128,240
Cost of service revenue	1,064	324	—	1,388
Cost of product sales	—	7,238	—	7,238
Operating expenses	17,777	15,050	—	32,827
Selling, general and administrative expenses	10,407	8,266	287	18,960
Other income, net	(2,672)	(55)	—	(2,727)
Segment profit (loss)	\$ 51,057	\$ 19,784	\$ (287)	\$ 70,554
Segment profit (loss)	\$ 51,057	\$ 19,784	\$ (287)	\$ 70,554
Depreciation and amortization	—	—	28,697	28,697
Stock-based compensation	—	—	2,471	2,471
Interest expense, net	—	—	14,932	14,932
Income (loss) before income tax provision	\$ 51,057	\$ 19,784	\$ (46,387)	\$ 24,454

(\$ in thousands)	For the Three Months Ended September 30, 2018			
	Commercial Services	Government Solutions	Corporate and Other	Total
Service revenue	\$ 71,971	\$ 33,232	\$ —	\$ 105,203
Product sales	—	2,399	—	2,399
Total revenue	71,971	35,631	—	107,602
Cost of service revenue	1,087	648	—	1,735
Cost of product sales	—	1,375	—	1,375
Operating expenses	13,969	13,851	—	27,820
Selling, general and administrative expenses	10,440	7,241	4,006	21,687
Other (income) expense, net	(2,943)	(26)	27	(2,942)
Segment profit (loss)	\$ 49,418	\$ 12,542	\$ (4,033)	\$ 57,927
Segment profit (loss)	\$ 49,418	\$ 12,542	\$ (4,033)	\$ 57,927
Depreciation and amortization	—	—	28,792	28,792
Gain on disposal of assets, net	—	—	(2)	(2)
Interest expense	—	—	20,312	20,312
Income (loss) before income tax provision	\$ 49,418	\$ 12,542	\$ (53,135)	\$ 8,825

	For the Nine Months Ended September 30, 2019			
(\$ in thousands)	Commercial Services	Government Solutions	Corporate and Other	Total
Service revenue	\$ 208,312	\$ 103,572	\$ —	\$ 311,884
Product sales	—	24,392	—	24,392
Total revenue	208,312	127,964	—	336,276
Cost of service revenue	2,843	1,547	—	4,390
Cost of product sales	—	10,432	—	10,432
Operating expenses	49,595	43,889	—	93,484
Selling, general and administrative expenses	30,798	23,677	1,422	55,897
Other income, net	(8,150)	(129)	—	(8,279)
Segment profit (loss)	\$ 133,226	\$ 48,548	\$ (1,422)	\$ 180,352
Segment profit (loss)	\$ 133,226	\$ 48,548	\$ (1,422)	\$ 180,352
Depreciation and amortization	—	—	86,501	86,501
Gain on disposal of assets, net	—	(13)	—	(13)
Impairment of property and equipment	—	5,898	—	5,898
Stock-based compensation	—	—	7,426	7,426
Interest expense, net	—	—	46,621	46,621
Income (loss) before income tax provision	<u>\$ 133,226</u>	<u>\$ 42,663</u>	<u>\$ (141,970)</u>	<u>\$ 33,919</u>

	For the Nine Months Ended September 30, 2018			
(\$ in thousands)	Commercial Services	Government Solutions	Corporate and Other	Total
Service revenue	\$ 164,189	\$ 107,064	\$ —	\$ 271,253
Product sales	—	3,787	—	3,787
Total revenue	164,189	110,851	—	275,040
Cost of service revenue	2,054	2,163	—	4,217
Cost of product sales	—	2,425	—	2,425
Operating expenses	37,599	42,702	—	80,301
Selling, general and administrative expenses	42,992	20,586	18,973	82,551
Other income, net	(6,912)	(89)	—	(7,001)
Segment profit (loss)	\$ 88,456	\$ 43,064	\$ (18,973)	\$ 112,547
Segment profit (loss)	\$ 88,456	\$ 43,064	\$ (18,973)	\$ 112,547
Depreciation and amortization	—	—	74,839	74,839
Gain on disposal of assets, net	—	—	(9)	(9)
Interest expense	—	—	52,538	52,538
Loss on extinguishment of debt	—	—	10,151	10,151
Income (loss) before income tax (benefit)	<u>\$ 88,456</u>	<u>\$ 43,064</u>	<u>\$ (156,492)</u>	<u>\$ (24,972)</u>

16. Guarantor/Non-Guarantor Financial Information

VM Consolidated, Inc., a wholly-owned subsidiary of the Company, is the lead borrower of the New First Lien Term Loan and the New Revolver. VM Consolidated, Inc. is owned by the Company through a series of holding companies that ultimately end with the Company. VM Consolidated, Inc. is wholly-owned by Parent, which is wholly-owned by Greenlight Intermediate Holding Corporation, which is wholly-owned by Greenlight Holding Corporation, which is wholly-owned by Verra Mobility Holdings, LLC, which is wholly-owned by Verra Mobility Corporation or the Company. Prior to the Business Combination, VM Consolidated, Inc. was known as ATS Consolidated, Inc. and its financial information was the same as the lead borrower. The principal elimination entries relate to investments in subsidiaries and intercompany balances and transactions, including transactions with the Company's wholly-owned subsidiary guarantors and non-guarantor subsidiaries.

The following financial information presents the Condensed Consolidated Balance Sheets as of September 30, 2019, the Condensed Consolidated Statements of Operations and Comprehensive Income for the three and nine months ended September 30, 2019 and the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2019 for the Company, combined guarantor subsidiaries and combined non-guarantor subsidiaries:

Verra Mobility Corporation and Subsidiaries
Condensed Consolidated Balance Sheets
At September 30, 2019
(Unaudited)

(\$ in thousands)	Verra Mobility Corporation (Ultimate Parent)	VM Consolidated Inc. (Guarantor Subsidiary)	Eliminations	Consolidated
Assets				
Current assets:				
Cash and cash equivalents	\$ —	\$ 135,564	\$ —	\$ 135,564
Restricted cash	—	2,156	—	2,156
Accounts receivable, net	—	108,682	—	108,682
Unbilled receivables	—	15,073	—	15,073
Investment in subsidiary	165,333	—	(165,333)	—
Prepaid expenses and other current assets	—	26,623	—	26,623
Total current assets	165,333	288,098	(165,333)	288,098
Installation and service parts, net	—	7,936	—	7,936
Property and equipment, net	—	69,481	—	69,481
Intangible assets, net	—	444,506	—	444,506
Goodwill	—	563,452	—	563,452
Due from affiliates	169,259	—	(169,259)	—
Other non-current assets	—	2,386	—	2,386
Total assets	\$ 334,592	\$ 1,375,859	\$ (334,592)	\$ 1,375,859
Liabilities and Stockholders' Equity				
Current liabilities:				
Accounts payable	\$ —	\$ 57,194	\$ —	\$ 57,194
Accrued liabilities	7,001	17,019	—	24,020
Current portion of long-term debt	—	9,104	—	9,104
Total current liabilities	7,001	83,317	—	90,318
Long-term debt, net of current portion and deferred financing costs	—	858,189	—	858,189
Other long-term liabilities	—	2,872	—	2,872
Payable related to tax receivable agreement	—	66,097	—	66,097
Due to affiliates	—	169,259	(169,259)	—
Asset retirement obligation	—	6,740	—	6,740
Deferred tax liabilities	—	24,052	—	24,052
Total liabilities	7,001	1,210,526	(169,259)	1,048,268
Total stockholders' equity	327,591	165,333	(165,333)	327,591
Total liabilities and stockholders' equity	\$ 334,592	\$ 1,375,859	\$ (334,592)	\$ 1,375,859

Verra Mobility Corporation and Subsidiaries
Condensed Consolidated Statements of Operations and Comprehensive Income
Three Months Ended September 30, 2019
(Unaudited)

(\$ in thousands)	Verra Mobility Corporation (Ultimate Parent)	VM Consolidated Inc. (Guarantor Subsidiary)	Eliminations	Consolidated
Service revenue	\$ —	\$ 110,757	\$ —	\$ 110,757
Product sales	—	17,483	—	17,483
Total revenue	—	128,240	—	128,240
Cost of service revenue	—	1,388	—	1,388
Cost of product sales	—	7,238	—	7,238
Operating expenses	—	32,965	—	32,965
Selling, general and administrative expenses	—	21,293	—	21,293
Depreciation, amortization and (gain) loss on disposal of assets, net	—	28,697	—	28,697
Total costs and expenses	—	91,581	—	91,581
Income from operations	—	36,659	—	36,659
(Income) from equity investment	(17,752)	—	17,752	—
Interest expense, net	—	14,932	—	14,932
Other income, net	—	(2,727)	—	(2,727)
Total other expenses (income)	(17,752)	12,205	17,752	12,205
Income before income tax provision	17,752	24,454	(17,752)	24,454
Income tax provision	—	6,702	—	6,702
Net income	\$ 17,752	\$ 17,752	\$ (17,752)	\$ 17,752
Other comprehensive income:				
Foreign currency translation adjustment	—	(1,664)	—	(1,664)
Total comprehensive income	<u>\$ 17,752</u>	<u>\$ 16,088</u>	<u>\$ (17,752)</u>	<u>\$ 16,088</u>

Verra Mobility Corporation and Subsidiaries
Condensed Consolidated Statements of Operations and Comprehensive Income
Nine Months Ended September 30, 2019
(Unaudited)

(\$ in thousands)	Verra Mobility Corporation (Ultimate Parent)	VM Consolidated Inc. (Guarantor Subsidiary)	Eliminations	Consolidated
Service revenue	\$ —	\$ 311,884	\$ —	\$ 311,884
Product sales	—	24,392	—	24,392
Total revenue	—	336,276	—	336,276
Cost of service revenue	—	4,390	—	4,390
Cost of product sales	—	10,432	—	10,432
Operating expenses	—	94,098	—	94,098
Selling, general and administrative expenses	—	62,709	—	62,709
Depreciation, amortization and (gain) loss on disposal of assets, net	—	86,488	—	86,488
Impairment of property and equipment	—	5,898	—	5,898
Total costs and expenses	—	264,015	—	264,015
Income from operations	—	72,261	—	72,261
(Income) from equity investment	(24,163)	—	24,163	—
Interest expense, net	—	46,621	—	46,621
Other income, net	—	(8,279)	—	(8,279)
Total other expenses (income)	(24,163)	38,342	24,163	38,342
Income before income tax provision	24,163	33,919	(24,163)	33,919
Income tax provision	—	9,756	—	9,756
Net income	\$ 24,163	\$ 24,163	\$ (24,163)	\$ 24,163
Other comprehensive income:				
Foreign currency translation adjustment	—	(1,736)	—	(1,736)
Total comprehensive income	\$ 24,163	\$ 22,427	\$ (24,163)	\$ 22,427

Verra Mobility Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flows
Nine Months Ended September 30, 2019
(Unaudited)

(\$ in thousands)	Verra Mobility Corporation (Ultimate Parent)	VM Consolidated Inc. (Guarantor Subsidiary)	Eliminations	Consolidated
Cash Flows from Operating Activities:				
Net income	\$ 24,163	\$ 24,163	\$ (24,163)	\$ 24,163
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	—	86,501	—	86,501
Amortization of deferred financing costs and discounts	—	5,066	—	5,066
Impairment of property and equipment	—	5,898	—	5,898
Bad debt expense	—	5,347	—	5,347
Deferred income taxes	—	(9,426)	—	(9,426)
Stock-based compensation	—	7,426	—	7,426
Installation and service parts expense	—	1,055	—	1,055
Accretion expense	—	269	—	269
Write-downs of installation and service parts and (gain) on disposal of assets	—	(13)	—	(13)
(Income) loss from equity investment	(24,163)	—	24,163	—
Changes in operating assets and liabilities:				
Accounts receivable, net	—	(26,353)	—	(26,353)
Unbilled receivables	—	(2,117)	—	(2,117)
Prepaid expenses and other current assets	—	(8,971)	—	(8,971)
Other assets	—	(541)	—	(541)
Accounts payable and accrued liabilities	—	12,258	—	12,258
Due to affiliates	—	—	—	—
Other liabilities	—	(4,976)	—	(4,976)
Net cash provided by operating activities	—	95,586	—	95,586
Cash Flows from Investing Activities:				
Purchases of installation and service parts and property and equipment	—	(17,492)	—	(17,492)
Cash proceeds from the sale of assets	—	14	—	14
Net cash used in investing activities	—	(17,478)	—	(17,478)
Cash Flows from Financing Activities:				
Repayment of long-term debt	—	(6,827)	—	(6,827)
Payment of debt issuance costs	—	(299)	—	(299)
Net cash used in financing activities	—	(7,126)	—	(7,126)
Effect of exchange rate changes on cash and cash equivalents	—	(343)	—	(343)
Net increase in cash, cash equivalents and restricted cash	—	70,639	—	70,639
Cash, cash equivalents and restricted cash - beginning of period	—	67,081	—	67,081
Cash, cash equivalents and restricted cash - end of period	\$ —	\$ 137,720	\$ —	\$ 137,720

Verra Mobility Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flows (Continued)
Nine Months Ended September 30, 2019
(Unaudited)

	Verra Mobility Corporation (Ultimate Parent)	VM Consolidated Inc. (Guarantor Subsidiary)	Eliminations	Consolidated
Supplemental cash flow information:				
Interest paid	\$ —	\$ 42,308	\$ —	\$ 42,308
Income taxes paid, net	—	23,870	—	23,870
Supplemental non-cash investing and financing activities:				
Reduction to tax receivable agreement liability	2,940	—	—	2,940
Gores equity infusion working capital adjustment payable to related party	7,001	—	—	7,001
Earn-out shares issued to Platinum Stockholder	18,288	—	—	18,288
Additions to ARO, property and equipment, and other	—	175	—	175
Purchases of installation and service parts and property and equipment in accounts payable and accrued liabilities at period-end	—	8,399	—	8,399

17. Subsequent Event

On October 31, 2019, the Company completed the acquisition of all of the outstanding shares of Pagatelia S.L., a Spanish limited liability company that provides electronic consumer tolling and parking solutions in Spain, Portugal, France and Italy. The preliminary purchase price was \$27.9 million, subject to customary post-closing adjustments based on a working capital formula.

Pagatelia's operating results are not expected to be material to the Company's consolidated financial statements and will be included in the Commercial Services segment from the date of acquisition.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read together with our Annual Report on Form 10-K/A for the year ended December 31, 2018 and our financial statements included in Part I, Item 1, of this Form 10-Q. This discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those described in Item 1A of this Quarterly Report on Form 10-Q and in the Annual Report on Form 10-K/A for the year ended December 31, 2018.

Business Overview

We believe we are a leading provider of smart mobility technology solutions and services throughout the United States, Canada and Europe. We provide integrated technology solutions and services, which include toll and violations management, title and registration, automated safety solutions, and other data-driven solutions to our customers, which include rental car companies (“RACs”), fleet management companies (“FMCs”), other large fleet owners, municipalities, school districts and violation-issuing authorities. Our solutions simplify the smart mobility ecosystem by utilizing what we believe are industry-leading capabilities, information and technology expertise, and integrated hardware and software to efficiently facilitate the automated processing of tolls and violations and safety solutions for hundreds of agencies and millions of end users annually, while also making cities and roadways safer for everyone.

Segment Information

We have two operating and reportable segments, Commercial Services and Government Solutions:

- The Commercial Services division offers toll and violation management solutions for the commercial fleet and rental car industries by partnering with the leading fleet management and rental car companies in North America. It also offers title and registration services for individuals, rental car companies and fleet management companies. In Europe, we provide violations processing through Euro Parking Collection plc (“EPC”).
- The Government Solutions division provides complete, end-to-end red-light, speed, school bus stop arm and bus lane enforcement solutions. It implements and administers traffic safety programs and products for municipalities and local government agencies of all sizes.

Segment performance is based on revenues and income from operations before depreciation, amortization, gain (loss) on disposal of assets, net, impairment of property and equipment, and stock-based compensation. The measure also excludes interest expense, net, loss on extinguishment of debt, income taxes and is inclusive of other income, net.

Executive Summary

We operate with long-term contracts and a highly recurring service revenue model. We continue to execute on our strategy of growing revenues with existing customers, expanding offerings into adjacent markets through innovation or acquisition and reducing operating costs. During the periods presented:

- We executed on growth strategies by completing strategic acquisitions:
 - HTA – We acquired Highway Toll Administration, LLC, and Canada Highway Toll Administration (collectively, “HTA”), during the first quarter of 2018 which strengthened our position in tolling and related services to RAC and FMC customers.
 - EPC – In the second quarter of 2018, we acquired EPC which provided a platform to expand our RAC and FMC solutions into Europe.
- We grew service revenue from \$271.3 million during the nine months ended September 30, 2018 to \$311.9 million during the nine months ended September 30, 2019. Acquisitions contributed \$21.6 million to the revenue growth, while expansion in existing products or customers contributed \$19 million to the revenue growth.
- We improved our cost structure, as selling, general and administrative expenses as a percentage of total revenue decreased from 30% in the nine months ended September 30, 2018 to 18.6% in the nine months ended September 30, 2019.

- Cash flows from operating activities increased by \$49.5 million to \$95.6 million for the nine months ended September 30, 2019. Cash flows from operating activities for the 2018 period were negatively impacted by \$18.6 million of expenses associated with the HTA and EPC acquisitions.

Recent Events

- Pagatelia, S.L. – On October 31, 2019, we acquired Pagatelia S.L., a Spanish company that provides electronic consumer tolling and parking solutions in Spain, Portugal, France and Italy. We expect that this acquisition will accelerate our expansion of tolling solutions across Europe.

Factors Affecting Our Operating Results

Our operating results and financial performance are influenced by certain unique events during the periods discussed herein, including the following:

Business Combination

We were originally incorporated in Delaware on August 15, 2016 as Gores Holdings II, Inc. (“**Gores**”), a special purpose acquisition company formed for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization, or other similar business combination with one or more target businesses. On January 19, 2017, we consummated our initial public offering, following which our shares began trading on the Nasdaq Capital Market.

On June 21, 2018, Gores, AM Merger Sub I, Inc., a direct, wholly-owned subsidiary of Gores (“**First Merger Sub**”), AM Merger Sub II, LLC, a direct, wholly-owned subsidiary of Gores (“**Second Merger Sub**”), Greenlight Holding II Corporation (“**Greenlight**”), and PE Greenlight Holdings, LLC entered into an Agreement and Plan of Merger as amended on August 23, 2018 by that certain Amendment No. 1 to Agreement and Plan of Merger (as amended, the “**Merger Agreement**”), which provided for, among other things, (i) the merger of First Merger Sub with and into Greenlight, with Greenlight continuing as the surviving corporation (the “**First Merger**”) and (ii) immediately following the First Merger and as part of the same overall transaction as the First Merger, the merger of Greenlight with and into Second Merger Sub, with Second Merger Sub continuing as the surviving entity (the “**Second Merger**”) and, together with the First Merger, the “**Merger**” and, together with the other transactions contemplated by the Merger Agreement, the “**Business Combination**”). In connection with the closing of the Business Combination on October 17, 2018, we changed our name to Verra Mobility Corporation. As a result of the Business Combination, we became the owner, directly or indirectly, of all of the equity interests of Verra Mobility Holdings, LLC (formerly Second Merger Sub) and its subsidiaries.

HTA Acquisition and Refinancing

On March 1, 2018, we acquired HTA for an aggregate purchase price of \$603.3 million, consisting of \$525.0 million in cash, \$9.7 million in purchase price adjustments, a \$11.3 million payment to the sellers for certain tax items, and the issuance of equity in Greenlight with a fair value of approximately \$57.3 million. The receipt of the equity was treated for accounting purposes as a capital contribution from Greenlight Acquisition Corporation. We recognized \$15.6 million of costs related to the transaction in the nine months ended September 30, 2018. HTA contributed \$28.1 million and \$9.7 million in revenues for the nine months ended September 30, 2019 and 2018, respectively. See Note 3, *Mergers and Acquisitions*, in Item 1, Financial Statements.

In connection with the HTA acquisition, we refinanced the 2017 Credit Facilities (defined below) and entered into the 2018 Credit Facilities (defined below), which provided for term loans with an aggregate principal amount of \$1.04 billion and a revolver with an aggregate commitment of up to \$75.0 million. We recorded a loss on extinguishment of the 2017 Credit Facilities of approximately \$10.2 million during the nine months ended September 30, 2018, which included a prepayment penalty of \$3.8 million related to one of the term loans. See Note 8, *Debt*, in Item 1, Financial Statements.

EPC Acquisition

On April 6, 2018, we acquired EPC for an aggregate purchase price of \$62.9 million. The purchase consideration consisted primarily of equity in Greenlight and working capital adjustments, which aggregated \$2.6 million. The receipt of the equity was treated for accounting purposes as a capital contribution from Greenlight Acquisition Corporation. EPC contributed \$3.2 million in revenues for the nine months ended September 30, 2019. We recognized \$3.0 million of costs related to the transaction in the nine months ended September 30, 2018. See Note 3, *Mergers and Acquisitions*, in Item 1, Financial Statements.

ATS Merger

On May 31, 2017, private equity investment vehicles sponsored by Platinum Equity, LLC (collectively “**Platinum**”) acquired ATS Consolidated, Inc. (now VM Consolidated, Inc.) pursuant to the Agreement and Plan of Merger, dated April 15, 2017, by and among ATS Consolidated, Inc., Greenlight Merger Corporation, a wholly-owned subsidiary of Greenlight Acquisition Corporation, and Greenlight Acquisition Corporation, whereby ATS Consolidated, Inc. merged with and into Greenlight Merger Corporation with the former surviving the merger (such transaction, the “**ATS Merger**”).

Primary Components of Operating Results

Revenue

Total revenue consists of service revenue generated by our Commercial Services and Government Solutions segments and product sales generated by the Government Solutions segment.

Service Revenue. The Commercial Services segment primarily generates service revenue through the management and operation of tolling programs for RACs, FMCs and other large fleet customers. These solutions are full service offerings by which we enroll plates of our customers’ vehicles with tolling authorities, process payments on the customers’ behalf and, through proprietary technology, integrate with customer data to match the toll to the driver and then bill the driver (or our customer, as applicable) for use of the service. The cost of certain tolls, violations and our customers’ share of administration fees are netted against revenue. We also generate service revenue in the Commercial Services segment through processing titles, registrations and violations for our customers.

The Government Solutions segment generates service revenue through the operation and maintenance of photo enforcement systems. This revenue is generally tied to long-term contracts, and revenue is recognized either when services are performed or when citations are issued or paid, depending on the terms of the customer contract. Revenue drivers include the number of systems installed and the monthly revenue per system. Ancillary service revenue is generated in the Government Solutions segment from payment processing, pass-through fees for collection expense and other fees.

Product Sales. Product sales are generated by the sale of photo enforcement equipment to certain Government Solutions customers. There are a small number of customers who purchase this equipment, and their buying patterns vary greatly from period to period. Product sales revenue is recognized when the equipment is accepted or installed.

Cost and Expenses

Cost of Service Revenue. Cost of service revenue consists of collection and other professional services contracted with third parties and associated with the delivery of certain ancillary services performed by both the Government Solutions and Commercial Services segments.

Cost of Product Sales. Costs of product sales consist of the costs to acquire and install photo enforcement equipment that is purchased by Government Solutions customers.

Operating Expenses. Operating expenses include payroll and payroll-related costs (including stock-based compensation), costs related to the operation of our call centers and other operational costs, including transaction processing, print, postage and communication costs.

Selling, General and Administrative Expenses. Selling, general and administrative expenses include payroll and payroll-related costs (including stock-based compensation), real estate lease expense, insurance costs, legal fees and general corporate expenses.

Depreciation, Amortization and (Gain) Loss on Disposal of Assets, Net. Depreciation, amortization and (gain) loss on disposal of assets, net includes depreciation on property, plant and equipment, and amortization of definite-lived intangible assets. This line item also includes any one-time gains or losses incurred in connection with the disposal of certain assets.

Impairment of Property and Equipment. Impairment of property and equipment includes impairment charges for fixed assets used and held.

Interest Expense, Net. Interest expense, net includes interest expense and amortization of deferred financing costs and discounts and is net of interest income.

Loss on Extinguishment of Debt. Loss on extinguishment of debt generally consists of early payment penalties, the write-off of original issue discounts and deferred financing costs associated with debt extinguishment.

Other Income, Net. Other income, net primarily consists of volume rebates from total spend on purchasing cards and gain or loss on foreign currency transactions.

Results of Operations

Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018

The following table sets forth our statements of operations data and expresses each item as a percentage of total revenue for the periods presented as well as the changes between periods. The tables and information provided were derived from exact numbers and may have immaterial rounding differences.

(\$ in thousands)	Three Months Ended September 30,					
			Percentage of Revenue		Increase (Decrease) 2019 vs 2018	
	2019	2018	2019	2018	\$	%
Service revenue	\$ 110,757	\$ 105,203	86.4%	97.8%	\$ 5,554	5.3%
Product sales	17,483	2,399	13.6%	2.2%	15,084	628.8%
Total revenue	128,240	107,602	100.0%	100.0%	20,638	19.2%
Cost of service revenue	1,388	1,735	1.1%	1.6%	(347)	(20.0)%
Cost of product sales	7,238	1,375	5.6%	1.3%	5,863	426.4%
Operating expenses	32,965	27,820	25.7%	25.8%	5,145	18.5%
Selling, general and administrative expenses	21,293	21,687	16.6%	20.2%	(394)	(1.8)%
Depreciation, amortization and (gain) loss on disposal of assets, net	28,697	28,790	22.4%	26.8%	(93)	(0.3)%
Total costs and expenses	91,581	81,407	71.4%	75.7%	10,174	12.5%
Income from operations	36,659	26,195	28.6%	24.3%	10,464	39.9%
Interest expense, net	14,932	20,312	11.6%	18.8%	(5,380)	(26.5)%
Other income, net	(2,727)	(2,942)	(2.1)%	(2.7)%	215	(7.3)%
Total other expenses	12,205	17,370	9.5%	16.1%	(5,165)	(29.7)%
Income before income tax provision	24,454	8,825	19.1%	8.2%	15,629	177.1%
Income tax provision	6,702	2,312	5.3%	2.1%	4,390	189.9%
Net income	\$ 17,752	\$ 6,513	13.8%	6.1%	\$ 11,239	172.6%

(\$ in thousands)	Three Months Ended September 30,					
			Percentage of Revenue		Increase (Decrease) 2019 vs 2018	
	2019	2018	2019	2018	\$	%
Adjusted EBITDA(1)	\$ 70,841	\$ 61,936	55.2%	57.6%	\$ 8,905	14.4%

(1) Adjusted EBITDA is a non-GAAP measure. Refer to the section entitled Non-GAAP Financial Data for a reconciliation of Adjusted EBITDA to net income (loss), the most directly comparable GAAP measure, as well as a discussion of why management believes this information is useful to investors and its limitations.

Service Revenue. Service revenue increased by \$5.6 million, or 5.3%, to \$110.8 million for the three months ended September 30, 2019 from \$105.2 million for the three months ended September 30, 2018, representing 86.4% and 97.8% of total revenue, respectively. The following table depicts service revenue by segment:

(\$ in thousands)	Three Months Ended September 30,					
			Percentage of Revenue		Increase (Decrease) 2019 vs 2018	
	2019	2018	2019	2018	\$	%
Service Revenue						
Commercial Services	\$ 77,633	\$ 71,971	60.6%	66.9%	\$ 5,662	7.9%
Government Solutions	33,124	33,232	25.8%	30.9%	(108)	(0.3)%
Total Service Revenue	\$ 110,757	\$ 105,203	86.4%	97.8%	\$ 5,554	5.3%

Commercial Services service revenue includes toll and violation management revenues from commercial fleet and rental car companies. Service revenue increased by \$5.7 million, or 7.9%, from \$72.0 million for the three months ended September 30, 2018 to \$77.6 million for the three months ended September 30, 2019. The increase is primarily due to a \$5.6 million increase resulting from improved volumes in both billable days and tolls processed across our tolling products. The increase was offset by \$0.4 million decrease in title and registration service revenue, representing a 16% decrease quarter over quarter. Title and registration volumes fluctuate with activity and can create volatility between quarters.

Government Solutions service revenue includes revenue from red-light, speed, school bus arm and bus lane photo enforcement systems. Service revenue decreased slightly by \$0.1 million to \$33.1 million for the three months ended September 30, 2019. Revenue from operation of our red-light photo enforcement programs represents 51% of segment service revenue and declined \$2.8 million quarter over quarter. This was primarily due to \$0.4 million decline from the loss of certain Florida programs and \$1.8 million from Texas programs loss on June 1, 2019 due to a legislative change that banned most red-light photo enforcement programs in the state. The remaining decline results from lower price per system in variable contracts. Pricing of red-light photo enforcement programs can be impacted by timing of transaction volume in our variable contracts as well as the pricing of contract renewals. The loss of most of our red-light photo enforcement programs in Texas will negatively impact quarter over quarter service revenue comparison for the next three quarters. The Company exited its street light maintenance offering at the end of the first quarter of 2019, resulting in a \$0.8 million decrease quarter over quarter. This street light maintenance offering was not part of our core business and did not meet our profitability criteria. These declines were offset by an increase in speed programs revenue, which grew approximately \$3.4 million due to increases in the total number of camera systems installed and higher average pricing. We believe that school zone speed programs will continue to be a growth product in fiscal 2019.

Our previous reporting of installed camera systems included systems connected to suspended programs or spare systems at client locations. We re-evaluated our metric during the first quarter of 2019, and are reporting only installed camera systems that are generating revenue, as we believe this is a more meaningful presentation. There were an average of 4,759 camera systems installed during the three months ended September 30, 2019, compared to an average of 4,318 for the same period in 2018. The increase in camera systems was primarily due to new installations of school bus arm systems and the expansion of speed enforcement systems with existing customers. This increase was partially offset by a decline in red-light photo enforcement systems primarily due to the loss of certain Florida and Texas programs noted above.

Product Sales. Product sales include revenue generated from Government Solutions customers who purchased their equipment. Product sales increased by \$15.1 million, from \$2.4 million for the three months ended September 30, 2018 to \$17.5 million for the same period in 2019. The increase is primarily driven by sales to a single customer who is in the process of expanding their existing school zone speed program. We anticipate continued growth in product sales for the remainder of 2019.

Cost of Service Revenue. Cost of service revenue decreased slightly by \$0.3 million to \$1.4 million for the three months ended September 30, 2019.

Cost of Product Sales. Cost of product sales increased by \$5.9 million from \$1.4 million for the quarter ended September 30, 2018 to \$7.2 million for the same period in 2019, and was consistent with the change in product sales.

Operating Expenses. Operating expenses increased by \$5.1 million, or 18.5%, from \$27.8 million for the three months ended September 30, 2018 to \$33.0 million for the three months ended September 30, 2019. The increase is primarily due to increased wages, subcontractor and payment processing expenses during the quarter, mainly in the Commercial Services segment. Operating expenses as a percentage of revenue remained consistent at 26% for each of the three months ended September 30, 2018 and 2019, respectively. Operating expenses by segment appear in the table below:

(\$ in thousands)	Three Months Ended September 30,					
			Percentage of Revenue		Increase (Decrease) 2019 vs 2018	
	2019	2018	2019	2018	\$	%
Operating Expenses						
Commercial Services	\$ 17,777	\$ 13,969	13.9%	13.0%	\$ 3,808	27.3%
Government Solutions	15,050	13,851	11.7%	12.8%	1,199	8.7%
Total operating expenses before stock-based compensation	32,827	27,820	25.6%	25.8%	5,007	18.0%
Stock-based compensation	138	—	0.1%	—	138	n/a
Total Operating Expenses	<u>\$ 32,965</u>	<u>\$ 27,820</u>	<u>25.7%</u>	<u>25.8%</u>	<u>\$ 5,145</u>	<u>18.5%</u>

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased by \$0.4 million quarter over quarter to \$21.3 million for the three months ended September 30, 2019. The decrease is mainly due to an aggregate of \$4.0 million of transaction expenses, integration and other related expenses in the 2018 period for which there are no comparable amounts in the current period. The decrease is partially offset by stock-based compensation expense in the current period. Selling, general and administrative expenses as a percentage of revenue decreased from 20.2% to 16.6% for the three months ended September 30, 2018 and 2019, respectively. Selling, general and administrative expenses by segment appear in the table below:

(\$ in thousands)	Three Months Ended September 30,					
			Percentage of Revenue		Increase (Decrease) 2019 vs 2018	
	2019	2018	2019	2018	\$	%
Selling, General and Administrative Expenses						
Commercial Services	\$ 10,407	\$ 10,440	8.1%	9.7%	\$ (33)	(0.3)%
Government Solutions	8,266	7,241	6.5%	6.8%	1,025	14.2%
Corporate	287	4,006	0.2%	3.7%	(3,719)	(92.8)%
Total selling, general and administrative expenses before stock-based compensation	18,960	21,687	14.8%	20.2%	(2,727)	(12.6)%
Stock-based compensation	2,333	—	1.8%	—	2,333	n/a
Total Selling, General and Administrative Expenses	<u>\$ 21,293</u>	<u>\$ 21,687</u>	<u>16.6%</u>	<u>20.2%</u>	<u>\$ (394)</u>	<u>(1.8)%</u>

Depreciation, Amortization, and Gain or Loss on Disposal of Assets, Net. Depreciation, amortization, and gain or loss on disposal of assets, net, remained consistent quarter over quarter at \$28.8 million and \$28.7 million for the three months ended September 30, 2018 and 2019, respectively, but has decreased as a percentage of revenue.

Interest Expense, Net. Interest expense, net decreased by \$5.4 million from \$20.3 million for the three months ended September 30, 2018 to \$14.9 million for the same period in 2019. The decrease is due to lower average debt balances quarter over quarter primarily related to the full pay off of the New Second Lien Term Loan, which was at a higher interest rate. The average debt balance for the three months ended September 30, 2018 was \$1.0 billion compared to \$898.6 million for the same period in 2019. See “*Liquidity and Capital Resources.*”

Other Income, Net. Other income, net for the three months ended September 30, 2019 decreased slightly to \$2.7 million, compared to \$2.9 million in the three months ended September 30, 2018. The decrease is primarily due to foreign currency losses in the current period.

Income Tax Provision. Income tax provision increased by \$4.4 million from \$2.3 million, representing an effective tax rate of 26.2%, for the three months ended September 30, 2018 to \$6.7 million, representing an effective tax rate of 27.4% for the same period in 2019. The effective tax rate change was primarily due to higher pretax income across multiple jurisdictions, and an increase in permanent differences between book and taxable income, including the 162(m) executive compensation limitation, certain fringe benefit limitations, non-deductible secondary offering transaction costs, and the Global Intangible Low Tax Income inclusion.

Net Income. We had net income of \$17.8 million for the three months ended September 30, 2019, compared to \$6.5 million for the three months ended September 30, 2018. The improved net income was in line with our revenue growth and other statement of operations activity discussed above.

Adjusted EBITDA. The three months ended September 30, 2019 adjusted EBITDA was \$70.8 million, an increase of \$8.9 million or 14.4% from the three months ended September 30, 2018. The growth was in line with the statement of operations activity discussed above, adjusted for certain transactions and non-recurring expenses.

Nine Months Ended September 30, 2019 Compared to Nine Months Ended September 30, 2018

The following table sets forth our statements of operations data and expresses each item as a percentage of total revenue for the periods presented as well as the changes between periods. The tables and information provided were derived from exact numbers and may have immaterial rounding differences.

(\$ in thousands)	Nine Months Ended September 30,					
			Percentage of Revenue		Increase (Decrease) 2019 vs 2018	
	2019	2018	2019	2018	\$	%
Service revenue	\$ 311,884	\$ 271,253	92.7%	98.6%	\$ 40,631	15.0%
Product sales	24,392	3,787	7.3%	1.4%	20,605	544.1%
Total revenue	336,276	275,040	100.0%	100.0%	61,236	22.3%
Cost of service revenue	4,390	4,217	1.3%	1.5%	173	4.1%
Cost of product sales	10,432	2,425	3.1%	0.9%	8,007	330.2%
Operating expenses	94,098	80,301	28.0%	29.2%	13,797	17.2%
Selling, general and administrative expenses	62,709	82,551	18.6%	30.0%	(19,842)	(24.0)%
Depreciation, amortization and (gain) loss on disposal of assets, net	86,488	74,830	25.7%	27.2%	11,658	15.6%
Impairment of property and equipment	5,898	—	1.8%	—	5,898	n/a
Total costs and expenses	264,015	244,324	78.5%	88.8%	19,691	8.1%
Income from operations	72,261	30,716	21.5%	11.2%	41,545	135.3%
Interest expense, net	46,621	52,538	13.9%	19.1%	(5,917)	(11.3)%
Loss on extinguishment of debt	—	10,151	—	3.7%	(10,151)	n/a
Other income, net	(8,279)	(7,001)	(2.5)%	(2.6)%	(1,278)	18.3%
Total other expenses	38,342	55,688	11.4%	20.2%	(17,346)	(31.1)%
Income (loss) before income tax provision (benefit)	33,919	(24,972)	10.1%	(9.0)%	58,891	235.8%
Income tax provision (benefit)	9,756	(4,532)	2.9%	(1.6)%	14,288	315.3%
Net income (loss)	\$ 24,163	\$ (20,440)	7.2%	(7.4)%	\$ 44,603	218.2%

(\$ in thousands)	Nine Months Ended September 30,					
			Percentage of Revenue		Increase (Decrease) 2019 vs 2018	
	2019	2018	2019	2018	\$	%
Adjusted EBITDA ⁽¹⁾	\$ 181,787	\$ 150,316	54.1%	54.7%	\$ 31,471	20.9%

(1) Adjusted EBITDA is a non-GAAP measure. Refer to the section entitled Non-GAAP Financial Data for a reconciliation of Adjusted EBITDA to net income (loss), the most directly comparable GAAP measure, as well as a discussion of why management believes this information is useful to investors and its limitations.

Service Revenue. Service revenue increased by \$40.6 million, or 15%, to \$311.9 million for the nine months ended September 30, 2019 from \$271.3 million for the nine months ended September 30, 2018, representing 92.7% and 98.6% of total revenue, respectively. The following table depicts service revenue by segment:

(\$ in thousands)	Nine Months Ended September 30,					
	2019	2018	Percentage of Revenue		Increase (Decrease) 2019 vs 2018	
			2019	2018	\$	%
Service Revenue						
Commercial Services	\$ 208,312	\$ 164,189	61.9%	59.7%	\$ 44,123	26.9%
Government Solutions	103,572	107,064	30.8%	38.9%	(3,492)	(3.3)%
Total Service Revenue	<u>\$ 311,884</u>	<u>\$ 271,253</u>	<u>92.7%</u>	<u>98.6%</u>	<u>\$ 40,631</u>	<u>15.0%</u>

Commercial Services service revenue includes toll and violation management revenues from commercial fleet and rental car companies. Service revenue increased by \$44.1 million, or 26.9%, from \$164.2 million for the nine months ended September 30, 2018 to \$208.3 million for the nine months ended September 30, 2019. We acquired HTA, a toll and violation processor, on March 1, 2018, and EPC, a European violations processor, on April 6, 2018. These acquisitions contributed \$21.6 million to year over year service revenue growth. The remaining increase was mainly due to a \$18.5 million increase resulting from improved volumes in both billable days and tolls processed across our tolling products.

Government Solutions service revenue includes revenue from red-light, speed, school bus arm and bus lane photo enforcement systems. Service revenue decreased by \$3.5 million, to \$103.6 million for the nine months ended September 30, 2019 from \$107.1 million for the nine months ended September 30, 2018. Our red-light photo enforcement service revenue declined \$6.8 million year over year. This was primarily due to a \$2.4 million decline from the loss of certain Florida programs and \$2.5 million due to the loss of Texas programs on June 1, 2019 due to a legislative change that banned most red-light photo enforcement programs in the state. The loss of most of our red-light programs in Texas will negatively impact year over year service revenue comparison for the next three quarters. The remaining decline results from lower price per system in variable contracts. Pricing of red-light photo enforcement programs can be impacted by timing of transaction volume in our variable contracts as well as the pricing of contract renewals. The Company exited its street light maintenance offering at the end of the first quarter of 2019, resulting in a \$1.8 million decrease year over year. This street light maintenance offering was not part of our core business and did not meet our profitability criteria. These declines were offset by speed program revenue, which grew approximately \$5.8 million due to increases in the total number of camera systems installed and higher average pricing. We believe that school zone speed programs will continue to be a growth product in fiscal 2019.

Our previous reporting of installed camera systems included systems connected to suspended programs or spare systems at client locations. We re-evaluated our metric during the first quarter of 2019, and are reporting only installed camera systems that are generating revenue, as we believe this is a more meaningful presentation. There were an average of 4,666 camera systems installed during the nine months ended September 30, 2019 compared to an average of 4,261 for the same period in 2018. The increase in camera systems was primarily due to new installations of school bus arm systems and to a lesser extent the expansion of speed enforcement systems with existing customers. This increase was partially offset by a decline in red-light photo enforcement systems primarily due to the loss of certain Florida and Texas programs noted above.

Product Sales. Product sales include revenue generated from Government Solutions customers who purchased their equipment. Product sales increased by \$20.6 million, from \$3.8 million for the nine months ended September 30, 2018 to \$24.4 million for the same period in 2019. The increase is primarily driven by sales to a single customer who is in the process of expanding their existing school zone speed program. We anticipate continued growth in product sales for the remainder of 2019.

Cost of Service Revenue. Cost of service revenue increased slightly by \$0.2 million, to \$4.4 million for the nine months ended September 30, 2019 from \$4.2 million for the nine months ended September 30, 2018. The increase is primarily due to the inclusion of EPC operations for the entire period in the nine months ended September 30, 2019 compared to only six months in the prior period.

Cost of Product Sales. Cost of product sales increased by \$8.0 million from \$2.4 million in the nine months ended September 30, 2018 to \$10.4 million in the same period in 2019, and was consistent with the change in product sales.

Operating Expenses. Operating expenses increased by \$13.8 million, or 17.2%, from \$80.3 million for the nine months ended September 30, 2018 to \$94.1 million for the nine months ended September 30, 2019. The increase is primarily due to the inclusion of HTA and EPC operations for the entire nine month period ended September 30, 2019 compared to seven months of expenses for HTA and six months for EPC during the nine months ended September 30, 2018. Operating expenses as a percentage of revenue decreased from 29.2% to 28.0% for the nine months ended September 30, 2018 and 2019, respectively, reflecting management's focus on operational efficiency. Operating expenses by segment appear in the table below:

(\$ in thousands)	Nine Months Ended September 30,					
	2019	2018	Percentage of Revenue		Increase (Decrease) 2019 vs 2018	
			2019	2018	\$	%
Operating Expenses						
Commercial Services	\$ 49,595	\$ 37,599	14.7%	13.7%	\$ 11,996	31.9%
Government Solutions	43,889	42,702	13.1%	15.5%	1,187	2.8%
Total operating expenses before stock-based compensation	93,484	80,301	27.8%	29.2%	13,183	16.4%
Stock-based compensation	614	—	0.2%	—	614	n/a
Total Operating Expenses	\$ 94,098	\$ 80,301	28.0%	29.2%	\$ 13,797	17.2%

Selling, General and Administrative Expenses. Selling, general and administrative expenses for the nine months ended September 30, 2019 decreased by \$19.8 million to \$62.7 million, compared to \$82.6 million for the nine months ended September 30, 2018. The decrease was primarily related to expenses in the nine months ended September 30, 2018 for which there were no comparable amounts in the current period. During the nine months ended September 30, 2018, we incurred \$25.6 million of transaction expenses related to the acquisitions of HTA and EPC (\$19.1 million was included in Commercial Services and \$6.5 million was included in Corporate), \$8.0 million of other non-recurring expenses primarily associated with integration and \$4.1 million paid under a previous corporate advisory services agreement with an affiliate of PE Greenlight Holdings, LLC.

Selling, general and administrative expenses as a percentage of revenue decreased from 30.0% to 18.6% for the nine months ended September 30, 2018 and 2019, respectively, as a result of items noted above. Selling, general and administrative expenses by segment appear in the table below:

(\$ in thousands)	Nine Months Ended September 30,					
	2019	2018	Percentage of Revenue		Increase (Decrease) 2019 vs 2018	
			2019	2018	\$	%
Selling, General and Administrative Expenses						
Commercial Services	\$ 30,798	\$ 42,992	9.2%	15.6%	\$ (12,194)	(28.4)%
Government Solutions	23,677	20,586	7.0%	7.5%	3,091	15.0%
Corporate	1,422	18,973	0.4%	6.9%	(17,551)	(92.5)%
Total selling, general and administrative expenses before stock-based compensation	55,897	82,551	16.6%	30.0%	(26,654)	(32.3)%
Stock-based compensation	6,812	—	2.0%	—	6,812	n/a
Total Selling, General and Administrative Expenses	\$ 62,709	\$ 82,551	18.6%	30.0%	\$ (19,842)	(24.0)%

Depreciation, Amortization and Gain or Loss on Disposal of Assets, Net. Depreciation, amortization and gain or loss on disposal of assets, net, increased by \$11.7 million, or 15.6%, from \$74.8 million for the nine months ended September 30, 2018 to \$86.5 million for the same period in 2019. The increase is primarily due to the inclusion of amortization expense resulting from the HTA and EPC acquisitions for the entire nine month period ended September 30, 2019 compared to partial periods in the 2018 period.

Impairment of Property and Equipment. Impairment of property and equipment for the nine months ended September 30, 2019 includes a \$5.9 million impairment charge as a result of a legislation ban of most red-light photo enforcement programs in Texas on June 1, 2019, which was in the Government Solutions segment.

Interest Expense, Net. Interest expense, net decreased by \$5.9 million from \$52.5 million for the nine months ended September 30, 2018 to \$46.6 million for the same period in 2019. The average debt balances as of September 30, 2018 and 2019 were \$874.7 million and \$900.9 million, respectively. Although the average debt balances remained relatively consistent, the interest expense was higher in the 2018 period due to the New Second Lien Term Loan which had a higher interest rate. The decrease in interest expense in 2019 is due to the full payoff of the New Second Lien Term Loan in the fourth quarter of 2018 and increase in interest income. See “*Liquidity and Capital Resources.*”

Loss on Extinguishment of Debt. Loss on extinguishment of debt of \$10.2 million in the nine months ended September 30, 2018 was a result of the 2017 Credit Facilities replaced with the 2018 Credit Facilities in connection with the HTA acquisition. The loss consisted of a \$3.8 million prepayment penalty on the Old Term Loan balances, a \$2.0 million write-off of preexisting deferred financing costs, and \$4.4 million of lender and third-party costs associated with the issuance of the 2018 Credit Facilities. See “*Liquidity and Capital Resources.*”

Other Income, Net. Other income, net for the nine months ended September 30, 2019 was \$8.3 million compared to \$7.0 million for the nine months ended September 30, 2018. The is primarily due to the increased purchasing card rebates resulting from the inclusion of HTA operations for the entire period in the nine months ended September 30, 2019 compared to seven months in the 2018 period. We pay a high volume of tolls on behalf of our customers with purchasing cards which generate rebates based on volume, payment terms and rebate frequency.

Income Tax Provision (Benefit). Income tax provision (benefit) increased by \$14.3 million from \$(4.5) million, representing an effective tax rate of (18.1%), for the nine months ended September 30, 2018 to a tax of \$9.8 million, representing an effective tax rate of 28.8% for the same period in 2019. The effective tax rate change was primarily due to higher pretax income across multiple jurisdictions, and an increase in permanent differences between book and taxable income, including the 162(m) executive compensation limitation, certain fringe benefit limitations, non-deductible secondary offering transaction costs, and the Global Intangible Low Tax Income inclusion.

Net Income (Loss). We had net income of \$24.2 million for the nine months ended September 30, 2019, as compared to a net loss of \$20.4 million for the nine months ended September 30, 2018. The increase in net income was primarily due to expenses in the 2018 period related to an aggregate of \$47.9 million of acquisition, refinancing (including loss on extinguishment of debt) and integration costs associated with the HTA and EPC acquisitions for which there were no comparable amounts in the nine months ended September 30, 2019. This increase was partially offset by related amortization expense and an impairment charge, noted above.

Adjusted EBITDA. The nine months ended September 30, 2019 adjusted EBITDA was \$181.8 million, an increase of \$31.5 million or 20.9% from the nine months ended September 30, 2018. The growth was in line with the statement of operations activity discussed above, adjusted for certain transactions and non-recurring expenses.

Liquidity and Capital Resources

Our principal sources of liquidity are cash flows from operations, long-term borrowings and availability under revolving credit facilities.

We have incurred significant long-term debt, as described below, to fund the ATS Merger and the HTA acquisition.

We believe that the existing cash and cash equivalents and cash flows provided by operating activities will be sufficient to meet operating cash requirements and service debt obligations for at least the next 12 months. Our ability to generate sufficient cash from our operating activities depends on our future performance, which is subject to general economic, political, financial, competitive and other factors beyond our control. In addition, our future capital expenditures and other cash requirements could be higher than currently expected due to various factors, including any expansion of our business that it undertakes, including strategic acquisitions. Should we pursue additional strategic acquisitions, we may need to raise additional capital, which may be in the form of additional long-term debt, which may not be available to us on favorable terms, borrowings on the revolver under the 2018 Credit Facilities (defined below), equity financings or at all.

We have the ability to borrow under our revolving credit facility to meet obligations as they come due. At September 30, 2019, we had \$74.9 million available for borrowing, net of letters of credit, under the New Revolver (defined below).

The Company funded the Pagatelia S.L. acquisition (discussed above) with existing cash on hand as of the acquisition date for a preliminary purchase price of \$27.9 million.

The following table sets forth certain captions within our condensed consolidated statements of cash flows for the respective periods:

(\$ in thousands)	Nine Months Ended September 30,	
	2019	2018
Net cash provided by operating activities	\$ 95,586	\$ 46,054
Net cash used in investing activities	(17,478)	(544,979)
Net cash (used in) provided by financing activities	(7,126)	542,686

Cash Flows from Operating Activities

Cash provided by operating activities increased \$49.5 million from \$46.1 million for the nine months ended September 30, 2018 to \$95.6 million for same period in 2019.

The change in cash provided by operating activities year over year was primarily due to net income increase of \$44.6 million from a loss of \$20.4 million in the nine months ended September 30, 2018 to income of \$24.2 million in the nine months ended September 30, 2019. The growth in net income was driven by the inclusion of the results of HTA and EPC operations for the full nine month period in 2019 versus only partial periods in the 2018 period. It is also attributable to \$37.7 million of transaction, non-recurring transformation and sponsor fee expenses and \$10.2 million loss on extinguishment of debt in the nine months ended September 30, 2018 for which there are no comparable amounts in the current period.

Aggregate adjustments to reconcile net income (loss) to net cash provided by operations increased by \$21.6 million. The increase is primarily due to inclusion of the amortization of intangibles associated with the HTA and EPC acquisitions for the full nine month period in 2019 versus partial periods in the 2018 period and a change in deferred income taxes year over year. The \$10.2 million loss on extinguishment of debt in the nine months ended September 30, 2018 for which there is no comparable amount in the current period was offset by a \$5.9 million impairment charge and the \$7.4 million stock-based compensation amount in the 2019 period for which there were no comparable amounts in the prior period.

The aggregate change in operating assets and liabilities represents an aggregate decrease of \$16.7 million for the nine months ended September 30, 2019 versus the 2018 period. The decrease was primarily driven by increases in accounts receivable and prepaid expenses which were partially offset by an increase in accounts payable and accrued liabilities.

Cash Flows from Investing Activities

Cash used in investing activities was \$17.5 million and \$545.0 million for the nine months ended September 30, 2019 and September 30, 2018, respectively. The change in cash used in investing activities year over year was primarily due to net cash paid in connection with the HTA and EPC acquisitions during the nine months ended September 30, 2018. Cash consideration for the HTA acquisition was \$531.7 million net of \$3.0 million of cash acquired, and for EPC it was \$2.6 million, net of \$9.0 million of cash acquired.

Cash Flows from Financing Activities

Cash (used in) provided by financing activities was (\$7.1) million and \$542.7 million for the nine months ended September 30, 2019 and September 30, 2018, respectively. The change in cash (used in) provided by financing activities year over year was primarily due to the Company entering into the 2018 Credit Facilities during the nine months ended September 30, 2018, which included the repayment of the 2017 Credit Facilities.

Debt

In connection with the HTA acquisition, we entered into a First Lien Term Loan Credit Agreement (the “***New First Lien Term Loan***”), a Second Lien Term Loan Credit Agreement (the “***New Second Lien Term Loan***” and together with the New First Lien Term Loan, the “***New Term Loans***”), and a Revolving Credit Agreement (the “***New Revolver***”) with a syndicate of lenders (collectively with the New Term Loans, the “***2018 Credit Facilities***”). The 2018 Credit Facilities provide for committed senior secured financing of \$1.115 billion, consisting of the New Term Loans with an aggregate principal amount of \$1.04 billion and the New Revolver available for loans and letters of credit with an aggregate revolving commitment of up to \$75 million (based on borrowing based eligibility as described below).

The 2018 Credit Facilities replaced the previous First Lien Term Loan Credit Agreement (the “*Old First Lien*”), the Second Lien Term Loan Credit Agreement (the “*Old Second Lien*” and together with the Old First Lien, the “*Old Term Loans*”), which were repaid concurrent with the closing on the 2018 Credit Facilities, and a preexisting Revolving Credit Agreement (the “*Old Revolver*”, collectively with the Old Term Loans, the “*2017 Credit Facilities*”), which was undrawn at close. The outstanding balances at the date of close on the Old Term Loans, which were repaid with proceeds from the 2018 Credit Facilities and are no longer outstanding, were \$323 million and \$125 million, respectively.

The New First Lien Term Loan is repayable at 1.0% per annum of the amount initially borrowed, paid in quarterly installments. The New First Lien Term Loan matures on February 28, 2025. The New First Lien Term Loan bears interest based, at our option, on either (1) LIBOR plus an applicable margin of 3.75% per annum, or (2) an alternate base rate plus an applicable margin of 2.75% per annum. At September 30, 2019, the interest rate on the New First Lien Term Loan was 5.79%.

In addition, the New First Lien Term Loan contains provisions that require mandatory prepayments of excess cash flow (as defined by the New First Lien Term Loan agreement) to be made as of the last day of the fiscal year, beginning with fiscal year ending December 31, 2019, in an amount equal to the percentages set forth in the following table:

Consolidated first lien net leverage ratio (as defined by the New First Lien Term Loan agreement)	Applicable prepayment percentage
> 3.70:1.00	50%
≤ 3.70:1.00 and > 3.20:1.00	25%
≤ 3.20:1.00	0%

On July 24, 2018, we secured a \$70 million incremental loan commitment under the New First Lien Term Loan. The proceeds of this incremental borrowing, together with a portion of the funds held in the Company upon the closing of the Business Combination, were used to repay our \$200 million New Second Lien Term Loan in full.

The New Revolver matures on February 28, 2023. Borrowing eligibility under the New Revolver is subject to a monthly borrowing base calculation based on (i) certain percentages of eligible accounts receivable and inventory, less (ii) certain reserve items, including outstanding letters of credit and other reserves. We may at any time, on not more than five occasions, request an increase to the New Revolver of up to an aggregate amount of \$50 million. The New Revolver bears interest on either (1) LIBOR plus an applicable margin, or (2) an alternate base rate, plus an applicable margin. The margin percentage applied to (1) LIBOR is either 1.25%, 1.50%, or 1.75%, or (2) the base rate is either 0.25%, 0.50%, or 0.75%, depending on our average availability to borrow under the commitment. At September 30, 2019, we had no outstanding borrowings on the New Revolver and availability to borrow under the New Revolver was \$74.9 million, net of \$0.1 million of outstanding letters of credit.

Interest on the unused portion of the New Revolver is payable quarterly at 0.375% at September 30, 2019. We are also required to pay participation and fronting fees on \$0.1 million in outstanding letters of credit at 1.38% as of September 30, 2019.

All borrowings and other extensions of credits under the 2018 Credit Facilities are subject to the satisfaction of customary conditions and restrictive covenants including absence of defaults and accuracy in material respects of representations and warranties. At September 30, 2019, we were compliant with the 2018 Credit Facilities covenants. Substantially all of our assets are pledged as collateral to secure our indebtedness under the 2018 Credit Facilities.

We recognized a charge of \$10.2 million in the nine months ending September 30, 2018 consisting of a \$3.8 million prepayment penalty on the Old Term Loan balances, a \$2.0 million write-off of preexisting deferred financing costs and \$4.4 million of lender and third-party costs associated with the issuance of the 2018 Credit Facilities.

Critical Accounting Policies, Estimates and Judgments

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes. Significant items subject to such estimates and assumptions include the fair values assigned to net assets acquired (including identifiable intangibles) in business combinations, the carrying amounts of long-lived assets, goodwill and installation and service parts, the allowance for doubtful accounts, valuation allowances on deferred tax assets, asset retirement obligations, contingent consideration and the recognition and measurement of loss contingencies. Management believes that our estimates and assumptions are reasonable in the circumstances; however, actual results could differ materially from those estimates.

We believe that the critical accounting policy listed below involves our more significant judgments, assumptions, and estimates and, therefore, could have the greatest potential impact on the financial statements. Refer to our 2018 Annual Report on Form 10-K/A for a comprehensive list of our critical accounting policies, estimates and judgments.

Revenue Recognition

Commercial Services. The Commercial Services segment offers toll and violation management solutions for the commercial fleet and rental car industries by partnering with the leading fleet management and rental car companies in North America. We have determined our performance obligation is a distinct stand-ready obligation as there is an unspecified quantity of services provided that does not diminish, and the customer is being charged only when it uses our services, such as toll payment, title and registration, etc. Therefore, all services provided within the Commercial Services segment are accounted for as a single performance obligation, of a series of distinct items, with distinct time increments, as a stand-ready obligation. Payment terms for contracts with commercial fleet and rental car companies vary, but are usually billed as services are performed. Revenue from services provided in the Commercial Services segment are recognized over time as the customer simultaneously receives and consumes the benefits provided by us as we perform the services.

Government Solutions. The Government Solutions segment principally generates revenue from providing complete, end-to-end red-light, speed, school bus stop arm, and bus lane enforcement solutions. Products, when sold, are typically sold together with the services in a bundle. The average initial term of a contract is 3 to 5 years. Payment terms for contracts with government agencies vary depending on whether the consideration is fixed or variable. Payment terms for contracts with fixed consideration are usually based on equal installments over the duration of the contract. Payment terms for contracts with variable consideration are usually billed and collected as citations are issued or paid.

For bundled packages, we account for individual products and services separately if they are distinct – i.e., if a product or service is separately identifiable from other items in the bundle and if a customer can benefit from it as a stand-alone item. The consideration is allocated between separate products and services in a bundle based on their stand-alone selling prices (“SSP”). We estimate the SSP of our services based upon observable evidence, market conditions and other relevant inputs.

- Product sales (sale of camera and installation) – we recognize revenue when the installation process is completed and the camera is ready to perform the services as expected by the customer. Generally, it occurs at site acceptance or first citation. We recognize revenue for the sale of the camera and installation services at a point in time.
- Service revenue – we account for all the services as a single continuous service. We have determined our performance obligation is to provide a complete end-to-end safety and enforcement solution. Promises include providing a system to capture images, processing images taken by the camera, forwarding eligible images to the local police department and processing payments on behalf of the municipality. We determined certain of the promises to our customers are capable of being distinct as they are capable of providing some measure of benefit to the customer either on their own or together with other resources that are readily available to the customer. However, we have determined the promises to our customers do not meet the criterion of being distinct within the context of our contracts. We would not be able to fulfill our promises individually as our customers could not obtain the intended benefit from the contract without us fulfilling all promises. Accordingly, we concluded that each contract represents one service offering and is a single performance obligation to our customer. Further, we applied the series guidance for those services as the nature of the service is to provide a service for a period of time with distinct time increments. We recognize revenue from services over time, as it is performed, which is consistent with the pattern in which our customers receive and consume the benefits.

Remaining Performance Obligations

As of September 30, 2019, we had approximately \$0.2 million of remaining performance obligations in the Government Solutions segment, which includes amounts that will be invoiced and recognized in future periods. The remaining performance obligations are limited only to arrangements that meet the definition of a contract as of September 30, 2019. As these amounts relate to the initial deferral of revenue under a contract, we expect to recognize these amounts over a two month period at the end of the contract.

We apply the practical expedient and do not disclose variable consideration allocated entirely to wholly unsatisfied stand-ready performance obligations for certain Government Solutions and Commercial Services contracts as part of the information about remaining performance obligations. The duration for these contracts ranges between 3 and 5 years for new contracts.

Significant Judgments

Under the new revenue standard, significant judgments are required in order to identify contracts with customers and estimate transaction prices. Additional judgments are required for the identification of distinct performance obligations, the estimation of standalone selling prices and the allocation of the transaction price by relative standalone selling prices. Assumptions regarding timing of when control transfers to the customer requires significant judgment in order to recognize revenue. We used significant judgment related to identifying the performance obligation and determining whether the services provided are able to be distinct, determining the transaction price, specifically as it is related to the different variable consideration structures identified in our contracts, and in determining the timing of revenue recognition.

Recent Accounting Pronouncements

For discussion of recent accounting pronouncements, refer to Note 2, *Significant Accounting Principles and Policies*, in Item 1, Financial Statements.

JOBS Act

We are an “emerging growth company” as defined in the Jumpstart Our Business Startups Act of 2012 (the “**JOBS Act**”). The JOBS Act exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies are required to comply with the new or revised financial accounting standards. The JOBS Act provides that a company can elect to opt out of the extended transition period and comply with the requirements that apply to non-emerging growth companies but any such election to opt out is irrevocable. We have not elected to opt out of such extended transition period which means that when a standard is issued or revised and it has different application dates for public and private companies, we, as an emerging growth company, can adopt the new or revised standard at the time private companies adopt the new or revised standard.

Non-GAAP Financial Data

We define “**Adjusted EBITDA**” as net income (loss) adjusted to exclude (i) interest expense, net (ii) income tax provision (benefit), (iii) depreciation and amortization, and (iv) as further adjusted to eliminate the impact of stock-based compensation and certain non-recurring items that we do not consider indicative of our ongoing operating performance. These further adjustments are itemized below. Adjusted EBITDA margin % represents Adjusted EBITDA as a percentage of total revenue. We use these metrics to measure our performance from period to period both at the consolidated level as well as within our operating segments, to evaluate and fund incentive compensation programs and to compare our results to those of our competitors. In addition to Adjusted EBITDA being a significant measure of performance for management purposes, we also believe that this presentation provides useful information to investors regarding financial and business trends related to our results of operations and that when non-GAAP financial information is viewed with GAAP financial information, investors are provided with a more meaningful understanding of our ongoing operating performance.

You are encouraged to evaluate these adjustments and the reasons we consider them appropriate for supplemental analysis. In evaluating Adjusted EBITDA, you should be aware that in the future we may incur expenses that are the same as or similar to some of the adjustments set forth below. Our presentation of Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. Adjusted EBITDA should not be considered as an alternative to net income (loss), operating income, cash flows from operating activities or any other performance measures derived in accordance with GAAP, or measures of operating performance or cash flows as measures of liquidity. Adjusted EBITDA and Adjusted EBITDA margin % have important limitations as analytical tools, and should not be considered either in isolation, or as a substitute for analysis of our results as reported under GAAP. In addition, our definition of Adjusted EBITDA may not be comparable to similarly titled measures of other companies and may, therefore, have limitations as a comparative analytical tool. For example, Adjusted EBITDA and Adjusted EBITDA margin % do not reflect:

- our capital expenditures, future requirements for capital expenditures or contractual commitments;
- changes in, or cash requirements for, our working capital needs;
- the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;
- income tax expense or the cash necessary to pay income taxes; and
- cash requirements for the assets being depreciated and amortized that may have to be replaced in the future.

Our non-GAAP information below should be read in conjunction with our unaudited interim condensed consolidated financial statements and the related notes included elsewhere in this quarterly report.

The following table sets forth our reconciliation of Adjusted EBITDA to net income (loss) (unaudited):

(\$ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income (loss)	\$ 17,752	\$ 6,513	\$ 24,163	\$ (20,440)
Interest expense, net	14,932	20,312	46,621	52,538
Income tax provision (benefit)	6,702	2,312	9,756	(4,532)
Depreciation and amortization	28,697	28,792	86,501	74,839
EBITDA	68,083	57,929	167,041	102,405
Transaction and other related expenses (i)	287	1,669	1,422	25,589
Transformation expenses (ii)	—	905	—	8,038
Impairment of property and equipment (iii)	—	—	5,898	—
Loss on extinguishment of debt (iv)	—	—	—	10,151
Sponsor fees and expenses (v)	—	1,433	—	4,133
Stock-based compensation (vi)	2,471	—	7,426	—
Adjusted EBITDA	\$ 70,841	\$ 61,936	\$ 181,787	\$ 150,316

- (i) Transaction and other related expenses for the nine months ended September 30, 2019 included \$1.1 million of offering costs incurred by us for the secondary offering by PE Greenlight Holdings, LLC and \$0.3 million of transaction expenses. Transaction and other related expenses incurred in the nine months ended September 30, 2018 included \$25.6 million of costs related to the HTA and EPC acquisitions, primarily consisting of \$9.7 million for acquisition services to Platinum Equity Advisors, LLC, \$8.9 million of professional fees processed through the funds flow and \$7.0 million of professional fees paid directly by us.
- (ii) Transformation expenses for the three and nine months ended September 30, 2018 represent one-time costs related to optimizing the expense structure and defining the Company's growth strategy.
- (iii) This represents an impairment charge on fixed assets during the nine months ended September 30, 2019.
- (iv) Loss on extinguishment of debt related to the 2017 Credit Facilities which were replaced by the 2018 Credit facilities in conjunction with the HTA acquisition.
- (v) We incurred management fees and related expenses in the 2018 periods associated with a corporate advisory services agreement with Platinum Equity Advisors, LLC.
- (vi) Stock-based compensation for the three and nine months ended September 30, 2019 represents the non-cash charge related to the issuance of awards under the Verra Mobility Corporation 2018 Equity Incentive Plan.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to interest rate market risk due to the variable interest rate on the New First Lien Term Loan described in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations—*Liquidity and Capital Resources.*"

Interest rate risk represents our exposure to movements in interest rates associated with the variable rate debt represented by the New First Lien Term Loan. Total borrowing under the New First Lien Term Loan was \$896.7 million at September 30, 2019. The New First Lien Term Loan bears interest based, at our option, on either (1) LIBOR plus an applicable margin of 3.75% per annum, or (2) an alternate base rate plus an applicable margin of 2.75% per annum. At September 30, 2019, the interest rate on the New First Lien Term Loan was 5.79%. Based on the September 30, 2019 balance outstanding, each 1% movement in interest rates will result in an approximately \$9.0 million change in annual interest expense.

We have not engaged in any hedging activities during the nine months ended September 30, 2019. We do not expect to engage in any hedging activities with respect to the market risk to which we are exposed.

Item 4. Controls and Procedures

We maintain "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2019. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

During the quarter ended September 30, 2019, there has been no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

The phase-out of LIBOR may adversely affect our outstanding debt.

The London InterBank Offered Rate, or LIBOR, is scheduled to be phased out by the end of 2021. In the United States, the Alternative Reference Rates Committee (“**ARRC**”), the working group formed to recommend an alternative rate to LIBOR, has identified the Secured Overnight Financing Rate (“**SOFR**”) as its preferred alternative rate for USD LIBOR. Our debt instruments have interest rates that are based on LIBOR and will not have matured prior to the phase-out of LIBOR. Changes in the method of determining LIBOR, or the replacement of LIBOR with an alternative floating borrowing rate, may adversely affect our borrowing costs. We cannot predict the effect of the potential changes to LIBOR or the establishment and use of alternative floating borrowing rates on our outstanding debt that is based on LIBOR. Transitioning to a different borrowing rate may result in less favorable pricing on our debt instruments and could have an adverse effect on our financial results and cash flows.

As of the date of this Quarterly Report on Form 10-Q, other than the risk factor stated above, there have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K/A filed with the SEC on April 30, 2019. We may disclose changes to such factors or disclose additional factors from time to time in our future filings with the SEC.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The following exhibits are filed as part of, or incorporated by reference into, this Quarterly Report on Form 10-Q.

EXHIBIT INDEX

Exhibit Number	Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
2.1	Merger Agreement, dated as of June 21, 2018, by and among Gores Holdings II, Inc., AM Merger Sub I, Inc., AM Merger Sub II, LLC, Greenlight Holding II Corporation and PE Greenlight Holdings, LLC, in its capacity as the Stockholder Representative.	8-K	001-37979	2.1	June 21, 2018	
2.2	Amendment No. 1 to Agreement and Plan of Merger, dated as of August 23, 2018, by and among Gores Holdings II, Inc., AM Merger Sub I, Inc., AM Merger Sub II, LLC, Greenlight Holding II Corporation and PE Greenlight Holdings, LLC, in its capacity as the Stockholder Representative.	8-K	001-37979	2.2	Aug. 24, 2018	
3.1	Second Amended and Restated Certificate of Incorporation of Verra Mobility Corporation.	8-K	001-37979	3.1	Oct. 22, 2018	
3.2	Amended and Restated Bylaws of Verra Mobility Corporation.	8-K	001-37979	3.2	Oct. 22, 2018	
4.1	Specimen Class A Common Stock Certificate.	S-1	333-21503	4.2	Dec. 9, 2016	
4.2	Specimen Warrant Certificate.	S-1	333-21503	4.3	Dec. 9, 2016	
4.3	Warrant Agreement, dated January 12, 2017, between the Registrant and Continental Stock Transfer & Trust Company, as warrant agent.	8-K	001-37979	4.1	Jan. 19, 2017	
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32.1*	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
32.2*	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X

Exhibit Number	Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
101	The following financial statements from the Quarterly Report on Form 10-Q of Verra Mobility Corporation for the quarter ended September 30, 2019, formatted in eXtensible Business Reporting Language (XBRL): (i) Balance Sheets, (ii) Statements of Income, (iii) Statements of Changes in Shareholders' Equity, (iv) Statement of Cash Flows and (v) Notes to Financial Statements					X

* This certification is deemed not filed for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

VERRA MOBILITY CORPORATION

Date: November 05, 2019

By: /s/ David Roberts
David Roberts
President and Chief Executive Officer
(Principal Executive Officer)

**Certification of Principal Executive Officer
Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a)
as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, David Roberts, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Verra Mobility Corporation;
2. Based on my knowledge, this Quarterly Report on Form 10-Q does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Quarterly Report on Form 10-Q;
3. Based on my knowledge, the financial statements, and other financial information included in this Quarterly Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Quarterly Report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Quarterly Report on Form 10-Q is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this Quarterly Report on Form 10-Q our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Quarterly Report on Form 10-Q based on such evaluation; and
 - d) Disclosed in this Quarterly Report on Form 10-Q any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 5, 2019

By: /s/ David Roberts

David Roberts

President and Chief Executive Officer

**Certification of Principal Financial Officer
Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a)
as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Patricia Chiodo, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Verra Mobility Corporation;
2. Based on my knowledge, this Quarterly Report on Form 10-Q does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Quarterly Report on Form 10-Q;
3. Based on my knowledge, the financial statements, and other financial information included in this Quarterly Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Quarterly Report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Quarterly Report on Form 10-Q is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this Quarterly Report on Form 10-Q our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Quarterly Report on Form 10-Q based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 5, 2019

By: /s/ Patricia Chiodo
Patricia Chiodo
Chief Financial Officer

VERRA MOBILITY CORPORATION
CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the periodic report of Verra Mobility Corporation (the “*Company*”) on Form 10-Q for the period ended September 30, 2019 as filed with the Securities and Exchange Commission (the “*Report*”), I, David Roberts, President and Chief Executive Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

This Certification has not been, and shall not be deemed, “filed” with the Securities and Exchange Commission.

Dated: November 5, 2019

By: /s/ David Roberts
David Roberts
President and Chief Executive Officer

VERRA MOBILITY CORPORATION
CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the periodic report of Verra Mobility Corporation (the “*Company*”) on Form 10-Q for the period ended September 30, 2019 as filed with the Securities and Exchange Commission (the “*Report*”), I, Patricia Chiodo, Chief Financial Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

This Certification has not been, and shall not be deemed, “filed” with the Securities and Exchange Commission.

Dated: November 5, 2019

By: /s/ Patricia Chiodo
Patricia Chiodo
Chief Financial Officer