

Company registration number 06314477 (England and Wales)

EDI GLOBAL (UK) LIMITED
FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2021



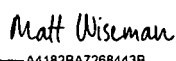
EDI GLOBAL (UK) LIMITED**BALANCE SHEET****AS AT 31 DECEMBER 2021**

| | Notes | 2021 £ | £ | 2020 £ | £ |
|---|-------|------------------|----------------|--------------------|------------------|
| Fixed assets | | | | | |
| Tangible assets | 5 | | 8,069 | | 11,420 |
| Investments | 6 | | 28,186 | | 28,186 |
| | | | <u>36,255</u> | | <u>39,606</u> |
| Current assets | | | | | |
| Debtors | 7 | 451,154 | | 458,502 | |
| Cash at bank and in hand | | 159,235 | | 439,732 | |
| | | <u>610,389</u> | | <u>898,234</u> | |
| Creditors: amounts falling due within one year | 8 | <u>(177,044)</u> | | <u>(1,132,905)</u> | |
| Net current assets/(liabilities) | | | <u>433,345</u> | | <u>(234,671)</u> |
| Net assets/(liabilities) | | | <u>469,600</u> | | <u>(195,065)</u> |
| Capital and reserves | | | | | |
| Called up share capital | | | 15,002 | | 15,002 |
| Profit and loss reserves | | | 454,598 | | (210,067) |
| Total equity | | | <u>469,600</u> | | <u>(195,065)</u> |

The directors of the company have elected not to include a copy of the profit and loss account within the financial statements.

These financial statements have been prepared and delivered in accordance with the provisions applicable to companies subject to the small companies regime.

The financial statements were approved by the board of directors and authorised for issue on 29 September 2022 and are signed on its behalf by:

DocuSigned by:

 A4182BA7268443B...
 Dr M R Wiseman
 Director

Company Registration No. 06314477

EDI GLOBAL (UK) LIMITED**STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 DECEMBER 2021**

| | Share capital | Profit and loss reserves | Total |
|--|---------------|--------------------------|-----------|
| | £ | £ | £ |
| Balance at 31 December 2019 | 15,002 | 157,096 | 172,098 |
| Year ended 30 December 2020: | | | |
| Loss and total comprehensive income for the year | - | (367,163) | (367,163) |
| Balance at 30 December 2020 | 15,002 | (210,067) | (195,065) |
| Period ended 31 December 2021: | | | |
| Loss and total comprehensive income for the period | - | (477,747) | (477,747) |
| Capital contribution | - | 1,142,412 | 1,142,412 |
| Balance at 31 December 2021 | 15,002 | 454,598 | 469,600 |

EDI GLOBAL (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 DECEMBER 2021

1 Accounting policies

Company information

EDI Global (UK) Limited is a private company limited by shares incorporated in England and Wales. The registered office is 2-4 Packhorse Road, Gerrards Cross, Buckinghamshire, SL9 7QE.

1.1 Reporting period

For the current period, the company extended their reporting period end from 30 December 2021 to 31 December 2021 to align with the calendar year. The comparative amounts presented in the financial statements are still comparable as the impact of the extended one day is immaterial.

1.2 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006 as applicable to companies subject to the small companies regime. The disclosure requirements of section 1A of FRS 102 have been applied other than where additional disclosure is required to show a true and fair view.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are set out below.

1.3 Going concern

The directors have at the time of approving the financial statements, a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

1.4 Turnover

Turnover is recognised at the fair value of the consideration received or receivable for goods and services provided in the normal course of business, and is shown net of VAT and other sales related taxes. The fair value of consideration takes into account trade discounts, settlement discounts and volume rebates.

Turnover is recognised when services have been provided. In respect of long-term contracts and contracts for ongoing services, income represents the value of work done in the year, including estimates of amounts not invoiced and is recognised based on the stage of completion which is calculated by reference to costs incurred to date as a percentage of the total forecast costs to completion. The value of amounts to be invoiced at the year end is included within accrued income. Where accounts have been invoiced in advance of the service being performed or provided, the amount is included within deferred income. Any losses arising on such contracts are recognised when foreseen.

1.5 Intangible fixed assets other than goodwill

The costs of development of the software, known as Surveybe, have been capitalised in the balance sheet at cost.

Amortisation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

| | |
|----------|---------|
| Software | 8 years |
|----------|---------|

1.6 Tangible fixed assets

Tangible fixed assets are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses.

EDI GLOBAL (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2021

1 Accounting policies

(Continued)

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

| | |
|-----------------------|-------------|
| Fixtures and fittings | 20% on cost |
| Computers | 33% on cost |

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is credited or charged to profit or loss.

1.7 Fixed asset investments

Interests in associates are initially measured at cost and subsequently measured at cost less any accumulated impairment losses. The investments are assessed for impairment at each reporting date and any impairment losses or reversals of impairment losses are recognised immediately in profit or loss.

An associate is an entity, being neither a subsidiary nor a joint venture, in which the company holds a long-term interest and where the company has significant influence. The company considers that it has significant influence where it has the power to participate in the financial and operating decisions of the associate.

1.8 Impairment of fixed assets

At each reporting period end date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

1.9 Cash and cash equivalents

Cash and cash equivalents are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

EDI GLOBAL (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2021

1 Accounting policies

(Continued)

1.10 Financial instruments

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the company's balance sheet when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Basic financial assets

Financial assets, other than those at fair value through the income statement as assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been affected.

For financial assets carried at amortised cost, the amount of the impairment is the differences between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets.

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Basic financial liabilities

Basic financial liabilities, including creditors and loans from fellow group companies, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

1.11 Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of transaction costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

1.12 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

EDI GLOBAL (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2021

1 Accounting policies

(Continued)

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Deferred tax

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

1.13 Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of fixed assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

1.14 Retirement benefits

The company operates a defined contribution pension scheme. Contributions payable to the company's pension scheme are charged to profit or loss in the period to which they relate.

1.15 Leases

Rentals payable under operating leases, are charged to profit or loss on a straight line basis over the term of the relevant lease.

1.16 Government grants

Government grants are recognised at the fair value of the asset received or receivable when there is reasonable assurance that the grant conditions will be met and the grants will be received.

A grant that specifies performance conditions is recognised in income when the performance conditions are met. Where a grant does not specify performance conditions it is recognised in income when the proceeds are received or receivable. A grant received before the recognition criteria are satisfied is recognised as a liability.

1.17 Foreign exchange

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date. Gains and losses arising on translation in the period are included in profit or loss.

EDI GLOBAL (UK) LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****FOR THE PERIOD ENDED 31 DECEMBER 2021****2 Judgements and key sources of estimation uncertainty**

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

Management consider that the areas involving a higher degree of judgement or complexity are:

- Revenue recognition - revenue is recognised as a proportion of the contract value based on costs incurred to date compared to the best estimate of costs for the contract to completion.
- Depreciation and amortisation - management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the asset.

3 Employees

The average monthly number of persons (including directors) employed by the company during the period was:

| | 2021 | 2020 |
|-------|-------------------|-------------------|
| | Number | Number |
| Total | 11 | 12 |
| | <u> </u> | <u> </u> |

4 Intangible fixed assets

| | Software |
|--|-------------------|
| | £ |
| Cost | |
| At 31 December 2020 and 31 December 2021 | 768,623 |
| | <u> </u> |
| Amortisation and impairment | |
| At 31 December 2020 and 31 December 2021 | 768,623 |
| | <u> </u> |
| Carrying amount | |
| At 31 December 2021 | - |
| | <u> </u> |
| At 30 December 2020 | - |
| | <u> </u> |

EDI GLOBAL (UK) LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****FOR THE PERIOD ENDED 31 DECEMBER 2021****5 Tangible fixed assets**

| | Fixtures and fittings | Computers | Total |
|------------------------------------|-----------------------|-----------|--------|
| | £ | £ | £ |
| Cost | | | |
| At 31 December 2020 | 3,064 | 45,158 | 48,222 |
| Additions | - | 3,185 | 3,185 |
| Disposals | (690) | - | (690) |
| At 31 December 2021 | 2,374 | 48,343 | 50,717 |
| Depreciation and impairment | | | |
| At 31 December 2020 | 2,487 | 34,315 | 36,802 |
| Depreciation charged in the period | 90 | 6,024 | 6,114 |
| Eliminated in respect of disposals | (268) | - | (268) |
| At 31 December 2021 | 2,309 | 40,339 | 42,648 |
| Carrying amount | | | |
| At 31 December 2021 | 65 | 8,004 | 8,069 |
| At 30 December 2020 | 577 | 10,843 | 11,420 |

6 Fixed asset investments

| | 2021 | 2020 |
|--|--------|--------|
| | £ | £ |
| Shares in group undertakings and participating interests | 28,186 | 28,186 |

7 Debtors

| | 2021 | 2020 |
|---|---------|---------|
| | £ | £ |
| Amounts falling due within one year: | | |
| Trade debtors | 7,399 | 97,000 |
| Amounts owed by group undertakings | 399,202 | 313,013 |
| Other debtors | 44,553 | 48,489 |
| | 451,154 | 458,502 |

EDI GLOBAL (UK) LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****FOR THE PERIOD ENDED 31 DECEMBER 2021****8 Creditors: amounts falling due within one year**

| | 2021 | 2020 |
|------------------------------------|----------------|------------------|
| | £ | £ |
| Trade creditors | 14,042 | 3,236 |
| Amounts owed to group undertakings | 4,260 | 903,248 |
| Taxation and social security | 10,872 | 9,415 |
| Other creditors | 147,870 | 217,006 |
| | <u>177,044</u> | <u>1,132,905</u> |

9 Audit report information

As the income statement has been omitted from the filing copy of the financial statements, the following information in relation to the audit report on the statutory financial statements is provided in accordance with s444(5B) of the Companies Act 2006:

The auditor's report was unqualified.

| | |
|---------------------------|------------------|
| Senior Statutory Auditor: | Tom Lacey FCCA |
| Statutory Auditor: | Nunn Hayward LLP |

10 Operating lease commitments**Lessee**

At the balance sheet date, the company had total commitments under operating lease of £ nil (2020: £17,368).

11 Parent company

At the balance sheet date, the parent company was Mathematica Global Ltd, a company registered in England and Wales, and the ultimate parent company was Mathematica Group Holdings Inc., a company registered in USA.

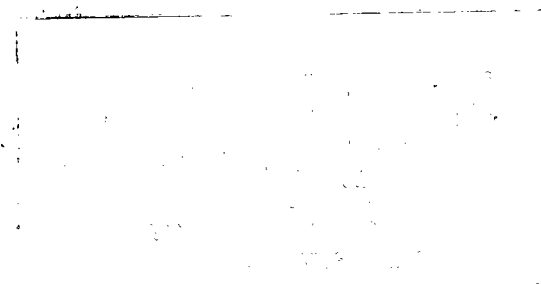
The company is exempt from producing consolidated financial statements under section 401 of the Companies Act 2006 on the basis that it is a wholly owned subsidiary and it is included in the consolidated financial statements of a larger group prepared by Mathematica Group Holdings Inc, 600 Alexander Park, Suite 100, Princeton, NJ 085400, USA.



Mathematica Group Holding Inc. and Subsidiaries

Consolidated Financial Statements

December 31, 2021 and 2020



Mathematica Group Holding Inc. and Subsidiaries

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December 31, 2021 and 2020

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Independent Auditors' Report

To the Board of Directors and Stockholder of
Mathematica Group Holding Inc.

Opinion

We have audited the consolidated financial statements of Mathematica Group Holding Inc. and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of comprehensive income, changes in stockholder's equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

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

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

Baker Tilly US, LLP

Philadelphia, Pennsylvania
March 21, 2022

Mathematica Group Holding Inc. and SubsidiariesConsolidated Balance Sheets
December 31, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|---|-----------------------|-----------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 22,733,430 | \$ 68,821,266 |
| Short-term investments | 13,608,790 | 13,607,429 |
| Accounts receivable, net | 33,769,218 | 25,213,684 |
| Unbilled accounts receivable, net | 52,132,537 | 43,128,445 |
| Prepaid expenses and other current assets | 4,110,669 | 3,175,327 |
| Total current assets | 126,354,644 | 153,946,151 |
| Retentions Receivable | 915,141 | 1,152,730 |
| Premises and Equipment, Net | 21,312,387 | 22,268,598 |
| Other Assets | 4,911,037 | 4,216,166 |
| Goodwill, Net | 1,491,343 | 1,704,393 |
| Deferred Tax Asset, Net | 875,360 | 1,506,735 |
| Total assets | <u>\$ 155,859,912</u> | <u>\$ 184,794,773</u> |
| Liabilities and Stockholder's Equity | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | \$ 52,299,179 | \$ 55,197,555 |
| Advance billings | 11,916,542 | 8,929,110 |
| Total current liabilities | 64,215,721 | 64,126,665 |
| Long-Term Debt | 15,000,000 | 30,000,000 |
| Deferred Rent | 19,627,526 | 22,389,220 |
| Other Noncurrent Liabilities | 7,597,897 | 6,866,781 |
| Total liabilities | 106,441,144 | 123,382,666 |
| Stockholder's Equity | | |
| Common stock, par value, \$0.001 per share; 5,000,000 shares authorized; 794,509 shares issued and outstanding in 2021, 894,201 shares issued and outstanding in 2020 | 795 | 894 |
| Capital in excess of par value | 80,114,399 | 72,660,929 |
| Accumulated deficit | (31,442,631) | (11,913,608) |
| Accumulated other comprehensive income | 746,205 | 663,892 |
| Total stockholder's equity | 49,418,768 | 61,412,107 |
| Total liabilities and stockholder's equity | <u>\$ 155,859,912</u> | <u>\$ 184,794,773</u> |

See notes to consolidated financial statements

Mathematica Group Holding Inc. and Subsidiaries**Consolidated Statements of Comprehensive Income**

Years Ended December 31, 2021 and 2020

| | 2021 | 2020 |
|--|-----------------------|-----------------------|
| Net Operating Revenues | \$ 352,154,847 | \$ 318,719,789 |
| Costs and Expenses | | |
| Direct operating costs | 170,680,055 | 145,546,868 |
| Provision for ESOP and profit sharing costs | 16,610,116 | 16,973,766 |
| Depreciation and amortization | 7,148,669 | 6,549,677 |
| Indirect operating costs | 136,838,960 | 127,306,252 |
| Total costs and expenses | 331,277,800 | 296,376,563 |
| Income from operations | 20,877,047 | 22,343,226 |
| Other Income (Expense) | | |
| Investment income | 293,117 | 196,375 |
| Interest expense | (1,046,509) | (1,051,811) |
| Realized gain (loss) on sale of short-term investments | 201,363 | (3,618) |
| Other income | 28,391 | 53,000 |
| Gain on fair value of interest rate collar derivative | - | 4,512 |
| Total other expense, net | (523,638) | (801,542) |
| Income before provision for income taxes | 20,353,409 | 21,541,684 |
| Provision for Income Taxes | 635,451 | 458,214 |
| Net income | 19,717,958 | 21,083,470 |
| Other Comprehensive Income, Net of Tax | | |
| Unrealized gain on available-for-sale securities | | |
| Unrealized holding gain arising during period, net of tax | 279,145 | 407,207 |
| Reclassification adjustment for (gain) loss included in net income | (196,832) | 28,999 |
| Other comprehensive income, net of tax | 82,313 | 436,206 |
| Comprehensive income | \$ 19,800,271 | \$ 21,519,676 |

See notes to consolidated financial statements

Mathematica Group Holding Inc. and Subsidiaries

Consolidated Statements of Changes in Stockholder's Equity
Years Ended December 31, 2021 and 2020

| | Common Stock | | Capital in | Accumulated | Accumulated | |
|--|---------------------|------------------|----------------------|------------------------|----------------------|----------------------|
| | Shares | Par Value | Excess of | Deficit | Other | Total |
| | | | Par Value | | Comprehensive | |
| | | | | | Income | |
| Balance, January 1, 2020 | 925,452 | \$ 925 | \$ 65,570,843 | \$ (16,641,962) | \$ 227,686 | \$ 49,157,492 |
| Net income | - | - | - | 21,083,470 | - | 21,083,470 |
| Other comprehensive income | - | - | - | - | 436,206 | 436,206 |
| Redemption and retirement of common stock | (52,981) | (53) | - | (16,355,116) | - | (16,355,169) |
| Redemption of common stock and reallocation to ESOP participants | - | - | (7,587) | - | - | (7,587) |
| ESOP compensation expense | 21,730 | 22 | 7,097,673 | - | - | 7,097,695 |
| Balance, December 31, 2020 | 894,201 | 894 | 72,660,929 | (11,913,608) | 663,892 | 61,412,107 |
| Net income | - | - | - | 19,717,958 | - | 19,717,958 |
| Other comprehensive income | - | - | - | - | 82,313 | 82,313 |
| Redemption and retirement of common stock | (120,294) | (120) | - | (39,246,981) | - | (39,247,101) |
| Redemption of common stock and reallocation to ESOP participants | - | - | (47,081) | - | - | (47,081) |
| ESOP compensation expense | 20,602 | 21 | 7,500,551 | - | - | 7,500,572 |
| Balance, December 31, 2021 | <u>794,509</u> | <u>\$ 795</u> | <u>\$ 80,114,399</u> | <u>\$ (31,442,631)</u> | <u>\$ 746,205</u> | <u>\$ 49,418,768</u> |

See notes to consolidated financial statements

Mathematica Group Holding Inc. and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended December 31, 2021 and 2020

| | 2021 | 2020 |
|---|---------------|---------------|
| Cash Flows From Operating Activities | | |
| Net income | \$ 19,717,958 | \$ 21,083,470 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 7,148,669 | 6,549,677 |
| Deferred income taxes | 633,848 | (116,408) |
| ESOP compensation expense | 7,500,572 | 7,097,695 |
| Bad debt expense | - | 636,615 |
| Gain on fair value of interest rate collar derivative | - | (4,512) |
| Realized (gain) loss on sale of short-term investments | (201,363) | 3,617 |
| Loss on asset disposal | 8,613 | - |
| Changes in assets and liabilities: | | |
| Accounts receivable (including unbilled and retentions) | (17,322,037) | 1,687,766 |
| Prepaid expenses and other assets | (865,798) | (487,820) |
| Accounts payable and accrued liabilities | (2,909,681) | 7,406,823 |
| Advance billings | 2,987,432 | 2,191,524 |
| Deferred rent | (2,761,694) | (2,244,414) |
| Other noncurrent liabilities | 731,116 | (557,368) |
| Net cash provided by operating activities | 14,667,635 | 43,246,665 |
| Cash Flows From Investing Activities | | |
| Purchase of investments | (568,878) | (429,630) |
| Proceeds from the sale/redemption of investments | 95,610 | 101,258 |
| Capital expenditures | (5,988,021) | (6,742,138) |
| Net cash used in investing activities | (6,461,289) | (7,070,510) |
| Cash Flows From Financing Activities | | |
| Revolving loan borrowing | 20,000,000 | 50,000,000 |
| Principal payments on revolving loan | (35,000,000) | (20,000,000) |
| Redemptions of common stock | (39,247,101) | (16,355,169) |
| Repurchases of common stock | (47,081) | (7,587) |
| Net cash (used in) provided by financing activities | (54,294,182) | 13,637,244 |
| Net (decrease) increase in cash | (46,087,836) | 49,813,399 |
| Cash and Cash Equivalents, Beginning | 68,821,266 | 19,007,867 |
| Cash and Cash Equivalents, Ending | \$ 22,733,430 | \$ 68,821,266 |
| Supplementary Disclosure of Cash Flow Information | | |
| Interest paid | \$ 1,046,509 | \$ 1,051,811 |
| Income taxes paid | \$ 1,050,498 | \$ 121,959 |

See notes to consolidated financial statements

Mathematica Group Holding Inc. and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2021 and 2020

1. Organization and Nature of Business

Mathematica Group Holding Inc. (formerly Mathematica, Inc.), a holding company, together with its wholly owned subsidiaries Mathematica, Inc. and Mathematica Global Holding, Ltd. (MGH) (hereafter together referred to as the Company), is principally engaged in the performance of program evaluation, policy research and interpretation, survey design and data collection, and performance measurement and data management. The Company works across the country and around the world, serving federal agencies, state and local governments, foundations, universities, professional associations and businesses. The Company's studies and analyses have yielded information to guide decisions in wide-ranging policy areas, from health, education, early childhood and family support to nutrition, employment, disability and international development. The Company is headquartered in Princeton, NJ, and also has offices in Ann Arbor, MI, Cambridge, MA, Chicago, IL, Oakland, CA, Woodlawn, MD, Seattle, WA, Tucson, AZ and Washington, DC.

MGH (a United Kingdom (UK) based holding company) wholly-owns Economics Developments Initiative, Ltd. (a UK limited liability company) and its subsidiaries EDI, Ltd.- UK (a UK limited liability company) and EDI, Ltd.- TZ (a Tanzania limited liability company) (hereafter together referred to as the EDI Group). The EDI Group delivers data collection and analysis services through design, implementation of impact and social surveys. Headquartered in England, the EDI Group operates as a business unit under MGH. The EDI Group has offices and operations in the UK and Tanzania.

All services performed by the Company are subject either to grants or contractual agreements, which may include time-and-materials contracts, cost based contracts or fixed price contracts.

The Company evaluated subsequent events for recognition or disclosure through March 21, 2022, the date the consolidated financial statements were available to be issued.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Mathematica Group Holding Inc. and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. The Company's more significant estimates relate to percentage of contract completion, contract cost estimates and the value of shares of Mathematica Group Holding Inc. common stock used in the allocation of shares to employee stock ownership plan participants during the year and the valuation of vested stock appreciation right awards.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits and other investments with original maturities of three months or less. At December 31, 2021 and 2020, the Company had substantially all of its cash deposited with one financial institution and those balances were in excess of the Federal Deposit Insurance Corporation limits.

Mathematica Group Holding Inc. and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2021 and 2020

Revenue Recognition

Revenue is recognized based on the transfer of services to customers at an amount that reflects the consideration that the Company expects to be entitled to for those services.

The Company's revenues from contracts with customers are derived from offerings that include policy research and interpretation, program evaluation, survey design and data collection, performance measurement and data management primarily with the federal government and its agencies, and to a lesser extent, as a subcontractor with other companies engaged in work for the federal government. The Company also provides services to a number of state and local governments, foundations, universities, professional associations, foreign entities and U.S. commercial customers.

The Company provides services under various contract types, including firm-fixed price, time-and-materials, cost reimbursable and grants. The Company considers a contract with a customer to exist when there is approval and commitment from both the Company and the customer, the rights of the parties and payment terms are identified, the contract has commercial substance and collectability of consideration is probable. The Company's contracts with the federal government are often multi-year contracts and typically include an initial period of one year with annual one year option periods. The number of option periods varies by contract, and there is no guarantee that an option period will be exercised. The right to exercise an option period is at the sole discretion of the customer when the Company is the prime contractor or at the discretion of the prime contractor when the Company is a subcontractor.

The Company recognizes revenue when performance obligations under a contract are satisfied. A performance obligation refers to a promise in a contract to transfer a distinct service or good to the customer. The majority of the Company's contracts contain a single performance obligation involving a significant integration of various activities that are performed together to deliver a combined product. The Company's performance obligations are satisfied over time as services are provided throughout the contract term and reinforces the fact that the Company's customers simultaneously receive and consume the benefits of the services as they are performed. This continuous transfer of control requires that the Company track progress towards completion of performance obligations using various inputs methods in order to measure and recognize revenue.

The Company measures progress towards satisfaction of the underlying performance obligation by using a contract cost-based input method for cost-reimbursable and fixed price contracts. Contract costs include direct costs such as materials, labor and subcontract costs, as well as indirect costs identifiable with, or allocable to, a specific contract that are expensed as incurred. The Company does not incur material incremental costs to acquire or fulfill contracts. Under a contract cost-based input method, revenue is recognized based on the proportion of contract costs incurred to the total estimated costs expected to be incurred upon completion of the underlying performance obligation. Where fixed-price contracts also provide for reimbursement of certain costs, such as travel or other direct costs, consideration may be attributed only to a distinct subset of time within the performance period. The Company's time-and-material and fixed price-level of effort contracts generally qualify for the as-invoiced practical expedient. Revenue is recognized in the amount to which the Company has a contractual right to invoice.

Mathematica Group Holding Inc. and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2021 and 2020

Contract Estimates

Accounting for contracts and programs involves the use of various techniques to estimate total contract revenue and costs. The Company estimates the profit on a contract as the difference between the total estimated revenue and expected costs to complete a contract and recognize that profit over the life of the contract.

Contract estimates are based on various assumptions to project the outcome of future events. These assumptions include labor productivity, availability and increases in wages, the complexity of the services being performed, the cost and availability of materials, the performance of subcontractors, overhead cost rates, the availability and timing of funding from the customer and other variables.

The nature of the Company's contracts gives rise to several types of variable consideration, including award fees and fluctuation in allowable indirect reimbursable costs. The Company includes award fees in the estimated transaction price when there is certainty and a basis to reasonably estimate the amount of the fee. These estimates are based on historical award experience, anticipated performance and management's best judgment at the time. The fluctuation of allowable indirect reimbursable costs is a factor because the federal government has the right to review the Company's accounting records and retroactively adjust the reimbursable rate. Contract revenue attributable to indirect costs is recognized based upon agree-upon annual indirect cost rates established with the federal government at the start of each fiscal year. The impact of any changes in the estimated annual indirect cost rates will be recorded in the financial reporting period when the change is identified. This change relates to the differences between the actual indirect cost incurred and allocated to contracts compared to the estimated amounts allocated. Management estimates variable consideration at the most likely amount that the Company expects to be entitled to receive.

As a significant change in one or more of these estimates could affect the profitability of the Company's contracts, management reviews and updates the Company's contract estimates regularly. Changes in these estimates occur over the performance period for a variety of reasons, including modifications to contract terms, changes in cost estimates due to unanticipated costs, or changes in the estimated transaction price. The Company recognizes adjustments in estimated profit on executed contracts under the cumulative catch-up method. Under this method, the impact of the adjustment on profit recorded to date is recognized in the period the adjustment is identified. Revenue and profit in future periods of contract performance are recognized using the adjusted estimated profit. If at any time the estimate of contract profitability indicates an anticipated loss on the contract, the Company recognizes the total loss in the period it is identified.

Customer contracts are often modified to exercise contract options or change the price, specifications and other terms within the existing agreement. Contract modifications are evaluated by management to determine whether the modification should be accounted for as part of the original performance obligation or as a separate contract. If the modification adds distinct services, it will be accounted for as a separate contract. Generally, the Company's contract modifications do not include services that are distinct, and therefore are accounted for as part of the original performance obligation with any impact on the transaction price or estimated costs at completion recorded through a cumulative catch-up adjustment to revenue.

Mathematica Group Holding Inc. and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2021 and 2020

Disaggregation of Revenues

The Company's revenues are generated primarily from long-term contracts with the federal government including subcontracts with other contractors engaged in work for the federal government. The Company disaggregates revenues by customer and contract-type.

Disaggregated revenues by customer type for the years ended December 31, 2021 and 2020 was as follows:

| | 2021 | 2020 |
|----------------------------|-------------------|-------------------|
| | (in thousands) | |
| Federal government | \$ 283,641 | \$ 271,277 |
| State and local government | 32,820 | 16,693 |
| Foundations | 27,752 | 26,065 |
| Other | 7,942 | 4,685 |
| Total | <u>\$ 352,155</u> | <u>\$ 318,720</u> |

Disaggregated revenues by contract type for the years ended December 31, 2021 and 2020 was as follows:

| | 2021 | 2020 |
|--------------------------|-------------------|-------------------|
| | (in thousands) | |
| Cost reimbursement | \$ 197,062 | \$ 185,022 |
| Time and materials (T&M) | 115,319 | 95,773 |
| Firm-fixed price (FFP) | 37,042 | 35,331 |
| Grants | 2,732 | 2,594 |
| Total | <u>\$ 352,155</u> | <u>\$ 318,720</u> |

Contract Balances

Timing of revenue recognition may differ from the timing of billing and cash receipts from customers. Amounts are invoiced as work progresses, typically monthly in arrears, or upon achievement of contractual milestones. The Company records a contract asset when revenue is recognized prior to invoicing, or a contract liability when cash is received in advance of recognizing revenue. A contract asset is a right to consideration that is conditional upon factors other than the passage of time. Contract assets include billable receivables not yet invoiced, but exclude billed and contract retentions. Billed and billable receivables are rights to consideration which are unconditional other than to the passage of time. Contract liabilities include customer advances, cash collected in excess of revenues and deferred revenue. Contract assets and liabilities are recorded net on a contract-by-contract basis and are generally classified as current based on the contract operating cycle.

The changes in the Company's contract assets and contract liabilities during the current period primarily results from the timing differences between the Company's performance, invoicing and customer payments.

Mathematica Group Holding Inc. and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2021 and 2020

Short-Term Investments

Short-term investments in debt and marketable equity securities are classified as available-for-sale. Realized gains and losses on available-for-sale securities are included in net income. Unrealized gains and losses, net of deferred income taxes, on available-for-sale securities are included in the consolidated balance sheets as a component of accumulated other comprehensive income.

Declines in the fair value of available-for-sale securities below their cost that are deemed to be other-than-temporary would be reflected in net income. In estimating other-than-temporary impairment losses, management considers (a) the length of time and the extent to which the fair value has been less than cost, (b) the financial condition and near-term prospects of the issuer and (c) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value and (d) whether the Company intends to sell the security or it is more likely than not that the Company will be required to sell the security before the recovery of its amortized cost basis. The Company evaluated the available-for-sale securities and did not recognize other-than-temporary impairment losses for the years ended December 31, 2021 and 2020.

Accounts Receivable and Retentions Receivable

Accounts receivable are reported at their outstanding balance net of any estimated allowance for doubtful accounts. An allowance for doubtful accounts is estimated based on management's assessment of individual accounts. Accounts are written off when they are determined to be uncollectible. As of December 31, 2021 and 2020, the allowance for doubtful accounts was \$0 and \$636,615, respectively.

Retentions receivables are amounts withheld on certain government contracts subject to final audit by the government of Company costs incurred.

Premises and Equipment

Premises and equipment are stated at cost. Depreciation of furniture and equipment and software costs are computed on the straight-line method over the expected useful lives of the related assets (3 to 10 years). Amortization of leasehold improvements is computed on the straight-line method over the periods covered by the related leases or their useful lives, whichever is shorter. Work in process assets are not depreciated until they are placed in service.

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value of net assets acquired in a business combination. The Company has elected to amortize goodwill in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 350, *Intangibles - Goodwill and Other: Accounting for Goodwill (A Consensus of the Private Company Council)*. In accordance with ASC 350, goodwill is amortized on a straight-line basis over 10 years or less than 10 years if the Company can demonstrate that another useful life is more appropriate. The Company elected to amortize goodwill for a period of 10 years. Changes in future market conditions, the Company's business strategy, or other factors could impact the future fair value of goodwill, which could result in future impairment charges.

Long-Lived Assets

The Company assesses its long-lived assets, specifically premises and equipment, for impairment whenever changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable.

Mathematica Group Holding Inc. and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2021 and 2020

Deferred Rent

For lease arrangements that include future specific rent increases, rent concessions and/or tenant improvement allowances, rent expense is recognized on a straight-line basis over the related lease terms. The difference between the payments and the straight-line rent expense is recorded as a liability.

Stock-Based Compensation

The Company accounts for stock-based compensation for the award of stock appreciation rights in accordance with ASC Topic 718, *Compensation - Stock Compensation*. The provisions of ASC 718 require a company to measure the fair value of stock-based compensation cost as of the grant date of the award and recognize the cost as an expense over the requisite service period. The Company has elected to recognize any forfeitures as they occur.

Stock appreciation rights are recorded as a liability under ASC 718. The related stock-based compensation cost is estimated using the Black-Scholes model and initially measured based on the grant date fair value of the award. The cost is then remeasured each reporting date and the recorded liability is adjusted to the vested portion of the outstanding stock appreciation rights at that date.

Fair Value of Financial Instruments

The carrying amounts reported in the consolidated balance sheets for cash, accounts receivable, retentions receivable, accounts payable and accrued liabilities and advance billings approximate their related fair values. Short term investments are reported at fair value in the consolidated balance sheets. The fair value of the variable rate debt is considered to approximate the carrying amount in the consolidated balance sheets.

Income Taxes

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

The Company has elected S corporation status and therefore earnings and losses are included in the tax return of its sole shareholder. Accordingly, the Company will not incur income tax obligations within those jurisdictions where S corporation status is recognized, and therefore the 2021 and 2020 consolidated financial statements do not include a provision for income taxes attributable to those jurisdictions. Recognized deferred income taxes relate to temporary differences arising in tax jurisdictions that do not recognize the Company's S corporation status.

The Company accounts for uncertainty in income taxes using a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold is met. Management determined there were no tax uncertainties that met the recognition threshold in 2021 or 2020. The Company recognizes interest related to unrecognized tax benefits in interest expense and penalties in costs and expenses. No significant interest or penalties were recognized in 2021 or 2020.

Mathematica Group Holding Inc. and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2021 and 2020

Recent Accounting Pronouncements

In 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU No. 2016-2 requires lessees to recognize assets and liabilities that arise from leases on the balance sheet. A lessee should recognize in the balance sheet a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term, initially measured at the present value of the lease payments. ASU No. 2016-02, as amended, is effective for annual periods beginning after December 15, 2021. Early adoption is permitted. The Company is currently assessing the effect that ASU No. 2016-02, as amended, will have on its consolidated financial statements.

3. Accounts Payable and Accrued Liabilities

The components of accounts payable and accrued liabilities as of December 31, 2021 and 2020 are as follows:

| | 2021 | 2020 |
|---|----------------------|----------------------|
| Accounts payable | \$ 5,577,871 | \$ 3,197,800 |
| Accrued liabilities: | | |
| Salaries, payroll taxes payable and fringe benefits | 12,985,713 | 14,997,676 |
| Paid time off liability | 8,527,891 | 9,129,793 |
| Employee benefit plans liability | 9,262,682 | 10,010,609 |
| Executive compensation | 8,600,008 | 9,239,382 |
| Subcontractor and other | 7,345,014 | 8,622,295 |
| Total | <u>\$ 52,299,179</u> | <u>\$ 55,197,555</u> |

4. Premises and Equipment, Net

Premises and equipment as of December 31, 2021 and 2020 consists of the following:

| | 2021 | 2020 |
|--|----------------------|----------------------|
| Furniture and equipment | \$ 35,547,336 | \$ 34,365,122 |
| Leasehold improvements | 27,301,309 | 27,178,316 |
| Software | 29,200,768 | 25,384,610 |
| Work in process | 662,602 | - |
| Total | 92,712,015 | 86,928,048 |
| Less accumulated depreciation and amortization | <u>71,399,628</u> | <u>64,659,450</u> |
| Premises and equipment, net | <u>\$ 21,312,387</u> | <u>\$ 22,268,598</u> |

Depreciation and amortization expense was \$6,935,620 in 2021 and \$6,335,410 in 2020.

Mathematica Group Holding Inc. and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2021 and 2020

5. Goodwill

Goodwill as of December 31, 2021 and 2020 consisted of the following:

| | 2021 | 2020 |
|-------------------------------|---------------------|---------------------|
| Goodwill carrying amount | \$ 2,130,491 | \$ 2,130,491 |
| Less accumulated amortization | 639,148 | 426,098 |
| Goodwill, net | <u>\$ 1,491,343</u> | <u>\$ 1,704,393</u> |

Goodwill is being amortized over an estimated useful life of 10 years. Total amortization expense for the years ended December 31, 2021 and 2020 was \$213,049 and \$214,267, respectively.

Estimated future annual amortization expense as of December 31, 2021 is as follows:

| | |
|---------------------------|---------------------|
| Years ending December 31, | |
| 2022 | \$ 213,049 |
| 2023 | 213,049 |
| 2024 | 213,049 |
| 2025 | 213,049 |
| 2026 | 213,049 |
| Thereafter | 426,098 |
| | <u>\$ 1,491,343</u> |

6. Debt

In June 2016, the Company entered into a Revolving Credit Loan and Security Agreement (the Revolver) with a commercial bank (the Lender). The Revolver allows for Company borrowings of up to \$65 million and provided an "accordion" feature permitting additional revolving credit commitments of up to \$10 million. The Company entered into an Amended and Restated Revolver Credit Loan And Security Agreement (the Amended Revolver), dated as of September 25, 2020, which extended the amount of permitted borrowings to \$80 million and provides an "accordion" feature permitting additional revolving credit commitments of up to \$10 million. The Amended Revolver matures on December 15, 2022, is collateralized by substantially all of the assets of the Company and requires compliance with certain financial and nonfinancial covenants. The Amended Revolver provides for stand-by letters of credit that reduce the funds available under the Amended Revolver when letters of credit are issued and outstanding. As of December 31, 2021, the Company is in compliance with the covenants under the Amended Revolver.

The Company has the ability to borrow funds under the Amended Revolver at an interest rate based on London Inter-Bank Offered Rate (LIBOR) and the Base Rate, at its discretion, plus their applicable margins. A Base Rate loan bears interest based on the Prime Rate plus an applicable margin of between 1.25 percent and 1.50 percent, based on the leverage ratio (as defined in the Amended Revolver), and a LIBOR loan bears interest based on the LIBOR Rate plus a margin of between 2.25 percent and 2.50 percent based on the Company's leverage ratio. The minimum interest rate for a LIBOR Rate loan is 0.25 percent.

Mathematica Group Holding Inc. and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2021 and 2020

The interest rate was 2.50 percent as of December 31, 2021 and 2020. Interest on outstanding balances accrues and is payable to the Lender quarterly. Principal advances or borrowings under the Revolver are due upon maturity of the Revolver in December 2022 or can be prepaid at the Company's discretion.

As of December 31, 2021, the Company had \$15,000,000 in long-term debt outstanding, \$1,019,910 in outstanding letters of credit and unused borrowing capacity of \$63,980,090 under the Amended Revolver (excluding the accordion).

Interest Rate Collar Derivative

In April 2017, the Company locked in its minimum and maximum interest rates payable on \$23,000,000 of revolving credit loan borrowings outstanding by entering into a four year interest rate collar derivative financial instrument (the Collar). The objective of the Collar was to minimize the risk associated with financing activity by reducing the impact of changes in interest rates on cash flows. The agreement was not designated as a hedging instrument. The Collar protected the Company should interest rates climb above 3 percent or fall below 1.32 percent during the four year effective period through December 2020. The Collar matured in December 2020 and the Company did not renew or enter into a new interest rate derivative.

7. Investment Securities

The original cost of investment securities and their estimated fair values are summarized as follows:

| | December 31, 2021 | | |
|-----------------------------|----------------------|-------------------|----------------------|
| | Original Cost | Unrealized Gain | Fair Value |
| Investment securities: | | | |
| Mutual funds | \$ 17,648,776 | \$ 675,028 | \$ 18,323,804 |
| Total investment securities | <u>\$ 17,648,776</u> | <u>\$ 675,028</u> | <u>\$ 18,323,804</u> |
| | | | |
| | December 31, 2020 | | |
| | Original Cost | Unrealized Gain | Fair Value |
| Investment securities: | | | |
| Mutual funds | \$ 16,974,145 | \$ 586,155 | \$ 17,560,300 |
| Total investment securities | <u>\$ 16,974,145</u> | <u>\$ 586,155</u> | <u>\$ 17,560,300</u> |

Mathematica Group Holding Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

8. Fair Value Measurements

The Company has categorized its financial instruments that are measured at fair value based on the priority of inputs to the valuation technique into a fair value hierarchy. The fair value hierarchy consists of three broad levels which are described below:

Level 1 - Quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.

Level 2 - Observable inputs, other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methods and similar techniques that use significant unobservable inputs.

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. The estimated fair value amounts have been measured as of the Company's year-end and have not been reevaluated or updated for purposes of these consolidated financial statements subsequent to that date. As such, the estimated fair values of these financial instruments subsequent to the reporting date may be different than the amounts reported at each year-end.

Total assets recorded at fair value as disclosed in the 2021 and 2020 tables below include available-for-sale securities reported as short-term investments and executive deferred compensation investments of \$4,715,014 and \$3,952,871 at December 31, 2021 and 2020, respectively, reported in other assets in the consolidated balance sheets.

The following tables present the assets and liabilities reported in the consolidated balance sheets at their fair value by level within the fair value hierarchy.

| Fair Value Measurement at December 31, 2021 | | | | |
|---|---------------|---------------|---------|---------|
| | Total | Level 1 | Level 2 | Level 3 |
| Asset: | | | | |
| Mutual funds | \$ 18,323,804 | \$ 18,323,804 | \$ - | \$ - |
| Total asset | \$ 18,323,804 | \$ 18,323,804 | \$ - | \$ - |
| Fair Value Measurement at December 31, 2020 | | | | |
| | Total | Level 1 | Level 2 | Level 3 |
| Asset: | | | | |
| Mutual funds | \$ 17,560,300 | \$ 17,560,300 | \$ - | \$ - |
| Total asset | \$ 17,560,300 | \$ 17,560,300 | \$ - | \$ - |

Mathematica Group Holding Inc. and Subsidiaries

Notes to Consolidated Financial Statements
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The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments as of December 31, 2021 and 2020:

Mutual funds are valued using quoted market prices.

9. Income Taxes

The provision for income taxes consists of the following:

| | 2021 | 2020 |
|---------------|-------------------|-------------------|
| Current: | | |
| State | \$ (59,449) | \$ 574,622 |
| International | 61,052 | - |
| Deferred: | | |
| State | 633,848 | (116,408) |
| Total | <u>\$ 635,451</u> | <u>\$ 458,214</u> |

The components of the net deferred tax asset at December 31, 2021 and 2020 are as follows:

| | 2021 | 2020 |
|---|-------------------|---------------------|
| Deferred tax asset (liability): | | |
| Paid time off liability | \$ 191,878 | \$ 296,703 |
| Prepaid expenses | (76,272) | (89,903) |
| Tax over book depreciation | (211,303) | (366,374) |
| Unrealized gain on investments | (18,523) | (20,996) |
| Deferred compensation plan assets, SERP and SAR | 204,411 | 292,660 |
| Rent expense not yet deducted for tax purposes | 441,619 | 727,650 |
| Salaries, payroll tax payable and fringe benefits | 392,043 | 645,618 |
| Other | (48,493) | 21,377 |
| Total deferred tax asset, net | <u>\$ 875,360</u> | <u>\$ 1,506,735</u> |

At December 31, 2021 and 2020, the Company determined that no deferred tax asset valuation allowance was required.

Mathematica Group Holding Inc. and Subsidiaries

Notes to Consolidated Financial Statements
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10. Benefit Plans

Employee Stock Ownership Plan

The Company maintains an employee stock ownership plan (ESOP) which is a qualified retirement plan designed to invest primarily in the Company's stock and covers substantially all employees of the Company. The Company accounts for its ESOP in accordance with FASB ASC 718, *Employee Stock Ownership Plans*.

On June 15, 2005, the ESOP entered into a leveraged ESOP transaction to purchase shares of Mathematica Group Holding Inc. stock from selling stockholders and former employees. In order to accomplish this transaction, the Company loaned the ESOP \$10,064,250 under a term loan payable annually on June 15, at an interest rate of 5 percent (ESOP Loan). Each year the Company contributed an amount to the ESOP required to repay the ESOP loan, and the ESOP allocated shares of Mathematica Group Holding Inc. common stock to participants in proportion to the principal and interest repaid on the loan on a pro-rata basis, to employee participants based upon eligible earnings. As of June 2015, all principal and interest payments on the ESOP Loan were paid in full and all shares held in the Unearned ESOP Share suspense account, under the ESOP loan, were allocated to the participants.

On October 29, 2015, the Company amended and restated the ESOP with an effective date of January 1, 2015. The amended and restated ESOP incorporated provisions that permit segregation and conversion of Company Stock Accounts and Transferred Accounts, as defined by the ESOP provisions, for terminated participants.

On July 31, 2020, the Company's Board of Directors authorized a 10 for 1 stock split, which increased the number of shares of common stock outstanding from 87,247 to 872,471 and increased the number of authorized common shares to 5,000,000. The stock split reduced the par value from \$.01 to \$.001 per share. All prior period share amounts have been retrospectively adjusted for the stock split. At December 31, 2021 and 2020, there were 794,509 and 894,201 shares allocated in the ESOP, respectively.

The fair value of the Mathematica, Inc. shares as of year-end is determined annually by an independent valuation firm. For 2021, the ESOP expense was calculated by management as 5 percent of eligible compensation, or \$7,500,572, which resulted in an additional 20,747 shares allocated on December 31, 2021. This allocation of shares was comprised of the issuance of 20,602 shares and the recycling of 144 existing shares.

In 2021, the Company repurchased 126,914 shares of its common stock at fair value under the ESOP trust agreement for eligible employee investment diversifications, in-service distributions, segregation or Required Minimum Distributions, as defined by the ESOP provisions, for a total of \$41,406,876. The Company redeemed 120,294 shares, for a total of \$39,247,101 at fair value, and repurchased 6,619 shares, for a total of \$2,159,775 at fair value. The repurchased shares entered the ESOP trust, of which 6,475 shares were purchased by eligible employees through the ESOP-Directed PSP Contribution Account, for \$2,112,692, and the remaining 144 shares were subsequently reallocated to eligible plan participants at fair value as of December 31, 2021, resulting in \$52,172 of ESOP expense.

In 2020, the Company repurchased 60,341 shares of its common stock at fair value under the ESOP trust agreement for eligible employee investment diversifications, in-service distributions, segregation or Required Minimum Distributions, as defined by the ESOP provisions, for a total of \$18,627,257. The Company redeemed 52,981 shares, for a total of \$16,355,169 at fair value, and repurchased 7,360 shares, for a total of \$2,272,088 at fair value. The repurchased shares entered the ESOP trust, of which 7,336 shares were purchased by eligible employees through the ESOP-Directed PSP Contribution Account, for \$2,264,500, and the remaining 25 shares were subsequently reallocated to eligible plan participants at fair value as of December 31, 2020, resulting in \$8,019 of ESOP expense.

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Profit Sharing Plan

The Company maintains a profit sharing plan (PSP) which is a qualified retirement plan. The PSP contribution is determined annually by the Company's Board of Directors. The PSP requires the Company to contribute a minimum of 1 percent of eligible compensation, as defined in the plan provisions, for eligible employees. In addition, the PSP includes a 401(k) provision which allows for a prorated Company match of employee contributions. Employees qualify for participation upon completion of six months of service and are fully vested in the PSP upon their date of participation.

In 2021 and 2020, the Company allowed participants to elect to contribute the Employer Contribution, as defined in the provisions of the PSP, to the ESOP-Directed PSP Contribution Account. The ESOP-Directed PSP Contribution Account will be used to purchase Mathematica Group Holding Inc. shares within the ESOP, to be executed by the trustee. The total profit sharing expense for 2021 is \$9,117,051 of which \$1,581,547 will be directed into the ESOP-Directed PSP Contribution Account and \$7,535,504 will be contributed to the profit sharing plan. The total profit sharing expense for 2020 was \$9,876,072 of which \$2,161,957 was directed into the ESOP-Directed PSP Contribution Account and \$7,714,115 was contributed to the profit sharing plan.

Stock Appreciation Rights Plans

The Company has two Stock Appreciation Rights Plans (SAR Plans) established as of January 1, 2017. The purpose of the SAR Plans is to promote the success and enhance the value of the Company by linking the personal interests of participants to those of the Company's shareholders and thereby providing participants with an incentive for outstanding performance. The SAR Plans are further intended to assist the Company in its ability to motivate and retain the services of participants upon whose judgment, skills and experience the successful conduct of the Company's operations is largely dependent. The number of potential awards authorized under the SAR Plans is 130,000, with no more than 26,000 awards in a single plan year. On July 31, 2020, the Company's Board of Directors authorized a 10 for 1 stock split, which increased the number of shares authorized, outstanding and awarded in proportion to the stock split.

The SAR Plans include one plan for the benefit of the nonemployee Board of Directors and another plan for employees. The nonemployee director plan is administered by the Special Committee of the Board of Directors. Awards under the nonemployee director plan vest on the first December 31 following the grant date. The employee plan is administered by the Compensation Committee of the Board of Directors. The annual awards under the employee plan vest in 25 percent increments on each December 31 following the grant date over a four year period. Awards also become fully vested upon the occurrence of a change in control of the Company, as defined in the SAR Plans, or participant death or disability. Upon termination of service to the Company, unvested awards shall be immediately forfeited. Forfeited awards are added back to the amount available to be awarded.

All vested awards shall be mandatorily exercised on the settlement date as defined within the SAR Plans and paid in cash within one year. The Board of Directors has the right to amend, suspend or terminate the SAR Plans at any time. The SAR Plans shall automatically terminate on the day immediately preceding the tenth anniversary of the date the SAR Plans were adopted by the Board of Directors.

During 2021 and 2020, the Company awarded 15,330 and 16,360 stock appreciation rights, respectively, to employees and nonemployee directors. As of December 31, 2021, 84,430 stock appreciation rights have been awarded to date under the SAR Plans and 64,440 were outstanding, of which 42,370 were vested. As of December 31, 2020, 69,100 stock appreciation rights have been awarded to date under the SAR Plans and 66,060 were outstanding, of which 42,905 were vested. The recorded liability for vested SAR Plans awards was \$4,976,795 and \$5,052,048 as of December 31, 2021 and 2020, respectively. The portion of the liability due within one year of the balance sheet date is reported as accrued expenses and the remaining amount is reported as other noncurrent liabilities.

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The significant assumptions used in the Black-Scholes model to determine the fair value of outstanding stock appreciation rights are: the fair value of the Company's common stock and the expected term of each award, volatility and risk-free interest rate. The fair value of the Company's common stock is determined annually by an independent valuation firm. The expected term represents the remaining term of the stock appreciation rights, which ranges from one to four years. The estimated volatility is based on the historical volatility of comparable publicly traded companies over a similar expected term. The risk-free interest rate is based on the rate for a U.S. Treasury zero-coupon issue with a term that closely approximates the expected term of the awards.

During 2021 and 2020, the Company recognized stock-based compensation expense of \$2,614,775 and \$1,644,203, respectively, for stock appreciation rights awards. As of December 31, 2021, the total unrecognized compensation expense for unvested stock appreciation rights was \$1,911,536 and is expected to be recognize as compensation expense over the remaining service periods of one to three years.

Discretionary Bonus Plan

The Company also maintains a discretionary bonus plan which is approved each year by the Board of Directors. Bonus expense was \$6,177,324 and \$6,621,976 for 2021 and 2020, respectively.

11. Deferred Compensation Plan

The Company maintains a nonqualified deferred compensation plan that allows its eligible employees to defer 1 percent to 75 percent of their annual compensation in excess of the limit imposed under the terms of Section 401(a)(17) of the Internal Revenue Service Code (Code). The Company credits to each participant account an amount equal to the additional contributions that would have been allocated to the account of such participant under the Profit Sharing Plan and/or the ESOP for such plan year but for the limit in effect for that year under Section 401(a)(17) and/or Section 415 of the Code. The Company records a deferred liability for the nonqualified deferred compensation plan. The liability was \$4,715,014 and \$3,952,871 at December 31, 2021 and 2020, respectively, and is reported in other long-term liabilities in the consolidated balance sheets. The Company plans to fund this liability by maintaining a portfolio of investments which consist of mutual funds. These investments are included in other assets in the consolidated balance sheets and are considered to be Level 1 measurements within the fair value hierarchy. The investment assets are valued at \$4,715,014 and \$3,952,871 at December 31, 2021 and 2020, respectively.

12. Concentrations

As of December 31, 2021, accounts receivable consisted of approximately 81 percent due from the federal government, 15 percent from not-for-profit organizations and 4 percent from other clients. In 2021, revenues consisted of approximately 81 percent with the federal government, 17 percent with not-for-profit organizations and 2 percent with other clients.

As of December 31, 2020, accounts receivable consisted of approximately 77 percent due from the federal government, 20 percent from not-for-profit organizations and 3 percent from other clients. In 2020, revenues consisted of approximately 86 percent with the federal government, 13 percent with not-for-profit organizations and 1 percent with other clients.

For the purpose of this disclosure, the Company has evaluated accounts receivable and revenue concentrations in terms of the relationship with the ultimate client. Management has identified the ultimate client where the Company has a direct contractual relationship or an indirect subcontractor relationship through a prime contractor to the ultimate client.

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13. Commitments and Contingencies

The Company conducts its operations from leased facilities and also leases certain computer and office equipment. These leases generally provide for renewal options. All leases are operating leases and, accordingly, rent expense is charged to operations as incurred. Lease expense was \$16,615,203 and \$16,669,826 for 2021 and 2020, respectively. The Company subleases a portion of its facilities under noncancelable agreements. Sublease income was \$1,455,388 and \$1,823,734 in 2021 and 2020, respectively.

As of December 31, 2021, the future minimum rental payments due under noncancelable operating leases and the related sublease income are as follows:

| | Rent Payment | Sublease Income |
|---------------------------|-----------------------|---------------------|
| Years ending December 31: | | |
| 2022 | \$ 20,362,458 | \$ 1,265,324 |
| 2023 | 20,174,760 | 1,056,236 |
| 2024 | 17,450,885 | 280,809 |
| 2025 | 16,237,627 | 21,544 |
| 2026 | 13,907,086 | - |
| Thereafter | 19,738,108 | - |
| Total | <u>\$ 107,870,924</u> | <u>\$ 2,623,913</u> |

Under the terms of five of the facility operating leases, the Company entered into letters of credit with its financial institutions for a total of \$1,019,910 in lieu of security deposits.

A substantial portion of the Company's activities are funded directly or indirectly by departments and agencies of the United States federal government under time-and-materials and cost reimbursable contracts. Such contracts are subject to termination at the convenience of the government and costs incurred under these contracts are subject to audit by a number of federal agencies. In the opinion of management, the impact of audits by governmental agencies will not result in significant adjustments to the financial position or results of operations of the Company.

In the ordinary course of business, the Company may be involved in certain legal proceedings. In the opinion of management, the results of any of these matters, individually and in the aggregate, are not expected to have a material effect on the financial position or results of operations of the Company.

14. Impact of COVID-19

On January 30, 2020, the World Health Organization declared a global emergency in the wake of the novel coronavirus (COVID-19) outbreak and in March of 2020 declared the outbreak a global pandemic. The outbreak of COVID-19 and its related negative public health developments have adversely affected workforces, customers, suppliers, economies and financial markets around the world. The Company's ability to execute its business initiatives and strategies, will continue to depend on future developments in the U.S. and globally, which are uncertain and cannot be predicted, including the duration and further spread of the disease, as well as the severity of the economic downturn or any delay or weakness in the economic recovery. This impact will in part be dependent on the U.S. government and other actions taken to lessen the health and economic repercussions. While the Company considers these disruptions to be temporary, if they continue, this may have a material adverse effect on the Company's results of future operations. On January 16, 2022, the United States Secretary of Health and Human Services renewed the determination that a nationwide health emergency exists as a result of the COVID-19 Pandemic.